SCHWARTZ Report

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Mandates

Let me start by saying that I don't know all of what makes for affordable housing but I have a pretty good idea of what tends to make it unaffordable, namely mandates. In that vein, I'm reminded of Supreme Court Justice Potter Stewart's answer when he was asked for a definition of pornography. He is supposed to have said that he couldn't define pornography but he knew it when he saw it. That's the way I am about affordable housing. A big part of defining affordability is about incentives versus disincentives. I ran across an article recently about this past spring's volcanic activity on the Big Island of Hawaii. It struck me that this was an example of a real affordable housing BOOM. Hawaii's legislature actually created a perverse set of incentives for people to build homes and live at the foot of an active volcano. The Kilauea volcano located on the southeast side of the Big Island is one of the most active in the world. It has been erupting more or less continuously since 1983.

The destruction caused by a series of eruptions in the early 1990's cost private insurers millions. As a consequence, companies stopped insuring properties in the most vulnerable areas, called aptly Lava Zones I and II. Not content to let the private market determine the viability of such home locations, Hawaii's state government stepped in and created a non-profit entity, the Hawaii Property Insurance Association (HPIA) to subsidize people not able or unwilling to buy insurance in the private market. The catch for private insurers was that, as a condition for continuing to do business in the state, they must join the HPIA. Friderich Hayek aptly described such strong arm tactics: "If we wish to preserve a free society, it is essential that we recognize that the desirability of a particular objective is not sufficient justification for the use of coercion." When nineteen different volcanic fissures opened in the ground about them this past May, the homeowners in the Leilani Estates subdivision evacuated as lava flows took their homes. They paid the price for Hawaii's mandate.

Some view affordable housing as a right. For the rest of us, the essence of the affordable housing conundrum is, where it is located and what will the market bear to produce it. One certainty is that the demand for affordable housing will always be present. My dad used to joke that we could sell home sites in the median strip of I-95 if someone would let us, and if the price and incentives were right. Certainly those median strip buyers would not be put off with the inevitability of cleaning up streams of litter. They might even be willing to ignore the noise and the risk that some errant motorist could come crashing into their living room at any moment, all of this for the chance at an affordable home of their own.

Mandates however, do not make things affordable any more than Hawaii's mandate could keep Kilauea from erupting. All mandates do is to produce the appearance of affordability. Let me give the following example from an analysis by Paul Kupiec and Edward Pinto of the American Enterprise Institute: "Consider a project plan to produce 100 identical new housing units with development outlays for land, materials, zoning, site

Cont. from pg. 1

preparation and other costs of $23.75 million. Including a 5% return for the developer, the project costs $25 million. The successful sale of 100 units at this price would cover all out-of-pocket development costs and earn the developer a competitive profit.

What happens if the municipality requires the developer to sell 10% of these new units at below-market prices? Laws are rarely so specific but assume that the municipality caps the price on affordable units at $125,000. The law doesn't change the cost of building. It merely changes the price the developer can legally charge for some of its new housing units. The total cost of $25 million must now be spread over 10 units, each with a maximum legal price of $125,000, and 90 units priced to cover the remaining cost. Each of the 90 "market price" units must [now] sell for $263,889 for the developer to cover costs. Policy makers may view inclusionary zoning as a free lunch, but requiring developers to sell or rent 10% of their housing units at below-market prices to "qualified households" means charging above-market prices to everyone else. The affordable-housing requirement increases the median house price in the development by 5.5%..."

I believe it was Will Rogers who quipped that the way to get rich in America was to find out where everyone was going, get there first and buy the land. You'd have to say that was before mandates.

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11 Critical Home Inspection Traps to be Aware of Weeks Before Listing Your Home for Sale

DE, MD, PA – According to industry experts, there are over 33 physical problems that will come under scrutiny during a home inspection when your home is for sale. A new report has been prepared which identifies the eleven most common of these problems, and what you should know about them before you list your home for sale.

Whether you own an old home or a brand new one, there are a number of things that can fall short of requirements during a home inspection. If not identified and dealt with, any of these 11 items could cost you dearly in terms of repair. That's why it's critical that you read this report before you list your home. If you wait until the building inspector flags these issues for you, you will almost certainly experience costly delays in the close of your home sale or, worse, turn prospective buyers away altogether. In most cases, you can make a reasonable pre-inspection yourself if you know what you're looking for, and knowing what you're looking for can help you prevent little problems from growing into costly and unmanageable ones.

To help homesellers deal with this issue before their homes are listed, a free report entitled "11 Things You Need to Know to Pass Your Home Inspection" has been compiled which explains the issues involved.

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