

Local Solutions to the State's Housing Crisis Webinar Series



The Housing Shortage & The Future of Housing

Natch Greyes, Government Affairs Counsel, NHMA

Local Solutions to the State's Housing Crisis Webinar Series

Thank you to our partners

BEA

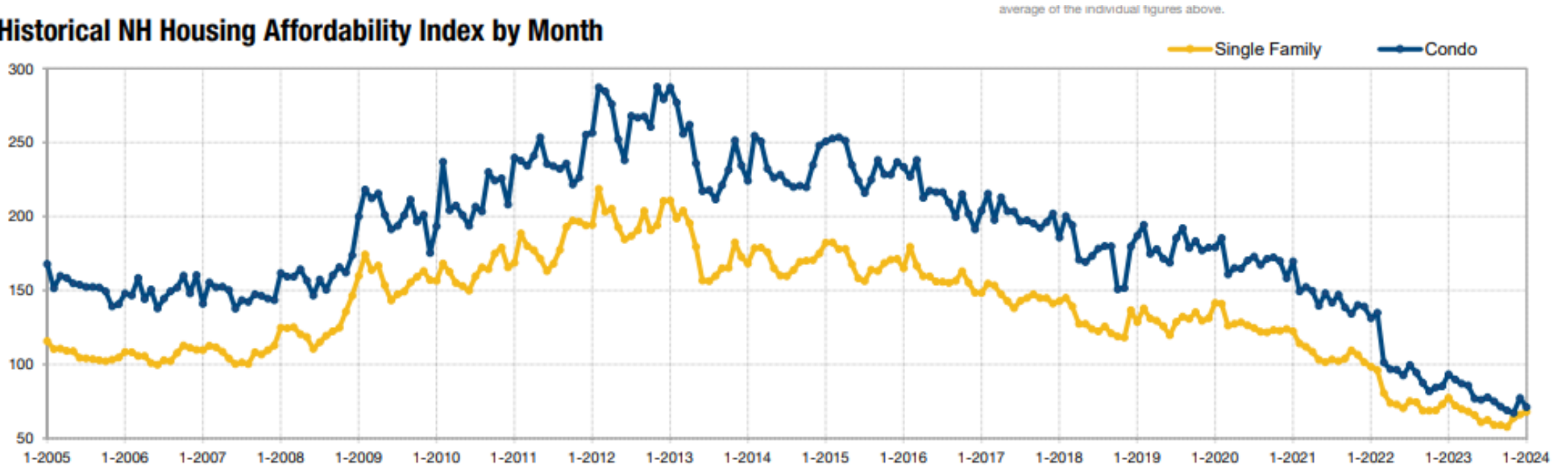
New Hampshire Department of
**BUSINESS AND
ECONOMIC AFFAIRS**



Housing Affordability is an Issue for Average Families

The National Association of Realtors and the New Hampshire Association of Realtors' Housing Affordability Index' measures whether a typical family could qualify for a mortgage loan on a typical home based on the most recent price and income data. In 2022, the affordability index dropped below 100, meaning that the typical family can no longer qualify for a mortgage on the typical house.

Historical NH Housing Affordability Index by Month



First-Time Homebuyers are in a Worse Position

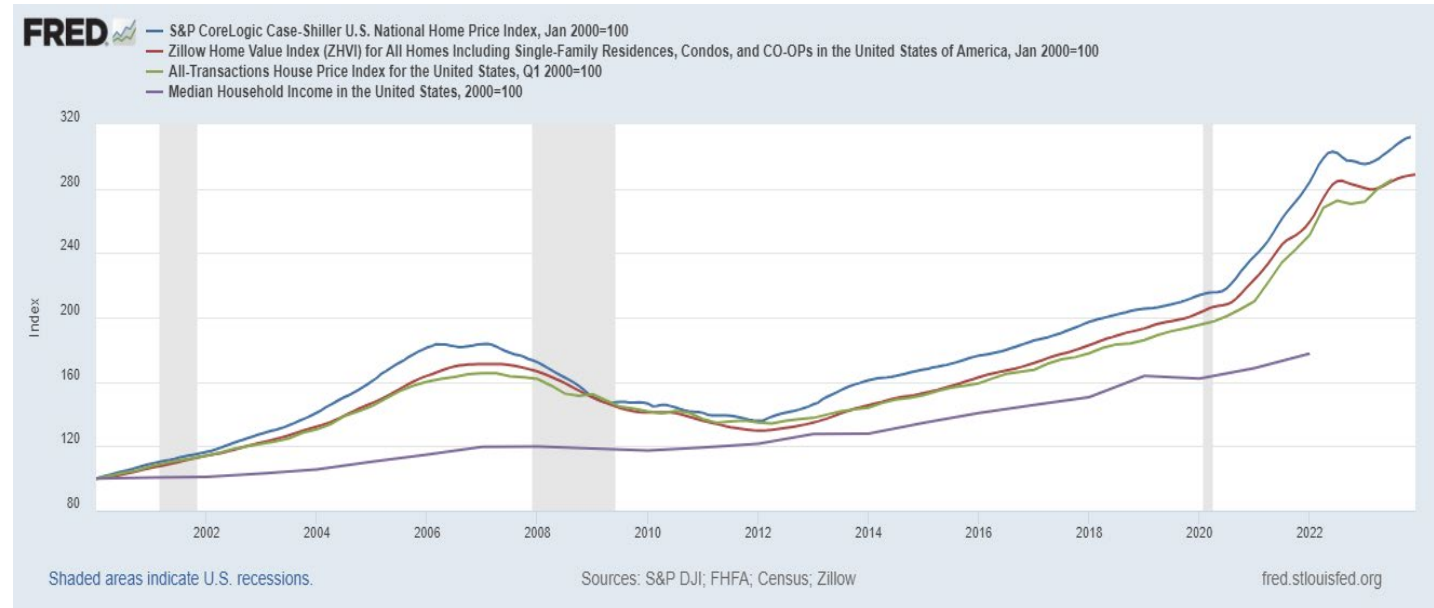
Nationally, the index for first-time homebuyers, who typically have lower incomes than average homebuyers, has dropped more rapidly as homes have increased in value, with 2021 being the last time the typical first-time homebuyer could qualify for a mortgage on a typical home.

FIRST-TIME HOMEBUYER AFFORDABILITY

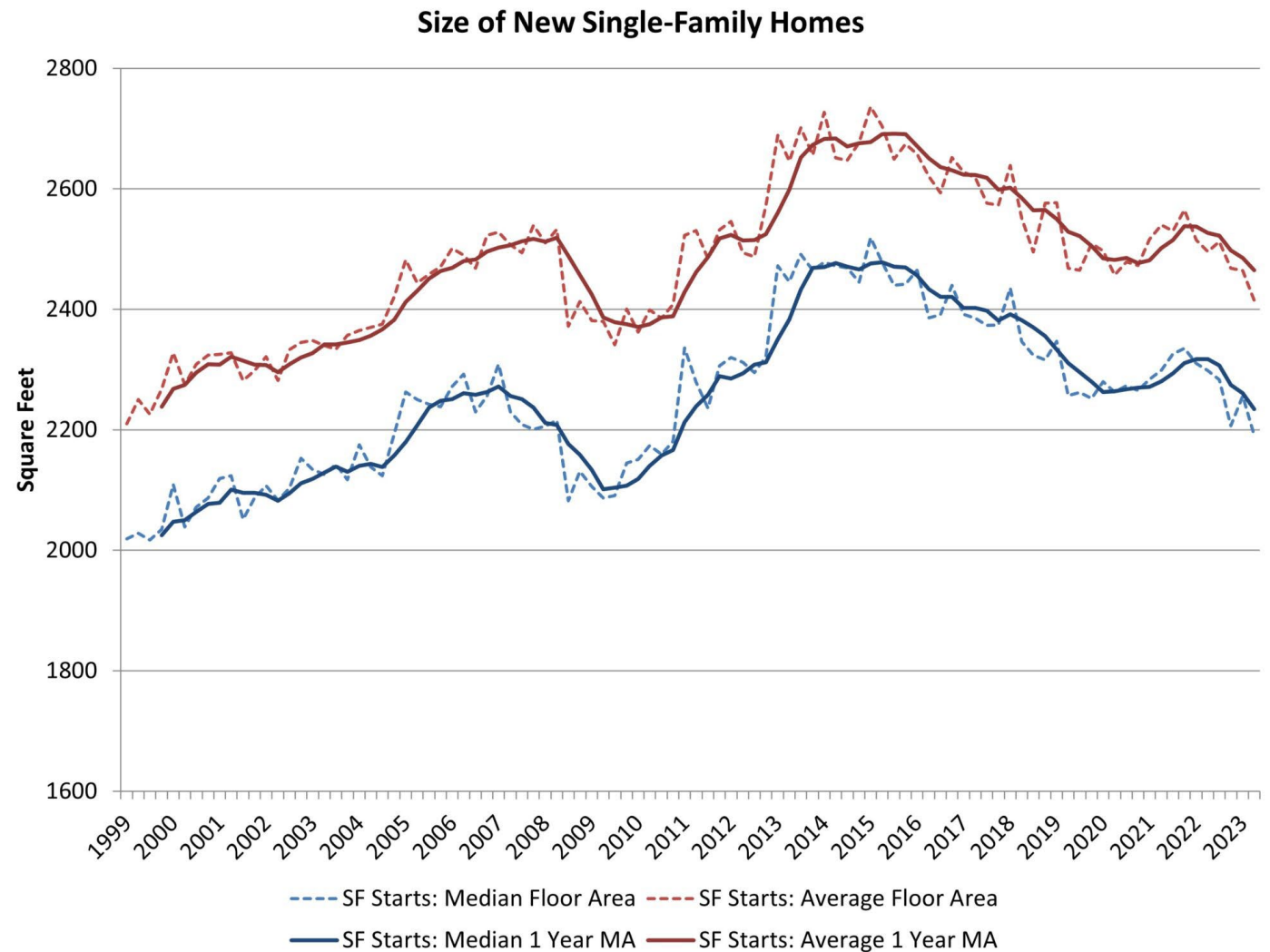
Year	Quarter	Starter Home Price	10% Down Payment	Loan Amount	Effective Interest Rate	Effective Int Rate Plus PMI	Monthly Payment	Prime First-Time Median Income	Qualifying Income	First-Time Buyer Index	Composite Index
2020		255,200	25,520	229,680	3.17	3.42	1,021	54,856	49,008	111.9	169.9
2021		303,500	30,350	273,150	3.01	3.26	1,190	55,775	57,120	97.6	148.2
2022		333,900	33,390	300,510	5.40	5.65	1,735	57,138	83,280	68.6	103.8
2022	II	350,800	35,080	315,720	5.32	5.57	1,807	56,668	86,736	65.3	98.8
2022	III	338,400	33,840	304,560	5.65	5.90	1,806	57,363	86,688	66.2	100.0
2022	IV	321,600	32,160	289,440	6.77	7.02	1,930	58,652	92,640	63.3	95.5
2023	I r	315,400	31,540	283,860	6.44	6.69	1,830	59,227	87,840	67.4	101.8
2023	II p	342,200	34,220	307,980	6.57	6.82	2,012	59,326	96,576	61.4	92.7

What is “Affordability” Anyway? A Comparison of Home Prices Against Income

- The Federal Reserve tracks three different home price indices: the S&P/Case-Shiller U.S. national home price index (produced by Standard and Poor’s Dow Jones Indices), the all-transactions house price index for the United States (produced by the U.S. Federal Housing Finance Agency), and the Zillow home value index for all homes including single-family residences, condos, and co-ops in the United States (produced by Zillow).
- All three give slightly different valuations, but all three report that existing home values in January 2021 were between 251-284% of their value in January 2000.
- Meanwhile, Federal Reserve data shows that median household income in January 2022 was 177% of its January 2000 valuation.



“The monthly payment matters more than anything else and builders have responded with smaller, more efficient homes.”
John Burns Research and Consulting



Source: <https://eyeonhousing.org/2023/08/single-family-home-size-moves-lower-to-more-than-a-decade-low/>



Why Have Home Values Increased So Much?

Demand Has Outpaced Supply



A close-up photograph of a silver door handle with a key hanging from it. The key is a standard metal key with a notched bit. The background is a blurred interior space, possibly a hallway or a room with a bookshelf. The text is overlaid in white, sans-serif font, centered horizontally and slightly to the left of the key.

Existing Home Supply Shortage:
Driven By Mortgage Rate Lock-In



#1 Reason: Mortgage Rate Lock-In

- Mortgage Rate Lock-In: The difference in cost between a homeowner's existing mortgage rate and a new mortgage at the prevailing market interest rate.
- To enjoy the benefit of the value of their low mortgage rate, the borrower must continue to live there, maintain it as second home, let it sit vacant or rent it out.
- The homeowner is only going to be willing to sell their current home, and thus give up their low mortgage rate, if the net benefit of a move is worth at least the difference between their existing mortgage rate and a new mortgage at the prevailing market interest rate.

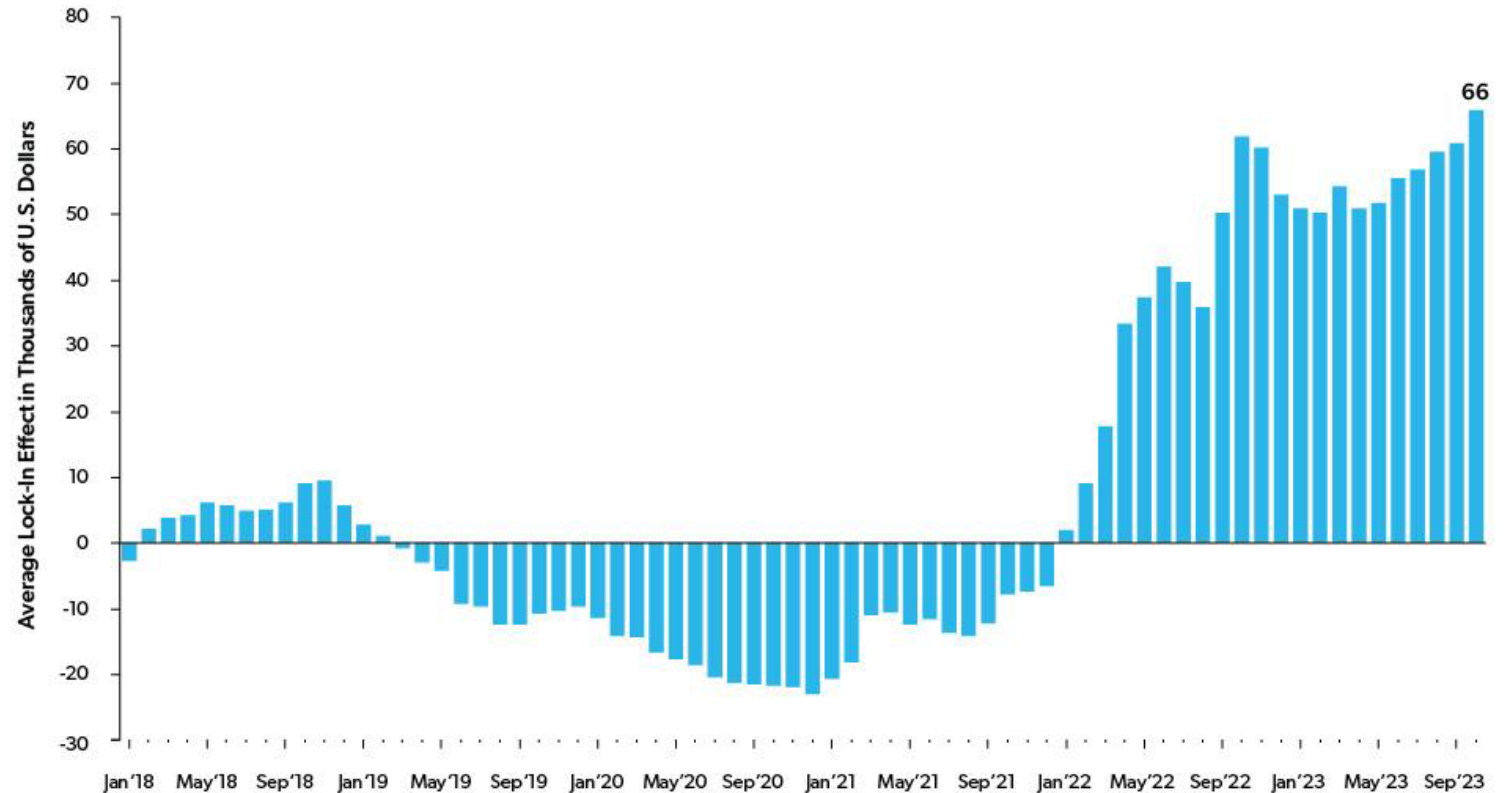
Mortgage Rate Lock-In Effect Is Significant

- Freddie Mac has calculated that about 25% of the outstanding unpaid principal balances in Freddie Mac's single-family mortgage portfolio have locked-in savings.
- That translates to a national average mortgage rate lock-in effect for 30-year and 15-year fixed rate loans of \$66,000, and affects 60% of loans.
- In comparison, the mortgage rate lock-in effect seen in the early 1980s affected only about 5% of mortgages and the average mortgage rate lock-in effect was only \$1,800.

EXHIBIT 2

Average mortgage rate lock-in effect

Freddie Mac active 30-year and 15-year fixed mortgages



An aerial photograph of a suburban neighborhood. The houses are arranged in a grid-like pattern with winding streets. The houses have various roof colors, including grey, brown, and tan. There are many green trees scattered throughout the neighborhood. Some houses have swimming pools in their backyards. The overall scene is a typical suburban residential area.

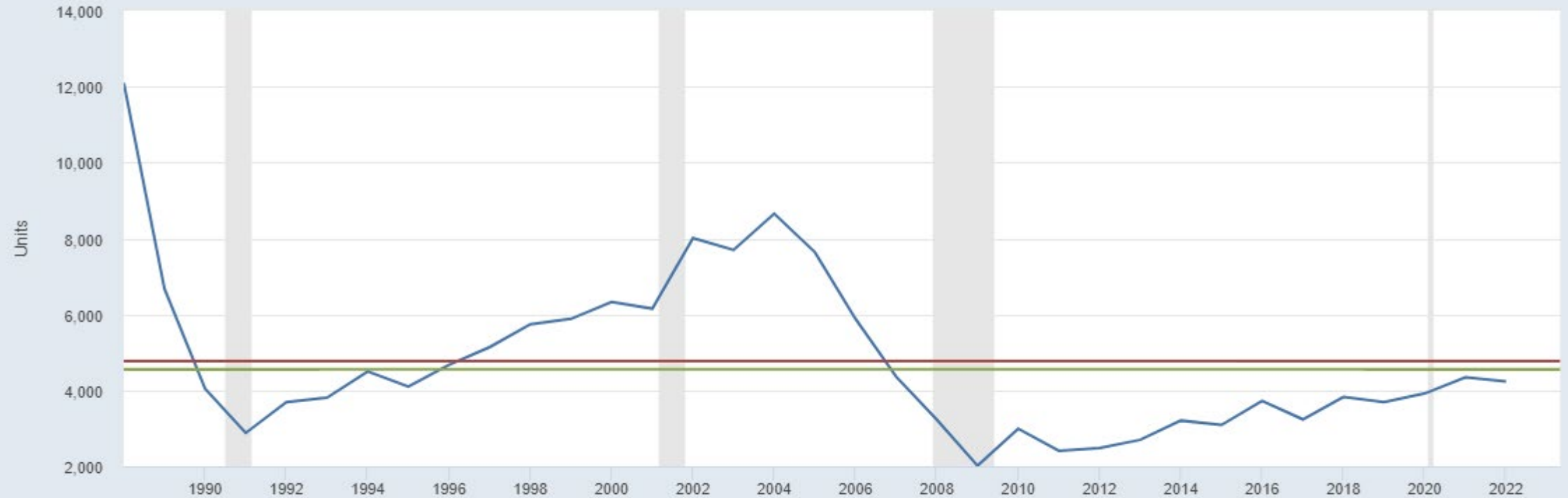
New Home Supply Shortage: Driven By The Great Recession

Since the Great Recession, Building Starts Have Been Below the Historical Average

- Homebuilding collapsed during the housing market crash preceding the Great Recession, with construction falling from over 2 million homes in 2005 to 550,000 in 2009.
- Since 2012, housing starts have been increasing, but remain significantly below their peak level and research by the Urban Institute & Moody's suggests that new housing construction is below the levels necessary to meet demand.

Source: <https://www.moodyanalytics.com/-/media/article/2021/Overcoming-the-Nations-Housing-Supply-Shortage.pdf>





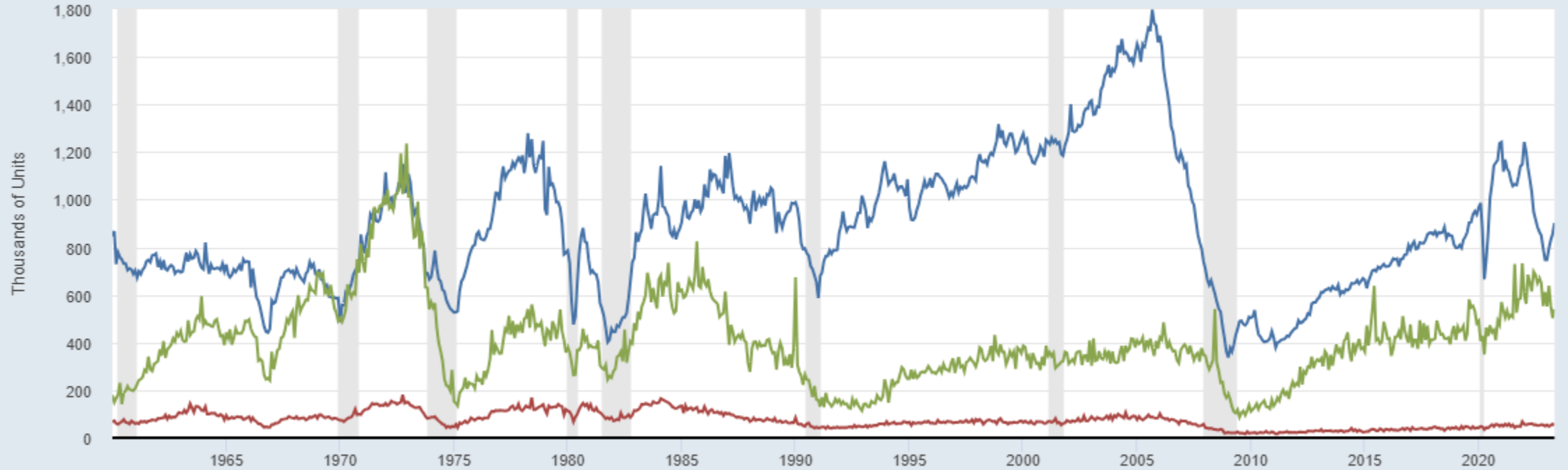
Shaded areas indicate U.S. recessions.

Source: U.S. Census Bureau

fred.stlouisfed.org

New Hampshire Homebuilding Follows National Trends

- New Hampshire has seen a slower homebuilding recovery than nationally, with homebuilding rates still below the historical average.
- The 2023 New Hampshire Housing Needs Assessment estimates that 23,500 additional dwelling units are needed to meet current needs.
- U.S. Census data indicates that, between 2007 and 2022, an estimated 22,910 fewer private housing structure permits (or 19,462 without 1988 data) were built than the historical average of 4,771 units (or 4,556 without 1988 data).



Shaded areas indicate U.S. recessions.

Sources: Census; HUD

fred.stlouisfed.org

Single Family Home Construction Saw the Biggest Drop

“The main driver of the housing shortfall has been the long-term decline in the construction of single-family homes and that decline has been exacerbated by an even larger decrease in the supply of entry-level single-family homes, or starter homes.” - Freddie Mac



What Do The Economic Indicators Tell Us About Future Housing?

Hint: Smaller Units



Profit Margins Drive Construction



After the Great Recession, construction of high-end homes and apartments recovered first, with builders responding to the quicker rebound in demand by well-to-do households and the stronger profit margins, with supply beginning to meet demand by the middle of the 2010s.



However, construction of affordable housing—homes that low and moderate-income households could afford to rent or buy—was been much slower to bounce back, with low- and moderate-income households much slower to recover from the recession. The margins that builders could get from building affordable housing have been too low to incent the investment, with pricing too low to adequately clear the high fixed costs of building.



The primary causes of the affordable housing shortfall, from least to most important, are materials and labor, lending, and land, according to research done by the Urban Institute and Moody's Analytics. Source: <https://www.moodyanalytics.com/-/media/article/2021/Overcoming-the-Nations-Housing-Supply-Shortage.pdf>

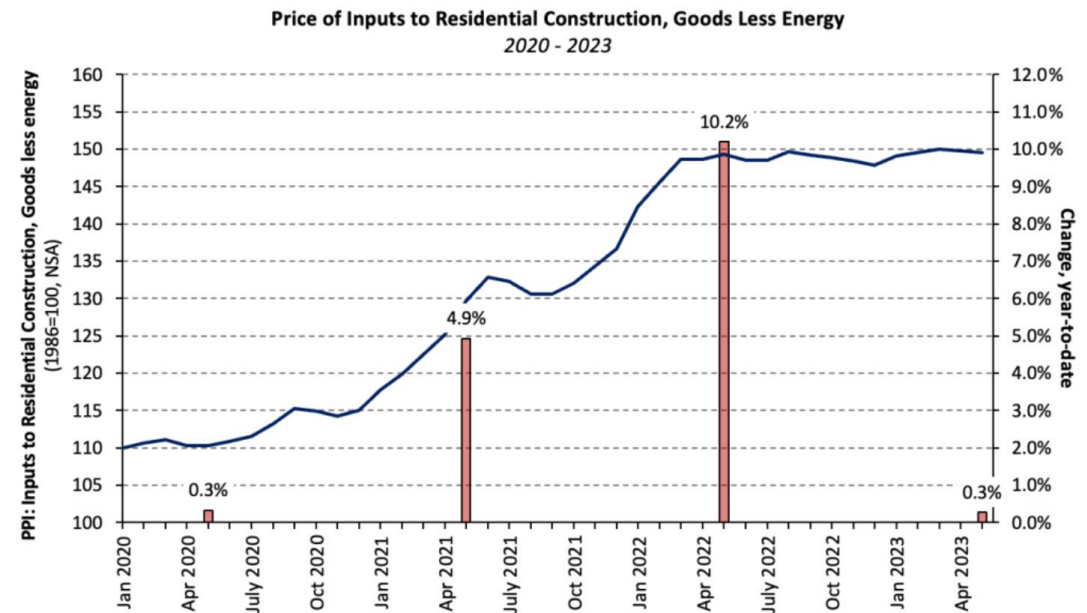
Table 1: What Explains the Housing Shortage?

Explaining the vacancy gap – the difference between the actual and equilibrium housing vacancy rate

	Correlation Coefficient	Univariate panel regressions		Multivariate panel regression	
		Coefficient	T-statistic	Coefficient	T-statistic
Land share of house price	-0.08	-0.50	-12.9	-2.52	-15.9
AD&C loan standards	-0.20	-0.38	-25.7	-0.40	-12.0
Construction labor compensation growth	-0.05	-0.04	-1.6	-0.02	-0.8
Lumber price growth	-0.05	-0.07	-4.1	-0.18	-7.1

Materials Costs Have Skyrocketed Since 2020

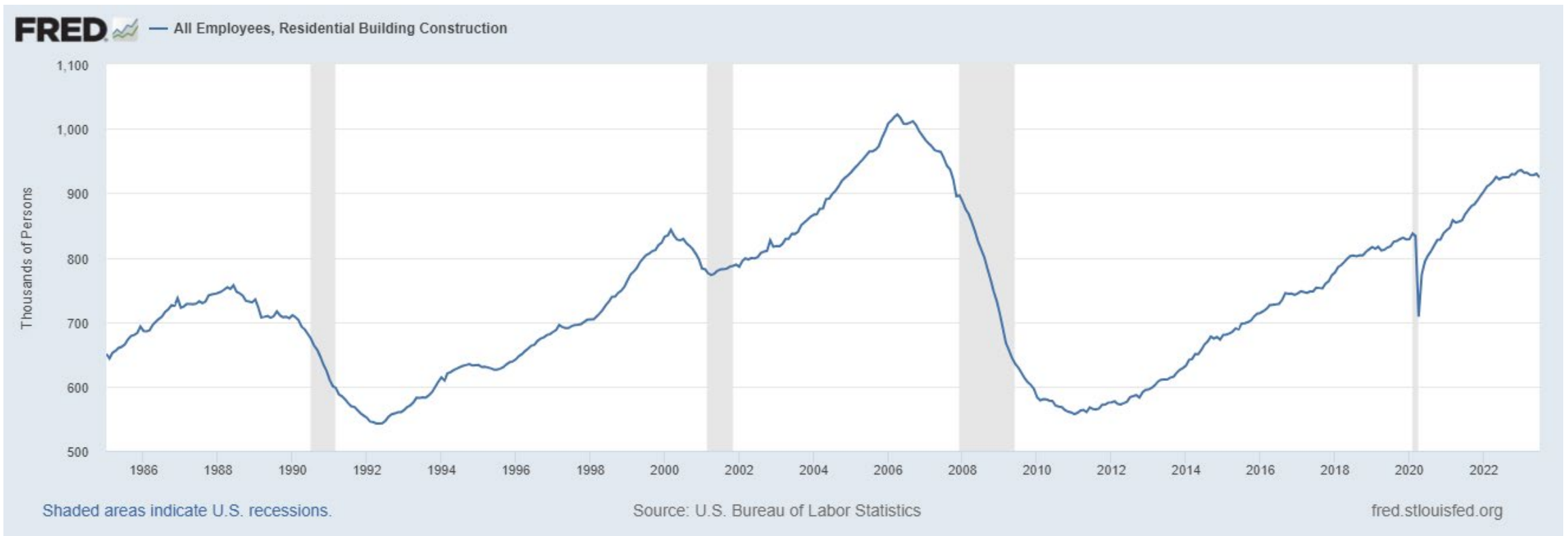
- As of June 2023, the Producer Price Index, the prices of inputs to residential construction less energy (i.e., building materials) has gained 0.3%, year-to-date, a stark contrast from the 10.2% and 4.9% YTD increases seen in 2021 and 2022, respectively.
- In total, although the PPI including energy has begun to decrease since its high in 2022, the overall index is still 36.0% higher than in January 2020.



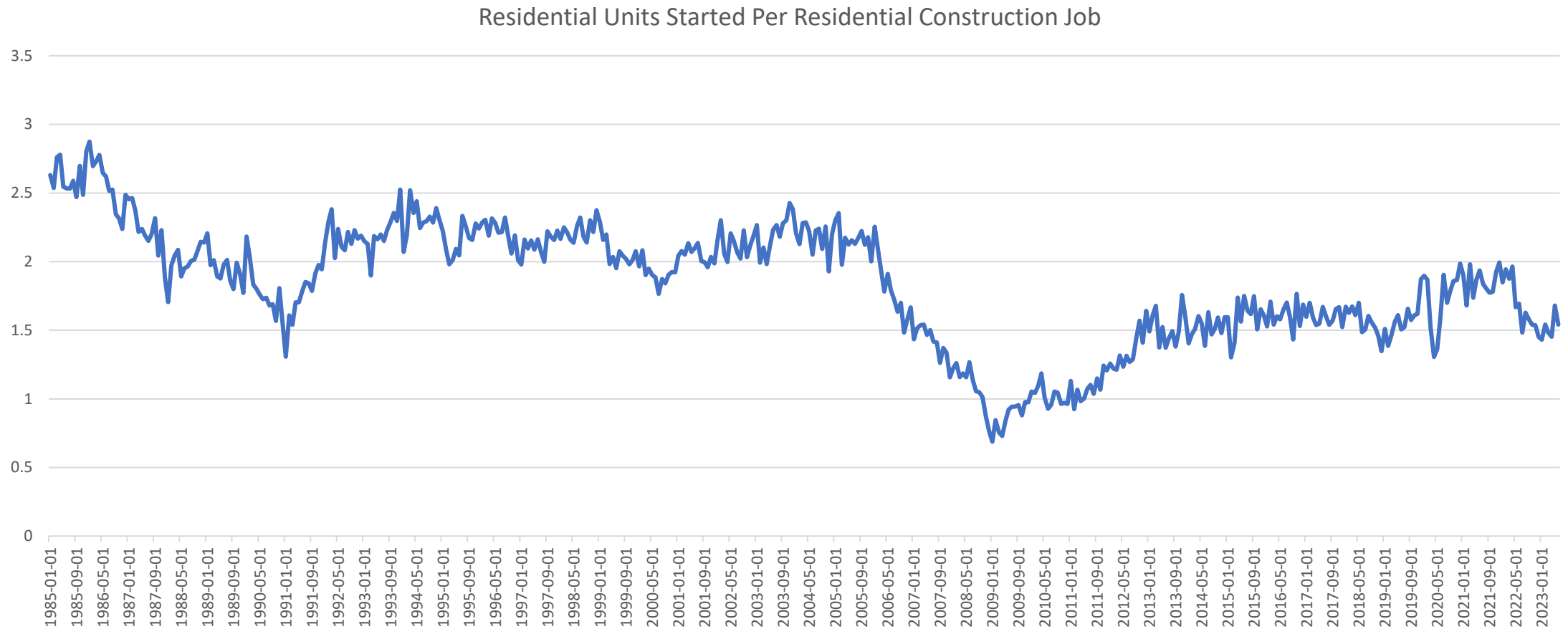
Construction Employment

- “Employment losses [in construction] easily exceeded the declines observed during past recessions ... represent[ing] 19.8 percent of total nonfarm employment losses.” - Bureau of Labor Statistics

Source: <https://www.bls.gov/opub/mlr/2011/04/art4full.pdf>



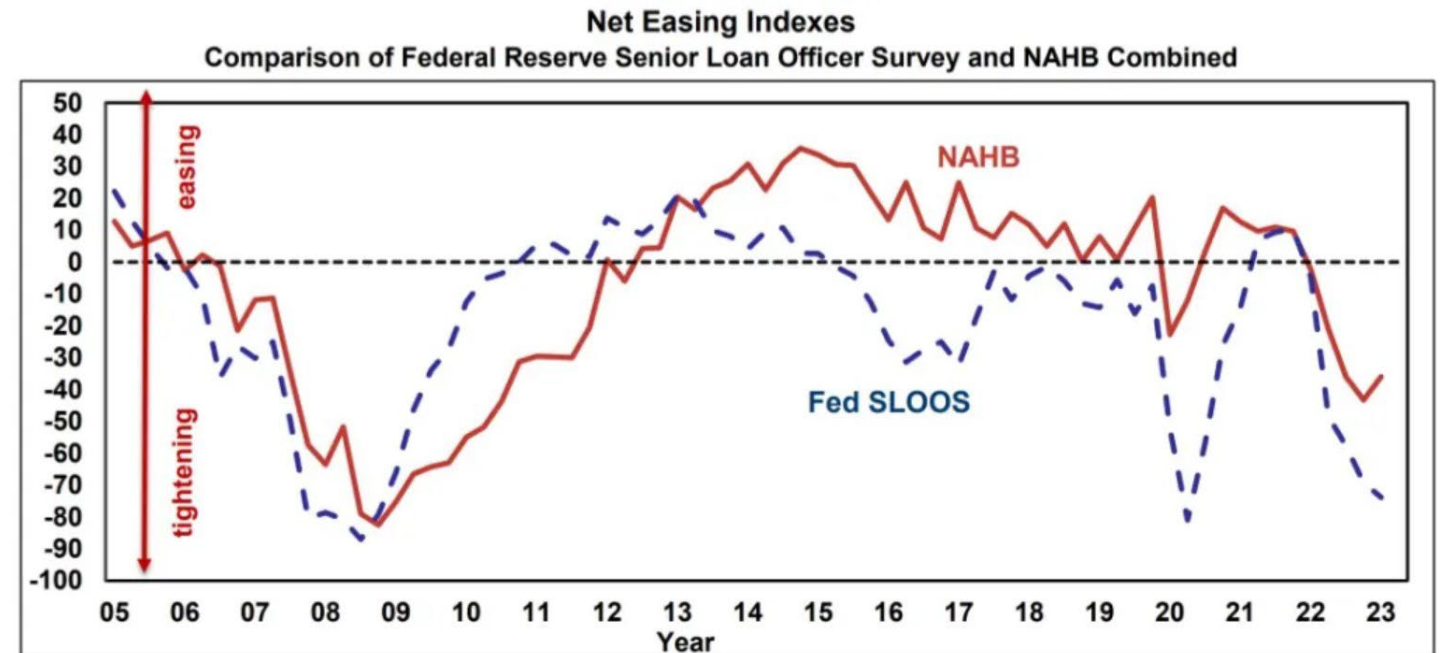
Construction Industry Productivity Has Dropped Over Time



Sources: U.S. Bureau of Labor Statistics; Census; HUD

Lending Has Become Tighter, Driving Up Costs

- The National Association of Home Builders generates a net easing index, similar to the net easing index constructed from the Federal Reserve's survey of senior loan officers, that uses information from builders and developers about changes in credit conditions as compared to the previous quarter.
- Notably, the NAHB net easing index reported credit tightening in the post-Great Recession period - driving higher building costs - and since the Federal Reserve began increasing interest rates in 2022.
- The most common ways in which lenders tightened credit since 2022 has been increasing the interest rate on the loans provided to builders and developers.



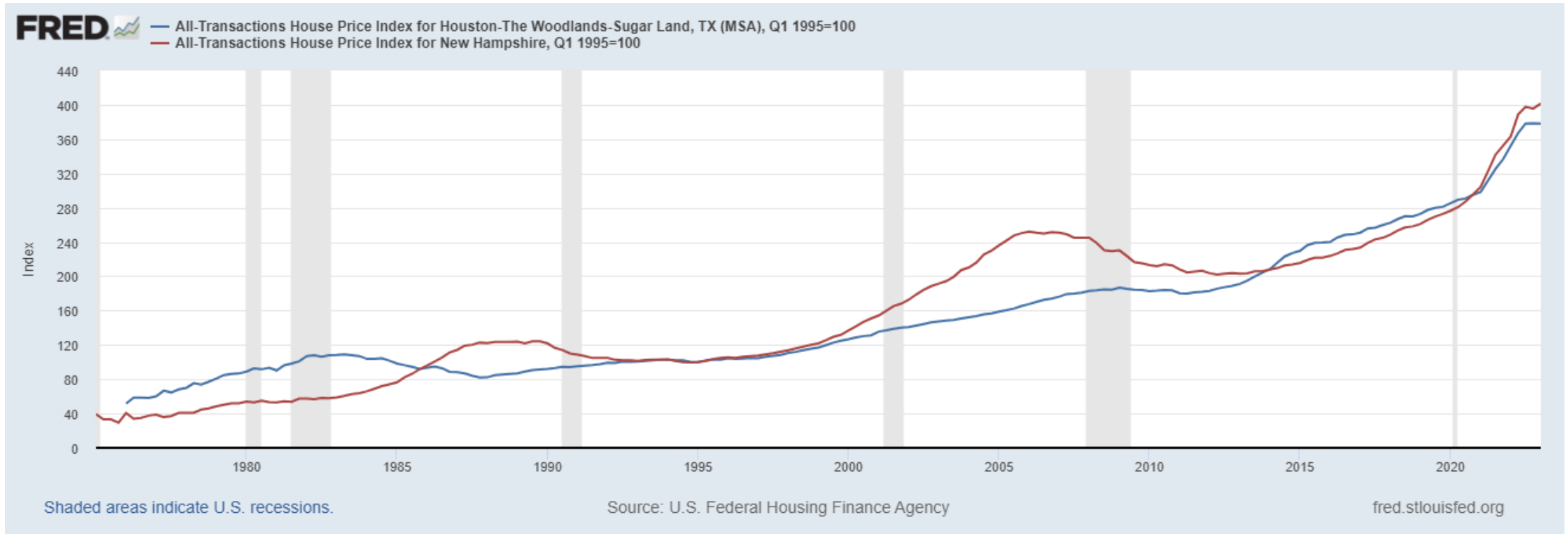
Source: <https://www.nahb.org/-/media/NAHB/news-and-economics/docs/housing-economics/adc-survey/adc-survey-report.pdf>

Zoning's Impact on Housing Supply and Costs is Minimal

- Zoning is often cited as an impediment to housing construction, but there is little evidence that zoning has a significant impact on housing construction.
- A study of local regulations that could affect housing production and availability spanning 1,136 cities across 19 years found that increases in the number of units preceded zoning reform. An overall increase in the number of units occurred regardless of whether the regulations more or less restrictive, but no such increase occurred in cities that never instituted land-use reforms.
- Similarly, in Houston, which famously lacks zoning, market-driven development is the reality. Nevertheless, Houston is experiencing the same affordability problems as the rest of the nation, including New Hampshire.
- In Houston, for example, the median home sales price is \$315,095, but a median renter household can afford a \$143,028 home—representing an affordability gap of \$172,067. In New Hampshire, the median sales price is \$415,000, but a median renter household can afford, approximately, a \$250,000 home—representing an affordability gap of \$165,000.

Houston vs New Hampshire Home Values

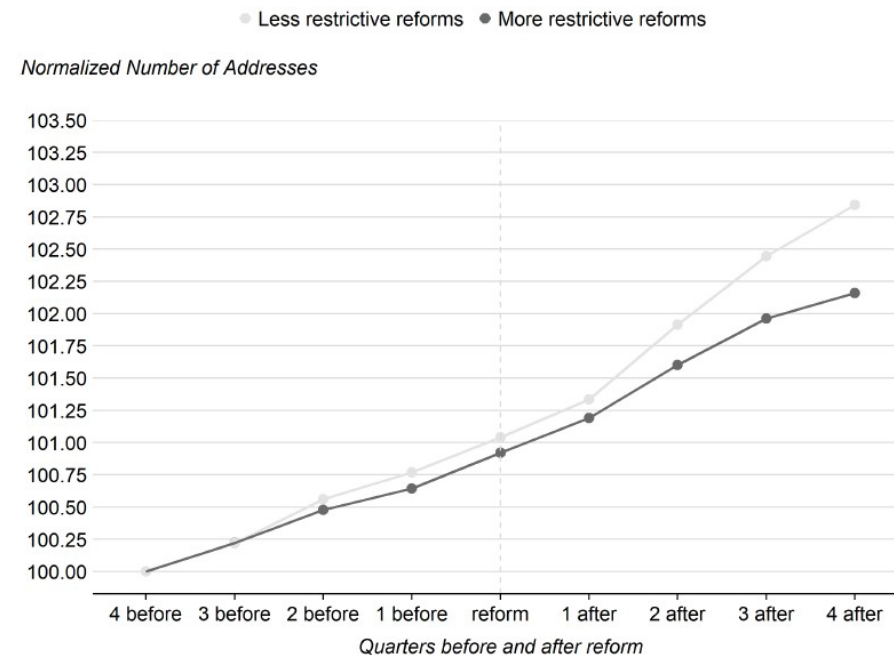
Indexed to 1995, home values in Houston increased at nearly the same pace as home values in New Hampshire, except during the Great Recession.



Land Use Reforms Have a Small Impact on Housing Units, Regardless of Direction of Reform

- Cities that institute reforms that increase restrictiveness and those that reduce restrictiveness appear to institute land-use reforms in response to observed changes in their housing supply.
- Land-use reforms that loosen restrictions are associated with a statistically significant 0.8% increase in housing supply within three to nine years of reform passage, accounting for new and existing stock.
- However, the increase in housing supply occurs predominantly for units at the higher end of the rent price distribution with no statistically significant evidence that additional lower-cost units became available or became less expensive in the years following reforms.

Figure 2: Average number of addresses before and after reforms, normalized



Source: Authors' analysis of HUD USPS Vacancy Data and land-use reform data.

Land Values Appear to Increase If Zoned For Residential Use

- Verifying the effect of zoning on land values has proved extraordinarily difficult for two reasons: (1) the competitive market may already have separated land use; (2) zoning may be flexible, mimicking the competitive market (although probably with a lag).
- Chicago is unique among American cities in having readily available land use and value data stretching back to 1913, before the enactment of zoning in 1923.
- Comparative analysis of Chicago's data proves that residential zoning led to higher land value growth rates than commercial zoning, and that, in line with economic theory, there is a positive correlation between structural density and land values.

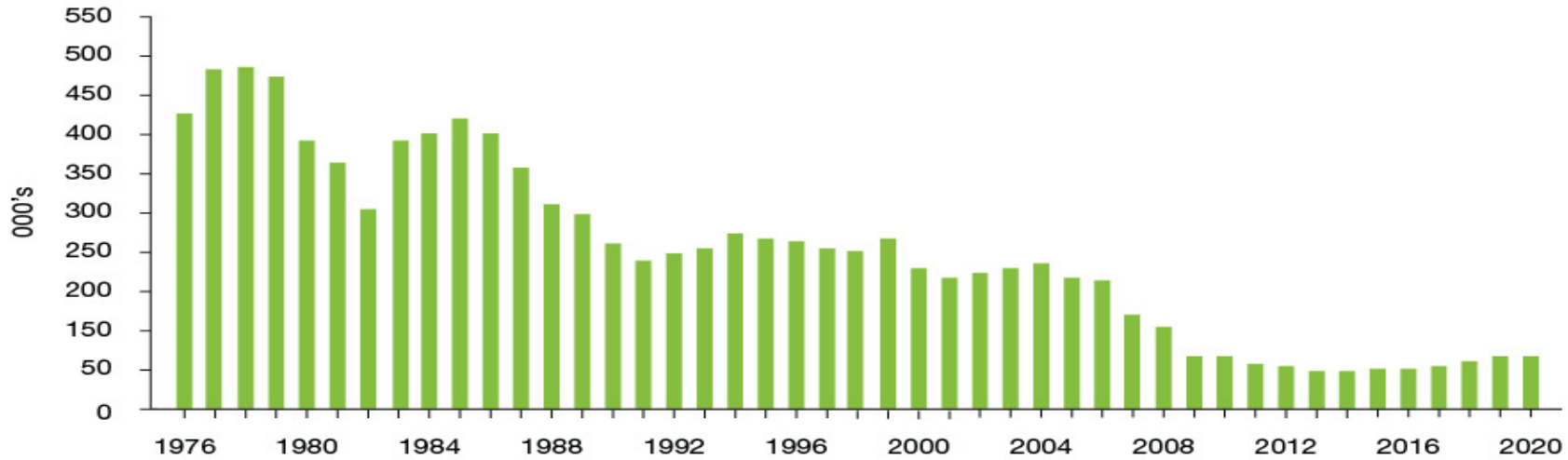
Sources: https://www.lincolnst.edu/sites/default/files/pubfiles/2378_1718_Land_Values_in_Chicago_1913-2010_0414LL.pdf ; <https://mcdonald.people.uic.edu/ftp/08%202002%20restat%20land%20value%20after%20zoning.pdf>



EXHIBIT 2

Number of new homes constructed below 1,400 square feet

Entry-Level home construction collapsed after the Great Recession and never recovered



Source: U.S. Census Bureau.

That's Why The New Focus is on Smaller/Affordable/Starter Homes

- Construction of affordable housing—homes that low-and moderate-income households can afford to rent or buy—which includes but is not limited to “entry-level single-family homes,” has dropped since the late 1970s.
- Between 1976 and the mid-1980s, construction of new entry-level single-family homes averaged between 30% and 40% of all new homes completed, but steadily declined throughout the '80s, '90s, '20s, and '10s, with construction of new entry-level single-family homes dropping to less than 20% of all new homes completed by 2020.

CURRENT ESTIMATES AND TRENDS IN NEW HAMPSHIRE'S HOUSING SUPPLY

Update: 2023

NH Office of Planning and Development

Background

- RSA 78-A:25 directs the Office of Planning and Development (OPD) to “**estimate annually the resident population for all cities and towns...as of July 1 of the preceding year**”
- Two components:
 - Group quarters
 - **Housing units** – calculated from annual dwelling unit survey
- Towns and cities report all building permits issued in previous year and resulting number of permitted dwelling units

Sample Dwelling Unit Survey

- Permits issued during Calendar Year 2022
- Assume constructed by July 1, 2023
- Categories: single family, 2 family, 3-4 family, 5+ family, conversions, and manufactured housing
- Conversions are assigned to 2-family category for consistency

2022 DWELLING UNIT RESPONSE FORM
New Hampshire Office of Planning and Development

Code Official _____ Completed by (please print clearly) _____
 Town of Altridge _____ Title _____
 PO Box 999 _____
 Altridge, NH 03000 _____
 Rocksborough County _____ Signature _____
 Address Correction (if different from what is listed): _____ Telephone Number _____
 _____ E-mail Address _____

Last year the response form was completed by: Veranda Trowmiller, Building Inspector

NOTE: The Office of Planning and Development is interested only in permits that change the number of residential dwelling units in your community. Permits for alterations (room additions, decks/porches, sheds, etc.) or non-residential garages should not be tabulated on this form. If your community does not have a permit system in place, please use the best comparable information available (i.e., certificate of occupancy).

CALENDAR YEAR 2022
(January 1, 2022 through December 31, 2022)
Please review the instructions on the back of this form.

PERMITS ISSUED THAT RESULTED IN NEW RESIDENTIAL DWELLING UNITS	NEW RESIDENTIAL CONSTRUCTION		RESIDENTIAL DEMOLITIONS		EXPIRED RESIDENTIAL PERMITS FROM 2021 NOT RESULTING IN A NEW BUILDING FOR 2022 (see back of form)		FOR OPD USE ONLY
	NUMBER OF BUILDINGS	NUMBER OF DWELLING UNITS	NUMBER OF BUILDINGS	NUMBER OF DWELLING UNITS	NUMBER OF BUILDINGS	NUMBER OF DWELLING UNITS	TOTAL UNITS
1 Family*	41	41	9	9	3	3	29
2 Family**	2	4					4
3 or 4 Family							
5+ Family	2	12					12
Conversions***		3					3
Manufactured Housing	1	1	2	2			-1
TOTAL HOUSING UNITS	46	61	11	11	3	3	47

* Excluding manufactured housing.
 ** A new single family home with an ADU attached is counted as 2 family.
 *** Conversions: Count only the number of residential units created or lost. Examples of conversions include: (a) conversion of a single family house to a multifamily house (increasing the number of dwelling units), (b) construction of accessory dwelling units (increasing the number of dwelling units), and (c) conversion of a residence to an office or restaurant or other non-residential use (decreasing the number of dwelling units – enter this number in the demolitions column).

Should you have questions, please contact Ken Gallagher, Principal Planner, at 271-1773 or kenneth.r.gallagher@livefree.nh.gov

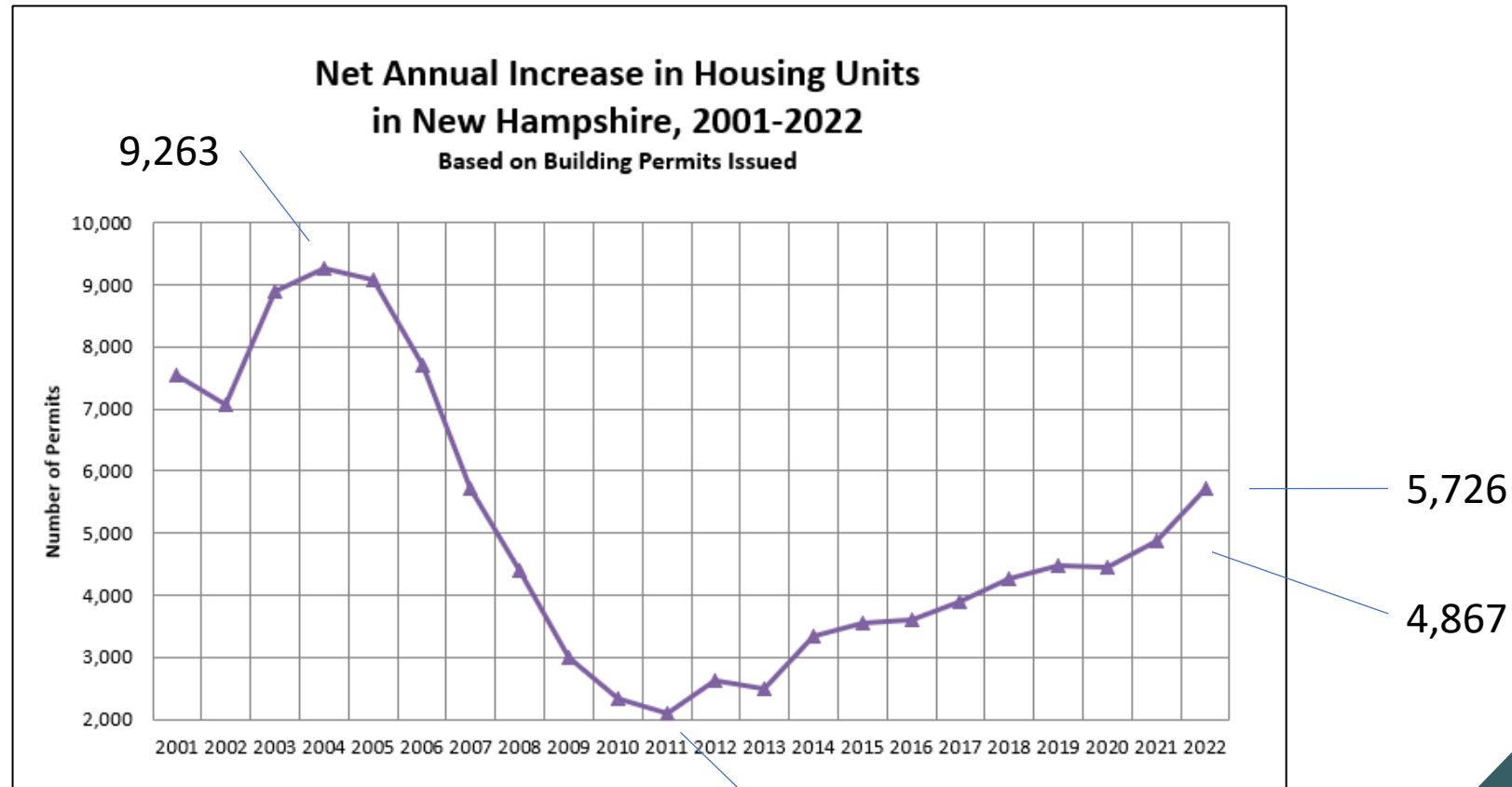
Submit completed form to:
 Office of Planning & Development
 100 N. Main Street, Suite 100
 Concord, NH 03301
 Email: kenneth.r.gallagher@livefree.nh.gov

Limitations of the Dwelling Unit Survey

- It is not a comprehensive housing survey
 - Does not gather assessed value
 - Does not gather physical attributes (size, materials, rooms, etc.)
 - Does not split out ADUs
 - No addresses are collected; only gathers total numbers per municipality
 - Not all permitted units might be built

Results

- 17.6% increase in total units permitted from preceding year
- Previous low point was in 2011; high point before that was in 2004; current year's number is 62% of the number permitted in 2004



Permits issued – State totals

- 2022 – Permits issued for 5,726 dwelling units:
 - Single-family: 2,495 (43.6%)
 - Multi-family: 3,098 (54.1%)
 - **2 units: 348**
 - **3-4 units: 161**
 - **5+ units: 2,084**
 - **Conversions: 507**
 - Manufactured housing: 131 (2.6%)
- 2021 – Single-family 52.7%, Multi-family 44.6%, Manufactured 2.6%
- 2020 – Single-family 59.2%, Multi-family 36.8%, Manufactured 4.0%

Patterns of permitting

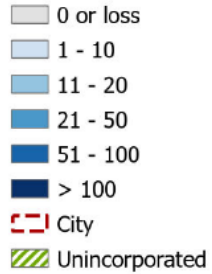
- In 2022, the largest communities in the state continued to permit a greater share of the total housing units than their percentage of the population
- 13 communities (34% of NH population) permitted 50% of total housing units
 - *In 2021, 17 communities (38.3% of NH population) permitted 50% of total housing units*
- All 13 communities permitted 100 or more units:
 - Salem (470)
 - Portsmouth (404)
 - Londonderry (321)
 - Rochester (287)
 - Manchester (263)
 - Lebanon (262)
 - Merrimack (203)
 - Laconia (135)
 - Conway (131)
 - Concord (110)
 - Dover (102)
 - Nashua (101)
 - Swanzey (100)

State Overview

Map 2. Housing Units Permitted in New Hampshire by Municipality

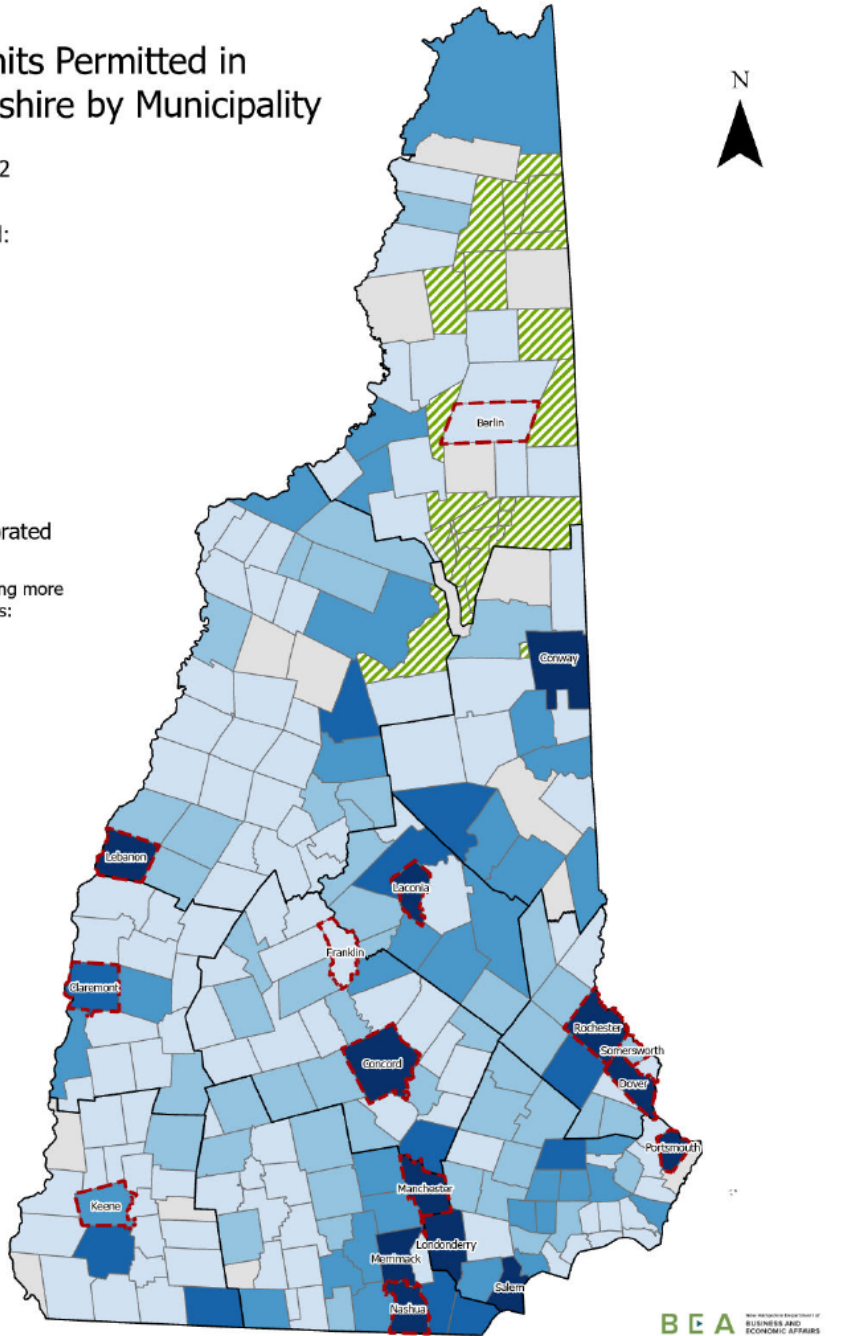
Calendar Year 2022

Units permitted:



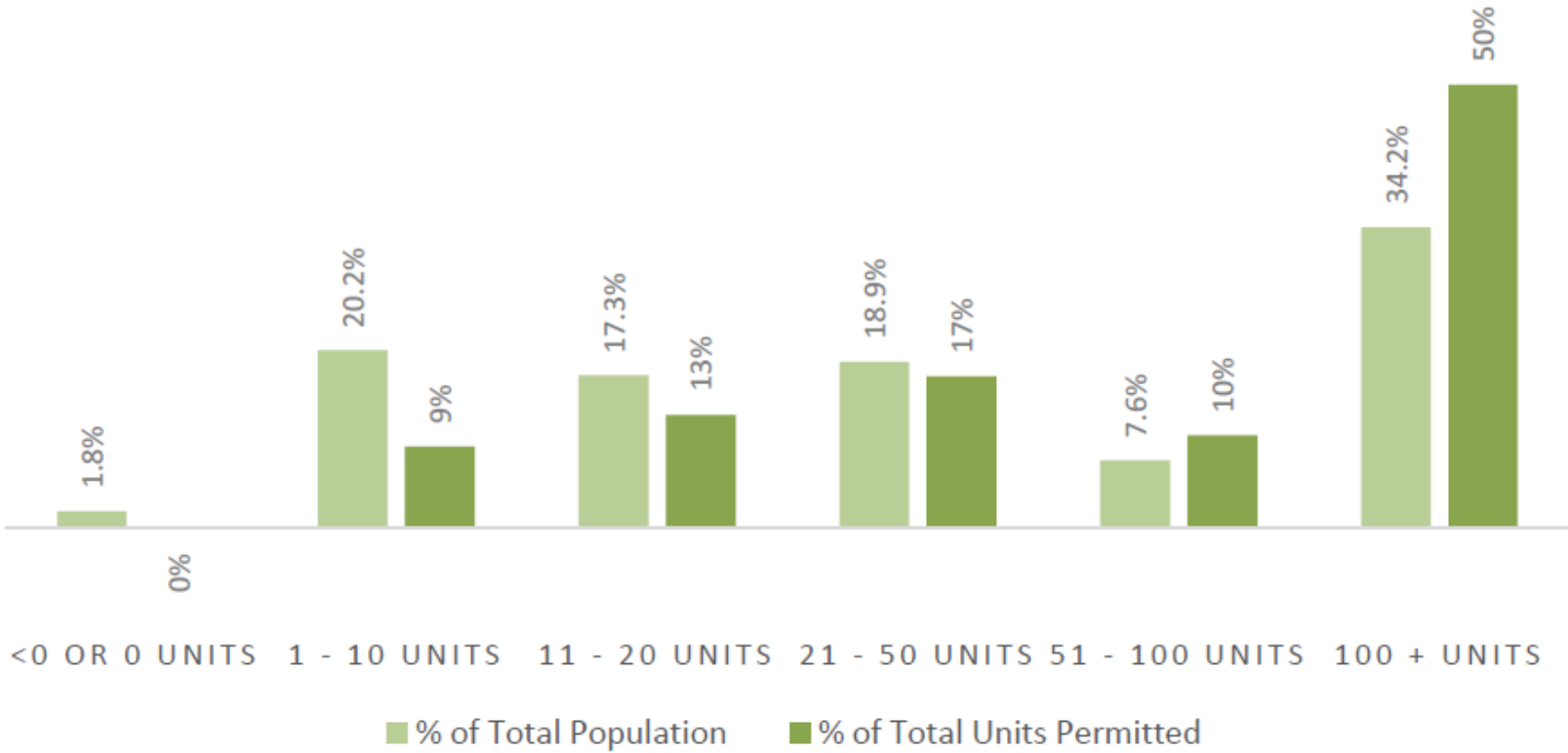
Municipalities permitting more than 100 housing units:

1. Salem 470
2. Portsmouth 404
3. Londonderry 321
4. Rochester 287
5. Manchester 263
6. Lebanon 262
7. Merrimack 203
8. Laconia 135
9. Conway 131
10. Concord 110
11. Dover 102
12. Nashua 101



Permitting patterns, contd.

% OF HOUSING UNITS PERMITTED IN 2022 BY MUNICIPALITIES BASED ON 2022 POPULATION RELATIVE TO % OF TOTAL UNITS PERMITTED



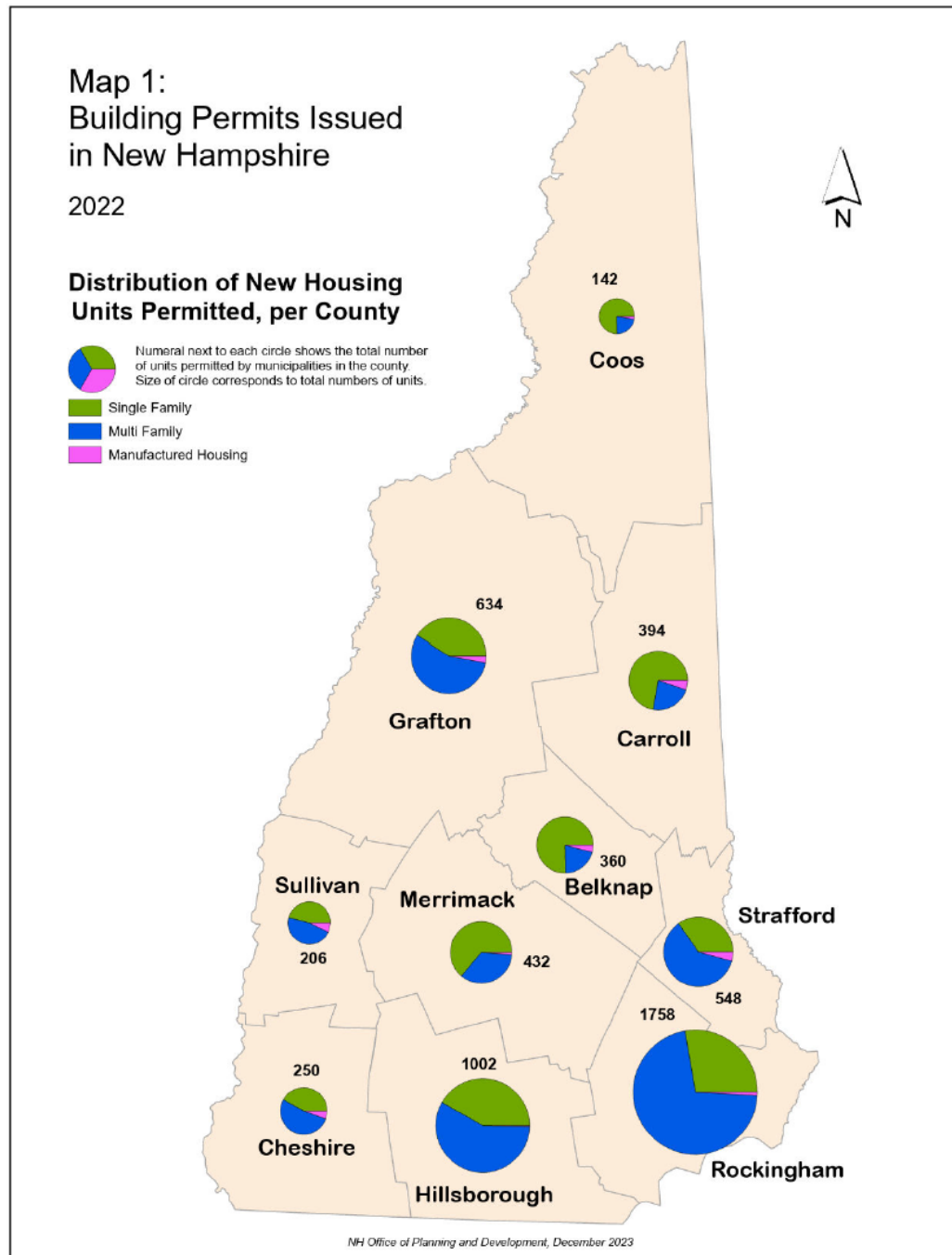
Differences by county

- Most single-family units permitted:
 - Rockingham (487), Hillsborough (419), Carroll (285), Merrimack (276)
- Most multi-family units permitted:
 - Rockingham (1,255), Hillsborough (580), Grafton (356), Strafford (335)
- Six counties (Cheshire, Grafton, Hillsborough, Rockingham, Strafford, Sullivan) issued more permits for multi-family than single-family housing
- Seven counties (Carroll, Cheshire, Coos, Grafton, Rockingham, Strafford, Sullivan) issued more permits for multi-family than in previous year
- Five counties (Belknap, Carroll, Coos, Grafton, and Sullivan) issued more single-family permits than in previous year

County Overview

More permits were issued than 2021 in Belknap, Carroll, Cheshire, Coos, Grafton, Rockingham, Strafford and Sullivan counties

2023 Housing Supply Report
February 15, 2024



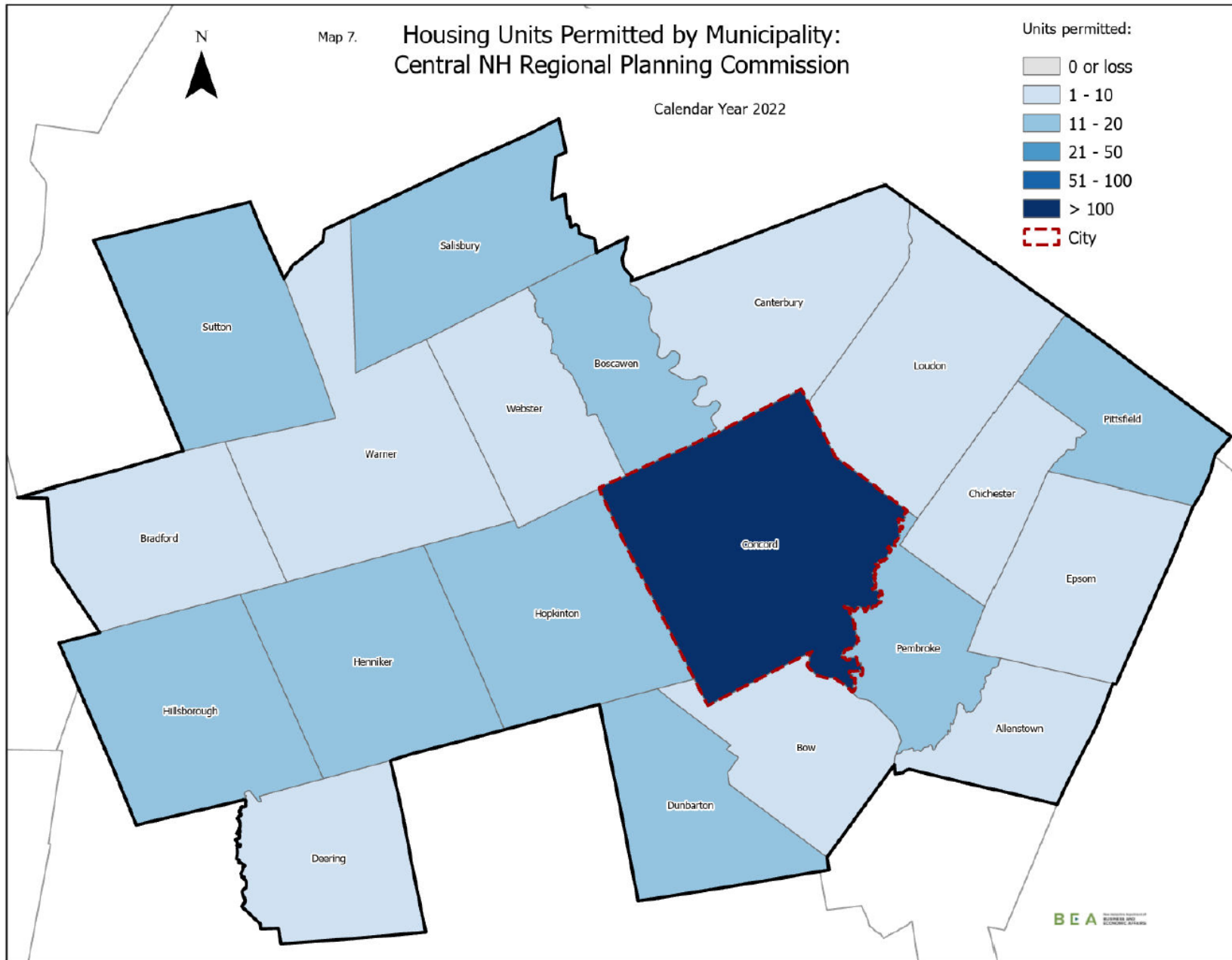
Municipalities

- Most single-family units permitted:
 - Laconia (105), Londonderry (76), Hooksett (58), Moultonborough (53), Manchester (50)
- Most multi-family units permitted:
 - Salem (421), Portsmouth (365), Lebanon (257), Londonderry (244), Rochester (222), Manchester (213), Merrimack (167)
- Greatest percentage increase in total housing stock:
 - Salem (470 units, 3.65%), Portsmouth (404, 3.58%), Lebanon (262, 3.44%), Londonderry (321, 3.16%), Swanzey (100, 2.95%)

Measuring Progress

Region	'20 – '22 Housing Units Permitted*	'20 – '24 Year-Round Housing Units Needed
Central New Hampshire Regional Planning Commission	1,009	3,028
Lakes Region Planning Commission	1,621	2,815
Nashua Regional Planning Commission	2,502	5,143
North Country Council	1,376	1,782
Rockingham Planning Commission	2,606	5,352
Southern New Hampshire Planning Commission	2,208	7,212
Southwest Region Planning Commission	767	1,873
Strafford Regional Planning Commission	1,634	3,289
Upper Valley Lake Sunapee Regional Planning Commission	1,316	2,210
New Hampshire	15,039	32,704

*including seasonal units



Example of Housing Units Permitted by Region

Takeaways

- 17.6% increase in residential building permits issued from 2021 to 2022 is the highest year-over-year percentage increase since 2014
- Increased permitting levels are encouraging, but additional work is needed to meet the 2025 housing unit projections
- Multi-year trend towards a smaller number of communities, mainly cities and large towns, accounting for a majority of housing units permitted
- Multi-year trend of number of multi-family (2 or more units) units permitted increasing and number of single-family units permitted decreasing
- InvestNH program contributed to a 41% increase in multi-family units permitted from 2021 to 2022
- While the report assumes all units permitted in 2022 were built by July 1, 2023, it is difficult to know how many units permitted in 2022 have been completed or are under construction. Anecdotally high interest rates, materials shortages, and increased material and labor costs have led some developers to delay construction.

RESOURCES FOR INCREASING HOUSING OPPORTUNITIES IN NEW HAMPSHIRE



Municipal Land Use Regulation Survey

The results of the 2022 Municipal Land Use Regulation Survey contain data on land use regulations, economic development tools, housing policies, and planning & development techniques adopted by each of New Hampshire's 234 municipalities; nine village districts with zoning authority; and Coos County, which has zoning authority over 23 unincorporated places in the North Country. This tool is updated annually by the Office of Planning & Development at the NH Department of Business & Economic Affairs.

Learn More:
<http://nhopd.com/>



New Hampshire Zoning Atlas

The Zoning Atlas is a comprehensive database and interactive online map cataloging and portraying zoning district-level land use regulations affecting housing construction across the entire land area of the state as of June 1, 2023. This tool is a collaboration of the Center for Ethics in Society at Saint Anselm College, NH Housing, the NH Department of Business & Economic Affairs, and the National Zoning Atlas project.

Learn More:
<http://nhzoningatlas.org/>



New Hampshire Housing Toolbox

The NH Housing Toolbox contains 20 planning and zoning strategies to increase housing opportunities in New Hampshire communities. This tool is a collaboration of the NH Department of Business & Economic Affairs and the state's nine Regional Planning Commissions.

Learn More:
<https://nhhousingtoolbox.org/>



How Do We Talk About Housing?

This guide published by NH Housing outlines a community-led, bottom-up approach to engagement and advocacy for increasing housing opportunities across New Hampshire and beyond.

Learn More:
<https://NHhousing.org/publications>



Housing Commissions in New Hampshire

This guide published by NH Housing outlines the benefits of creating a municipal housing commission and the process for doing so.

Learn More:
<https://NHhousing.org/publications>





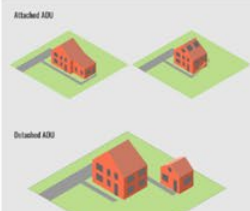
NEW HAMPSHIRE HOUSING TOOLBOX PLANNING AND ZONING STRATEGIES FOR HOUSING PRODUCTION IN NEW HAMPSHIRE COMMUNITIES.



HOUSING STRATEGIES

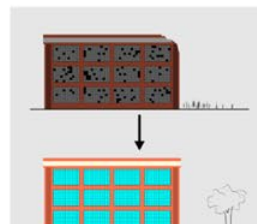
FILTER BY ISSUES ADDRESSED

- All
- Affordable Housing
- Housing Costs
- Housing Options
- Infrastructure
- Multigenerational
- Redevelopment
- Sustainable Housing



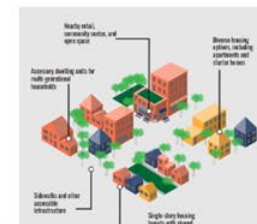
Accessory Dwelling Units (ADUs)

Secondary homes or apartments on an existing single family lot.



Adaptive Reuse

The practice of reusing old buildings for new purposes



Age Friendly Neighborhoods

Places that address the needs of younger and older adults.

<https://nhhousingtoolbox.org/>



Contact Info. and Links

- [NH State Data Center: Housing and Household Data](#)
 - [Current Estimates and Trends in New Hampshire's Housing Supply – 2023 Update](#)
 - Source data for report
 - Maps of Housing Units Permitted in 2022 by state, counties, regions, and municipalities
- **Ken Gallager, Principal Planner, NH Office of Planning and Development**
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Local Solutions to the State's Housing Crisis Webinar Series

Please Join Us for these Upcoming Webinars

February 22 - The Intersection of Development and Clean Water

February 29 - YIMBYism: A Different Approach to Development

March 7 - Transfer of Development Rights 101: A Primer

March 14 - Attracting Developers

WEBINAR DESCRIPTIONS AND LINKS