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# **Building a Balance: Housing Affordability and Environmental Protection in the USA**

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## **Abstract**

Current trends in household formation and housing development in the United States are creating pressures on communities to provide adequate infrastructure services for a growing population. Homeownership rates are the highest in history. All indications suggest this rate will continue to increase over the next few years. Builders and developers respond to this need by constructing housing units in suburban fringe and rural areas because of the availability of cheaper land and the lack of attractive sites in more urban areas. Environmental regulations are frequently cited as barriers to development and impediments to affordability. This paper reviews the literature of potential linkages between housing affordability and environmental protection and reports on a project in which focus groups were conducted with developers, environmental regulators, and others. Content analysis of focus group transcripts showed much agreement from various sides of the complicated and interconnected issues that are related to sustainable development.

## **Introduction**

Since enactment of the first major environmental legislation in the United States in 1972, an increasing number of laws have been passed for the purpose of improving air and water quality and protecting biodiversity. Although Americans agree environmental protection is essential (Dunlap, 1992), there is considerable controversy over what constitutes an acceptable level of regulation and how the economic burden of environmental regulation should be distributed (Branconi, 1996).

With escalating levels of environmental regulation has come an increasing estrangement between environmental protection and business interests. An uneasy coexistence has evolved into a heated battle pitting the federal government, state governments, business, and the environmental community against each other in a contest over control and use of the nation's natural resources. The eventual outcome of this conflict will have a substantial affect on generations of future Americans as well as on the global community at

large.

Perhaps nowhere has this controversy been more visible than in the building industry. Land use restrictions, impact fees, mitigation and other compliance costs, and delays precipitated by permitting procedures are given as the means by which environmental protection has stymied builders and adversely affected their livelihoods (Branconi, 1996). Housing researchers, as well, maintain that financial burdens imposed by environmental regulations have played a large part in driving the cost of new homes beyond what can be borne by most first-time buyers, thereby helping to create an affordability crisis (Olenik and Cheng, 1994; Meeks, 1992).

This paper reviews some perceptions about housing affordability, environmental protection, and the public's attitude toward the environment in hopes of contributing to the development of a new, more realistic perspective on what has become an increasingly muddled situation.

### **Homeownership Rates, Prices, and Affordability**

A decline in homeownership during the 1980's, viewed against a backdrop of housing prices that had been steadily increasing since the early 1960's, has been interpreted by many housing analysts as an indication of a housing affordability "crisis." Due to the amount of attention given to this issue, a widespread perception has developed that a serious, generalized affordability problem was beleaguering the nation's housing markets. To many, the cause of this alleged affordability problem seemed clear: housing prices had finally risen to the point that many American households simply could not afford to purchase.

A review of the literature, however, indicates a division of opinion as to the merits of this conclusion. Some see the existence of a crisis in affordability as hinging on differing interpretations of home ownership trends. While many believe the decline in homeownership is an indication of an affordability problem, others view it as being more the result of changing demographics (Koebel and Zappettini, 1993).

While earlier generations tended to marry and begin families in their twenties, recent years have seen these events postponed or forsaken altogether. The number of single-parent families has risen sharply. Other less traditional types of households, such as those composed of non-relatives and individuals who simply choose to live alone, have also increased. These fundamental societal changes are seen as having had a profound effect on home ownership rates

(Koebel and Zappettini, 1993).

This demographic view of lower home ownership rates is countered by other theories such as that of Linneman and Megbolugbe (1992) which seek to explain the phenomenon in economic terms. In defining the scope and causation of the so-called affordability crisis, these authors present three points that offer a very useful lens for examining this issue.

First, Linneman and Megbolugbe (1992) reject the notion that an affordability crisis has ever existed for affluent young households. The decline in home ownership within this segment of housing markets is attributed to demographic changes. Secondly, they admit that low-income households have experienced affordability problems, but these are seen as being due to income inadequacy, incomes too low to keep up with concurrent increases in housing prices (which are seen as having been caused mainly by a substantial increase in the quality of housing stock). Affordability for low-income families is a long-term problem, one which, although undoubtedly exacerbated by rising home prices and economic upheavals in the 1970's and 80's, was not caused by them.

Thirdly, Linneman and Megbolugbe (1992) identify the real focus of affordability concerns as being on the middle class, which in the 1970's began to confront decreasing housing affordability for the first time. Indeed, it seems to have only been when this group began experiencing problems that the notion of a crisis surfaced and the issue of affordability moved to the forefront in housing policy circles. This phenomenon attracted the attention of housing researchers (and the housing industry) because the middle class, unlike low-income households, was a group that had not previously experienced such problems (Linneman and Megbolugbe, 1992). This is seen as the crux of the affordability crisis.

Linneman and Megbolugbe's (1992) interpretation of the problem therefore, is that middle-class households in some parts of the country, those households having low levels of job skills and education, began to experience affordability problems not because of the mere fact that housing prices had risen, but because their incomes became stagnant or in many cases declined.

The degree of financial security such households had previously enjoyed was based largely on income from relatively well paying manufacturing jobs. This changed when the global economy took hold and manufacturing jobs in the United States went to developing countries, being largely replaced by lower-paying jobs in the service industry. Wage earners in affected households were not able to find jobs in the service industry paying wages comparable to those offered by the lost manufacturing jobs. The resulting income disparity

precipitated the decline in home ownership (Linneman and Megbolugbe, 1992).

Yet another economic interpretation of falling home ownership rates is posited by Mayer and Englehardt (1996). While they admit the role of such factors as increasing real house prices, changing demographics, declining incomes, and rising interest rates result in the decline of home ownership, these authors contend that these factors alone cannot explain the phenomenon. Statistics showing an increased reliance by first-time homebuyers on financial gifts to make down payments, along with longer periods of time needed to accumulate down payments, are presented to show that, even when income may be adequate to make mortgage payments, down payments may present a substantial obstacle for many potential home buyers (Mayer and Englehardt, 1996).

Mayer and Englehardt (1996) do not emphasize the relationship between declining home ownership rates and the simple fact that homes were more expensive relative to the past. The focus here is on a specific demand-side problem: the difficulty in providing a down payment. This in turn is seen as due to the well-known propensity of Americans not to save money, as well as to restraints on saving represented by increasing credit card and other consumer debt.

As evidenced by even this truncated review of the literature, there is little agreement that the decline in home ownership experienced in the 1980's constituted a "crisis" or that it was due simply to house prices that had risen so sharply as to preclude purchase. The varying interpretations present in the literature, if merged, produce a more likely view in which changing lifestyles and tastes, along with income and related demand-side variables such as higher levels of consumer debt and low personal savings rates, controlled homeownership rates more than house price increases.

The widespread, lopsided perception that buyers were simply priced out of the market still exists in spite of evidence supporting a more complete and plausible explanation for decreased home ownership. Given this, solutions for bolstering ownership rates tended to focus on specific factors seen as contributing to escalating house prices, one of these factors being the cost of environmental protection.

### **House Price Increases and Environmental Protection**

To the extent that house prices have increased, what role might environmental protection have played? Downs (1992) states outright that federal environmental regulations, specifically the Endangered Species Act

and wetlands regulations, are not significant contributors to the increase in housing costs.

Branconi (1996) examines the escalation of house prices between 1963 and 1993 and determines that environmental regulations may have played a role in the increase. He feels that factors which should have positively affected housing affordability by moderating further price increases were offset, at least partially, by an increase in costs associated with environmental protection.

In rebuttal to Branconi (1996) Evans (1996) argues that there is no direct connection between increased environmental regulation and house price increases. In support of this thesis, he points out that during the first one-third of the period studied, environmental regulations affecting housing were all but nonexistent and yet house prices rose. Given this, the author concludes that the observed rise in prices cannot be explained by environmental protection costs. This argument is bolstered by the fact that the home ownership rate in the U.S. is currently at a record high of 66.8 percent (Seiders, 1998), and that this has occurred without a significant rollback in environmental regulations.

Evans (1996) also sees as significant the disparity between regional house price activity and environmental progressivity. This too, is believed to indicate that increasing environmental regulation and escalating house prices are largely unrelated. As an example, real house prices in the environmentally progressive Northeastern part of the United States dropped substantially between 1973 and 1983 in spite of the fact that a wide range of new environmental regulations were being implemented during the period. Conversely, in the South and West (excluding the West Coast), which are less environmentally progressive, real house prices rose during the same period. Evans (1996) believes the opposite result would be expected if the cost of environmental protection did exert substantial upward pressure on house prices.

While not denying the possibility that environmental regulations have contributed to house price increases over the last thirty years, Evans (1996) believes that the connection between implementation of environmental regulations and price increases, when compared to other forces at work, is minuscule at best.

Meyer (1998) makes the environmental protection/development controversy more specific by examining one of the most controversial federal environmental programs, the Endangered Species Act (ESA) and its affect on the building industry. Meyer (1998) analyzed economic impacts of (ESA) from

two perspectives. First, he examined potential relationships between listings of the spotted owl in the Pacific Northwest of the United States and prices for lumber and single family homes. He then observed rates of growth in state real estate markets, after controlling for a number of variables, and compared this growth with increases in listings of protected species.

In the first part of his analysis, Meyer (1998) plotted Douglas Fir production against housing starts. The latter variable historically follows a cyclical pattern (REF), as was illustrated in this study for the period 1970-1995, when Douglas Fir production cycles matched those of housing starts. The author correctly concluded that while there may have been some impact of the spotted owl listing on Douglas Fir production, that impact is minuscule by comparison with the long-standing relationship between that production and housing starts. He went further in this stage of analysis and compared median prices of new homes with Douglas Fir prices. Again he presented convincing evidence that no relationship exists, and that home price increases are more likely related to size and amenity increases in new homes.

In the second stage of his analysis, Meyer (1998) regressed each state's growth in its real estate industry against appropriate industry indicators. After regressing numbers of listed endangered species against those same variables, he plotted the residuals from both sets of equations to demonstrate increased real estate activity with increases in endangered species listing. While this result may initially appear confusing, Meyer's (1998) conclusion is that in robust real estate markets, increased encroachment on wildlife habitats is expected but markets adjust and are not adversely affected. This is a key finding from this study--markets adjust.

Linneman and Megbolugbe (1992) consider that housing price increases have been due mainly to significant increases in the quality of housing stock. These authors also point to inflation in the 1970's and 1980's and the increasingly speculative nature of homeownership in response to inflation, as contributing factors. Koebel and Zappattini (1993) too, identify the increasing quality of houses and their amenity levels as a factor in price increases. Evans (1996) identifies a number of factors as being responsible for increased house prices including demand and demographics. Other contributing factors he cites are increases in house size and quality, rising interest rates, and general price inflation.

Seiders (1998), citing the results of a survey of builders, points to subdivision controls as being most responsible for unnecessarily increasing housing costs. Echoing this,

Downs (1992) identifies local zoning regulations as the greatest regulatory

barrier to the development of less expensive housing.

An important factor which must underscore any debate on this issue is that systematic studies of relationships between environmental protection efforts and house prices are scant, and that it is extremely difficult to accurately quantify the effect of a given regulation or regulatory program on a specific housing development (Suchman, 1996a; Branconi, 1996; Engel, Stromberg, and Turner, 1996). In light of this uncertainty, it is puzzling how many individuals and organizations have been able to so confidently make the sweeping generalization that environmental regulations have had profoundly negative effects on housing affordability (Suchman, 1996b; Olenik, 1994). Clear, specific, and reliable scientific data supporting this conclusion simply do not exist.

### **Public Support for Environmental Protection**

Substantial increases in the membership of environmental organizations over the last twenty years indicate a widespread concern for the environment. Results from a number of surveys show that the American public is overwhelmingly in favor of environmental protection (Dunlap, 1992). Such surveys indicate that many in fact, feel the government should be spending more on protecting the environment, and substantial numbers of survey respondents indicated a willingness to pay more for products and services that are produced and provided in more environmentally sensitive ways (Dunlap, 1992). Surprisingly large numbers of those surveyed voiced the opinion that they would be willing to see economic growth sacrificed to protect the environment, and that environmental improvements must be pursued regardless of the cost (Dunlap, 1992).

Dunlap (1992) interprets these data and others as strongly suggesting that public concern for the environment is more solid today than in 1970, that environmental protection has become a consensual issue with overwhelming public support, and that its only opposition comes from a small but vocal minority.

### **Analysis**

To investigate issues related to housing development and environmental protection and to better understand perspectives of those directly involved with these issues, the focus group technique was chosen as a means of data collection. This is an appropriate method for obtaining qualitative and quantitative information about a complex topic and is useful for identifying specific areas for further research.



The use of focus groups has been defined as a style of interviewing small groups whose participants provide information about complex topics from a variety of perspectives (Berg, 1998). Moderators solicit opinions through a series of open-ended questions that encourage the expression of individual opinions and interaction among participants. Sessions are typically tape recorded, transcribed, and analyzed through research methods such as content analysis (Tesch, 1995). Findings can be useful for observing and identifying trends, patterns, themes and commonalities.

As a data-collection technique, the focus group has been utilized since the beginning of World War II, when the effectiveness of radio programs on troop morale was studied by military psychologists (Berg, 1998). While marketing researchers have long relied on the methodology since that time, widespread use of the technique by social scientists did not occur until the 1980s. In conjunction with qualitative analytical tools, focus groups have been used extensively over the past decade to investigate human perceptions of numerous issues (Shelton and Atilas, 1995).

Shelton and Atilas (1995) discussed issues related to findings from qualitative research and noted that these are significant to the extent that they are valid. Such validity is attained when there is agreement between a study's intentions and its outcomes. This is best achieved through unobtrusive data collection techniques and precautions against the introduction of a researcher's biases or preexisting theories.

To investigate various points of view on the numerous issues that affect housing affordability and environmental protection, two, two-hour focus groups were conducted in the Fall of 1997—one in Seattle, Washington to represent the West Coast, and one in Gainesville, Florida to represent the Southern half of the Eastern Seaboard. The focus group participants included developers, environmental regulators, affordable housing advocates, environmental advocates, Congressional staffers, students of construction management, and faculty in academic programs of construction management. The specific composition of each group is listed in Table 1.

Questions posed to each focus group elicited comments about the loss of species, housing affordability, equity, property rights, regulatory burdens, and other issues. In both groups conversations covered issues many participants had direct experiences with. For example, in Gainesville the university researcher discussed recent findings about the rate at which endangered species are predicted to be lost; the developer shared his experiences with environmental regulators and endangered species; and the environmental regulator talked about his frustrations with the process through which species become listed as endangered. A consensus that emerged in both sessions,

however, was that this type of discussion, with various interests represented, was useful for gaining an understanding of alternative views on these issues.

**TABLE 1. Composition of the Focus Groups**

<b>Seattle</b>	<b>Gainesville</b>
Moderators (2)	Moderators (2)
Student	Student
Congressional Staffer	University Researcher
Builder/Developer	Community College Faculty
National Audubon Society Director	U.S. Fish & Wildlife Service Regulator
College Professor	Affordable Housing Center Director
	Developer
	Home Builders Association Director

Transcripts of the discussions were examined through content analysis software (Ethnograph). Key categories were coded which allowed for identification of passages in which common themes emerged. The key categories, frequencies of their being mentioned during the discussions, and rankings are presented in Table 2.

<b>Table 2. Frequencies and Rankings of Key Categories</b>		
<b>Categories</b>	<b>Seattle</b>	<b>Gainesville</b>
Affordability	10 (6)	18 (2)
Balance	29 (2)	8 (6)
Confusing Regulations	8 (7)	8 (6)
Education	6 (9)	11 (5)
Environmental	32 (1)	18 (2)
Equity	12 (4)	12 (4)
Excessive Regulations	6 (9)	20 (1)
Low Income	6 (9)	4 (8)
Needs	12 (4)	2 (10)
Property	7 (8)	5 (7)
Public	11 (5)	5 (7)
Research	0 (10)	5 (7)
Species	11 (5)	5 (7)
Sustainability	11 (5)	16 (3)

Wetlands	14 (3)	3 (9)
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The frequencies in Table 2 refer to occurrence rates of concepts that can be categorized by the listed terms, whether the terms were explicitly stated or not. Numbers in parentheses indicate how many times the issue was mentioned during the focus group. Note that in the Seattle group, Environmental issues ranked first as the most frequently mentioned issue, while Excessive Regulations ranked first in the Gainesville group. Affordability tied for second place in the Gainesville group and ranked sixth in the Seattle group.

Following are selected quotes from the discussions that provide a sampling of perspectives on the issues covered. The first quote is from the Seattle group and was coded in the Balance Category:

"... You have to build what the market wants. You have to be careful that you can do it under the government's rules and regulations. But ... the developer who resists the government tends to have more problems than the developer who does not. And the developer who resists and has more problems with the government increases his costs a fair amount because he is going to spend his time in court. ... I think you can make a living and still follow regulations. The important thing is to understand up-front what they are and plan accordingly."

Managing partner of a large building firm.

An important point in the preceding quote is "understanding up-front." This theme emerged later in this session under the Equity Category:

"...As a developer you ... analyze that piece of ground and make a decision and purchase based on the rules and regulations in place at the time. Wetlands rules came into play in the mid-80s, roughly. ... The rules and regulations on wetlands changed substantially, even from the time the wetlands rules went into place. Should those landowners be held accountable for a major change in rules and regulations to benefit the public in general-- not benefit the developer?... The landowner is stuck with a social cost."

Managing partner of a large building firm.

At several points in both sessions, equitable distribution of the social cost of species or wetlands protection was discussed. During the Gainesville discussion, an unintended consequence of the Endangered Species Act was mentioned:

"Unfortunately, what I see happening is people using the federal endangered species act as a growth management issue, as a local land use issue. Instead of going to the local governments, going to the state government, going to the local communities, and saying, ... 'Do we care about this issue? And how can we plan with it? How can we get the quality of life issues or the sustainability issues or the economic issues integrated into land use for city use?' As opposed to what we see as the old model, or what people see as the old model--which is whatever goes. And there are some people who say , 'I can't really do anything I ... want to do to my property...' I think that is where planning comes into play."

Federal environmental regulator.

Issues related to planning were brought up at many points in both focus groups and were coded in categories that included Environment, Need, Affordability, and others. Sprawl, transportation problems, and inner city decay, are mentioned in the following quote from the Gainesville group:

"There is a limit to how far cities can grow out before the whole idea collapses. It is starting to reach a point where people are miserable. They drive an hour back and forth to work because they are pushed so far out that (the) inner circle starts collapsing. People start forming the second circle. Of course, the second circles have already started forming, so now they are forming this third circle. ... It can only go so far. I think it would be really great to start concentrating on and invigorating the interior of the cities. Because we have already established ourselves there. ... You would not be going on pristine land or virgin land."

Student of construction management.

The fact that affordability was not the most frequent category in either discussion suggests that focus group participants were more concerned with other aspects of environmental regulations, including Excessive and Confusing Regulations, Balance, Environmental issues, and Wetlands, among others. A surprising amount of agreement was seen in points made by the developers, environmental advocates, environmental regulators, and academics. Property rights were seen as essential, with the main problems viewed as lost property rights without compensation when laws change or species-related restrictions are placed on land after a purchase has been made. A point made in both focus groups was that confusing layers of regulations should be made easier to understand through more coordination among federal, state, and local agencies. The faculty and students of construction management expressed much interest in the issues discussed as well as concern that they are not currently integrated into programs of construction management.

## **Conclusions and Implications**

Several important points emerge from the literature review and analysis. There are a variety of perspectives as to the extent and reality of a housing affordability crisis. Strong evidence points to a conclusion that what has been perceived as a crisis in affordability was more likely a reflection of demographic trends. The decline in home ownership rates was more accurately explained by changes in tastes and lifestyles and not necessarily economic hardship. Stagnant incomes due to economic restructuring, difficulties in amassing down payments because of neglected savings, and higher consumer debt loads led to the inability of many to purchase homes, the prices of which had indeed risen, but mainly because of substantial increases in size, quality, and amenities.

Examining the literature also makes it quite clear that sufficient data do not exist to draw definitive conclusions regarding the negative impacts of environmental regulations on housing affordability. Arguments that such regulations result in higher housing costs and that they play a significant role in preventing the development of affordable housing lack credibility. And the analysis demonstrated that when the topic of environmental regulations is discussed in focused interviews, housing affordability is not a primary concern. Finally, the state of public opinion on environmental issues indicates strong support among the American public for environmental protection efforts.

This paper has not sought to give an authoritative answer to the question of environmental regulation and affordable housing, but to show that no such answer exists because of insufficient research. The only clear conclusion that can be reached regarding this is that claims of environmental regulation having been a substantial contributor to a housing affordability crisis can be legitimately questioned from a number of perspectives.

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