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A NOTE FROM THE DIRECTOR OF THE RICHARD J. ROSENTHAL CENTER FOR REAL ESTATE STUDIES

In this issue of the Journal of the Center for Real Estate Studies, we look at how to promote sustainable homeownership given its many social benefits and the headwinds facing home building, with California as an example. As in past issues, we also feature the capstone project winners of REALTOR® University Master of Real Estate graduate program.

As of the second quarter of 2017, the homeownership rate stood at 63.9 percent, essentially at near 50-year lows. The continued low rate of homeownership is disappointing and disheartening because many surveys consistently show that a clear majority of people still aspire for homeownership. To many, owning a home is a major life goal and a milestone in achieving the American dream. It brings financial benefits (“not throwing away money on rent”), is a major source of household wealth (homeowners have 40 times net worth than renters), and brings much personal satisfaction (stability, safety, etc.).

Many reasons have been proffered to explain why the homeownership rate has not recovered 12 years after the collapse of the housing market. On the demand (homebuyer) side, the factors include modest income growth, tighter underwriting standards, weak credit profiles especially among young borrowers who are still paying off student debt, and delay in the marrying age. On the supply (homes for sale) side, new home construction has lagged household formation. Based on the July 2017 data, housing starts stood at 1.2 million, which is still below the 1.5 million units needed after accounting for net new household formation and demolished units each year.

Three papers in this volume look at how to promote sustainable homeownership given the benefits of homeownership and the reasons why home building has not kept up with rising demand even as home values continue to appreciate strongly.

In the first paper, Social Benefits of Homeownership and Stable Housing, Lawrence Yun and Nadia Evangelou conducted a survey of the literature on the benefits of homeownership on household wealth accumulation, educational achievement, parental engagement, civic participation, physical and psychological health, lowering crime, and lowering teen pregnancy. They conclude that “there is evidence from numerous studies that attest to the benefits accruing to many segments of society.”

In the second paper, Supply-Side Headwinds for Homebuilding, Robert Dietz discusses the reasons why homebuilding has not picked up more strongly to meet housing demand. He calls these constraints the four Ls: labor, lots (small lot sizes), lending (for construction and development), and lumber (and other raw materials).

In the third paper, Promoting Sustainable Homeownership in California, Chuck Reed explains the many causes why home building has severely lagged demand in California: too much local government control which makes it hard to grow outside city boundaries, NIMBYism, and legal and fiscal regulations that discourage investments in housing. This paper is a transcript of a speech he presented at the Sustainable Homeownership Conference 2017 held at the University of California at Berkeley on June 9, 2017. NAR, under the leadership of 2017 President, Bill Brown, proudly co-sponsored this conference with the Berkeley Hass Real Estate Group, chaired by Dr. Ken Rosen. With the input of leading policy experts, real estate practitioners from around the country, and public officials, the event discussed potential ways to reverse the decline in homeownership in recent years.

In the fourth paper, The Impact of Green Building Certificates on Real Estate, Fadia Sorial discusses the results of survey she conducted on whether a green building certification enhances the marketability of a development project. Her research shows that a green building certification does improve marketability because of a reduction in operating costs (efficient use of resources such as water and lightning), higher worker productivity arising from better air quality, and a demand preference for environmentally sustainable features. An important fact to note is that the NAR Washington D.C. building was the first privately-owned LEED-certified building in the city. Fadia is a 2016 graduate of REALTOR® University’s Master of Real Estate program, and her thesis won the 2016 Capstone Award.
In the fifth paper, *Core Standards: An Examination of the National Association of REALTORS® Policy*, Jim Haisler delves into the effect, experience, and expectations of local and state associations and the National Association of REALTORS® in implementing NAR’s Core Standards policy which took effect on May 2014. At this early phase of implementation, his research shows mixed outcomes at the local and state levels. Jim is a 2015 graduate of REALTOR® University’s Master of Real Estate program, and his thesis won the 2015 Capstone Award.

Finally, *in honor of Dr. Allan H. Meltzer*, a luminary in the American economics profession, we are publishing a speech he delivered at the REALTOR® University Speaker Series event on April 2016. His presentation on *Federal Reserve Failures* is, perhaps, one of the last public appearances he made before he sadly passed away on May 8, 2017. In that presentation, Dr. Meltzer talked about paying more attention to money growth rather than interest rates and short-term economic events in setting the course of monetary policy. The speech reflects Dr. Meltzer’s ideas and contributions, of which the most notable is *A History of the Federal Reserve*.

I’d like to remind our readers that the mission of the Richard J. Rosenthal Center for Real Estate Studies is to seek out and produce studies that are of value to practitioners, so we will continue to emphasize practical and applied research from a variety of viewpoints and present the research on an accessible platform. In this regard, we have changed the way we publish research and analysis about real estate. Rather than wait several months for a new Journal publication, we have taken advantage of the Internet and the ubiquitous 24-hour presence of the web to publish the paper online once it is ready. We will still have a print version of the Journal, but as a compilation of the online publications. We also plan on having a video recording of summary of the paper. We hope this will make new research available to a wider audience in a timely manner.

I hope you enjoy reading and learning from the papers in this latest volume!

Lawrence Yun, Ph.D.
Director, Richard J. Rosenthal Center for Real Estate Studies
Senior Vice President, Research and Chief Economist,
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SOCIAL BENEFITS OF HOMEOWNERSHIP AND STABLE HOUSING

Lawrence Yun, Ph.D.  
Chief Economist and  
Senior Vice President, Research  

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INTRODUCTION

Research has consistently shown the importance of the housing sector on the economy and the long-term social and financial benefits to individual homeowners. The economic benefits of the housing market and homeownership are immense and well-documented. The housing sector directly accounted for approximately 15.6 percent of total economic activity in 2015. Household real estate holdings totaled $22.5 trillion in the last quarter of 2015. After subtracting mortgage liabilities, net real estate household equity totaled $13.0 trillion.

In addition to tangible financial benefits, homeownership brings substantial social benefits for families, communities, and the country as a whole. Because of these societal benefits, policy makers have promoted homeownership through a number of channels. Homeownership has been an essential element of the American Dream for decades and continues to be so even today.

The purpose of this paper is to review existing academic literature that documents the social benefits of homeownership.

Furthermore, this paper examines not only the ownership of homes, but also the impact of stable housing (as opposed to transitory housing and homelessness) on social outcomes, looking specifically at the following outcome measures:

- Educational achievement;
- Civic participation;
- Health benefits;
- Crime;
- Public assistance; and
- Property maintenance and improvement.

In general, research supports the view that homeownership brings substantial social benefits. Because of these extensive social benefits, what economists call positive externalities, policies that support sustainable homeownership are well-justified.

TRENDS IN HOMEOWNERSHIP

The prevalence of homeownership is not universal. Across different demographic groups and even within different regions of the country, the homeownership rate varies widely. Many of these gaps are long standing. Therefore, the social benefits of homeownership differ widely from community to community.

Less than half of Americans owned their homes at the beginning of the 20th century (see Figure 1). Homeownership remained fairly stable until the onset of the Great Depression, during which many homeowners lost their homes. In the subsequent two decades following creation of FHA low down payment home loans and the GI Bill for veterans returning from World War Two, the homeownership rate rose dramatically with the rate easily topping 60 percent by 1960. Modest gains were made during the 1960s, 1970s and 1980s.

However, during the early 1990s, the homeownership rate once again trended upward as mortgage rates steadily
declined and the economy expanded at rates not experienced in many years. By 2004, 69 percent of Americans owned their homes – a record high. In part due to the housing crisis and Great Recession and in part due to population growth among minority groups that have historically had lower homeownership rates, the homeownership rate declined to 63.7 percent as of the end of 2015.

Based on the HOME Survey², 86 percent of current renters want to own a home in the future, and for young renters, age 34 and younger, this share was 96 percent. Thus, the desire for homeownership remains strong.

Figure 1: Homeownership Rate (1900-2015)

Minorities have made marked progress in homeownership in recent years (see Figure 2). But even with these gains, the homeownership rate among minorities still lags significantly behind that of whites. In 2015, fewer than half of African-American and Hispanic households owned their homes. In contrast, 71 percent of non-Hispanic whites were homeowners.

Figure 2: Homeownership Rate by Racial Group (2015)

A large part of the gap in homeownership among minorities can be attributed to differences in economic circumstances and the age composition of minority populations. Income and wealth holdings among minorities are typically lower than that of whites. Furthermore, there is a disproportionately higher share of younger households – who are less likely to be homeowners – among minorities. Finally, a large number of minorities, particularly Asians and Hispanics, live in less affordable urban centers on both the East and West coasts. Even after adjusting for financial and demographic factors, minorities would have a lower homeownership rate than whites.

Recent research suggests that targeting discrimination in housing and mortgage markets or targeting renters’ lack of information about the home buying process would contribute to a narrowing of racial gaps in homeownership. Also important are efforts to reduce differences in household circumstances by race and ethnicity—including wealth, income, and marital status—that account for a large majority of observed differences in homeownership rates (Haurin et al., 2007).

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² Homeownership Opportunities and Market Experience (HOME) Survey, 2016 Q4, National Association of REALTORS®
One of the primary drivers of homeownership is income. As Figure 3 shows, the homeownership rate is less than 35 percent for households in the lowest income bracket while it approaches 90 percent for those in the top income bracket. Higher income clearly widens the choice of available homes for purchase and increases the likelihood that a household will qualify for a mortgage. While homeownership is not limited to those with higher incomes, households with lower incomes face barriers such as too few homes in lower price ranges in locations near their place of employment.

Figure 3: Homeownership Rate by Income Level (2015)

Source: American Community Survey (2015)

A home purchase entails substantial transaction costs, as measured both in financial resources and search time; therefore, it is rational for people who are expecting to move frequently to forgo homeownership. Younger households are more mobile because they are more likely to be single and more likely to change employers. As a result, mobility rates decline as age rises. According to the U.S. Census Bureau, about one-quarter of those aged 20 to 29 years moved during 2014-2015 while only 5 percent of those aged 55 and over moved during the same year. Another way to think about mobility rates is to translate them into an estimate of tenure. If the mobility rates for 2014-2015 were consistent for the whole population, those in the 20 to 29 age-group would move once every four years whereas those aged 55 and over would move only once every 20 years. Higher mobility rates among young people contribute to lower homeownership rates for this group. In addition, due to the large upfront cost associated with purchasing a first home, households need time to accumulate necessary savings. Therefore, as Figure 4 depicts, it is not surprising to see that homeownership rates rise with the age of households.

Figure 4: Homeownership Rate by Age (2015)

Source: U.S. Census Bureau, Housing Vacancies and Home Ownership (2015)

HOMEOWNERSHIP AND STABLE HOUSING

Homeownership and stable housing go hand in hand. Homeowners move far less frequently than renters, and hence are embedded into the same neighborhood and community for a longer period. While five percent of owner-occupied residents moved from 2014 to 2015, nearly 25 percent of renters changed residential location. The key reason for the higher “mover rate” among renters is the fact that renters are younger – that is, changing and searching for ideal jobs, not yet married, and hence, literally, less committed. The mover rate or percentage of people changing residence, among 20-to-24 year-olds was 23 percent, and for 25-to-29 year-olds it was 24 percent, as shown in Figure 5. The mover rate then declines rapidly from 17 percent for those in their early 30s to 4 percent for those 65 years or older.

As to why people move, the predominant reason given by Current Population Survey respondents in 2015 was housing-related. Almost 60 percent said they moved to a better home, a better neighborhood, or into cheaper housing. The second most popular reason cited was family-related at 31 percent. Work-related reasons (new job, lost job,

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3 The Current Population Survey, Geographical Mobility 2014 to 2015, Table 1.
4 The Current Population Survey, Geographical Mobility 2014 to 2015, Table 1.
easier commute, retired, etc.) were reported by 21 percent of respondents. Very few indicated change of climate and health reasons for moving.

Poverty status and marital status also have strong relationships with mobility. The mover rate among those living below the poverty level was almost twice as high as those living above the poverty line. By contrast, the mover rate for married-couple family households was approximately half the rate compared with households living in other arrangements.

To determine the impact of homeownership on mobility, it is necessary to employ a mathematical regression model to isolate the impact of individual variables. Just because renters are five times more likely than homeowners to move, does not mean that the renters are moving because of their tenure status. High renter mobility could be a result of renters being young and not married. The Census report, after employing such a technique, found that homeownership does have a statistically significant impact of lowering the mover rate. That is, among people of the same age, same income, and same marital status, a person was significantly more likely to change residence in a given year if he or she was a renter rather than a homeowner. Homeowners bring stability to neighborhoods.

![Figure 5: Mover Rate (percentage of people changing residence) by Age (2014-2015)](source)

Based on prior research, homeownership provides social benefits. Many sociology studies have found that residential stability strengthens social ties with neighbors (Warner, B.; P. Roundtree, 1997). Other research has focused on how mobility diminishes the depth of social ties because there is less time to build long-term relationships. Sampson et al. (1997) argue that social cohesion and strong ties are paths through which resources for social control are made.

As we shall see, the purported benefits of homeownership may partly arise not directly from ownership, but from greater housing stability and social ties associated with less frequent movements among homeowners. Lindblad et al. (2013) say that the impact of homeownership operates through collective efficacy, which is measured by specifying a new role for sense of community as social cohesion. In sociology, collective efficacy refers to the idea that a community can influence the behavior of members of the community to promote a safe and orderly environment. Therefore, policies to boost homeownership can raise positive social outcomes, but only to the extent that homeownership brings housing stability.

However, in recent years many have questioned the role of homeownership due to the housing downturn and foreclosure crisis. Thus, a related question is: do the social benefits...
of homeownership from the past still apply? Did the recent decline in home prices and increase of mortgage delinquency affect the social benefits of homeownership? With respect to the new conditions of the real estate market, the current report provides an updated review of the literature of the social benefits of homeownership. Let's take a better look at the social benefits of homeownership after the recent housing crisis.

HOMEOWNERSHIP AND EDUCATIONAL ACHIEVEMENT

In this section, several prior studies on the relationship between homeownership and measures of educational achievement are discussed. Consistent findings show that homeownership does make a significant positive impact on educational achievement. Less clear, however, is whether homeownership in itself, stable housing (i.e., less frequent residential change), or favorable neighborhood characteristics are the main underlying factors contributing to better educational outcomes.

Green and White (1997) found that homeowners have a significant effect on their children's success. The decision to stay in school by teenage students is higher for those raised by home-owning parents compared to those in renter households. Furthermore, daughters of homeowners have a much lower incidence of teenage pregnancy. The authors point to certain behavioral characteristics required of homeowners that get passed on to their children. First, a home purchase naturally involves one of the largest financial commitments most households will undertake. Homeowners, therefore, tend to minimize bad behavior by their children and those of their neighbors that can negatively impact the value of homes in their neighborhood. Second, homeowners are required to take on a greater responsibility such as home maintenance and acquiring the financial skills to handle mortgage payments. These life management skills may get transferred to their children. However, the causal link between homeownership and improved schooling performance is not completely clear. It could very well be that homeownership brings residential stability, and it is the stability that raises educational attainment. Such an interpretation would be consistent with a study by Harkness and Newman (2003) who found that for children growing up in families with incomes less than 150 percent of the federal poverty line, homeownership raises educational attainment, earnings, and welfare independence in young adulthood. These positive results do not extend to the long-term outcomes of children in families with incomes more than 150 percent of the poverty line, however. These findings suggest that homeownership effects are not only attributable to unobserved characteristics of homeowners, but also indicate causal effects.

In another study by Harkness and Newman (2003), the authors examined whether children from lower-income and higher-income families benefit equally from homeownership and found that for children growing up in families with incomes less than 150 percent of the federal poverty line, homeownership raises educational attainment, earnings, and welfare independence in young adulthood. These positive results do not extend to the long-term outcomes of children in families with incomes more than 150 percent of the poverty line, however. These findings suggest that homeownership effects are not only attributable to unobserved characteristics of homeowners, but also indicate causal effects.

In another study, Haurin et al. (2001), a higher overall quality of life among homeowners is believed to contribute to the well-being of both homeowners and their children in a number of ways. For example, young children of homeowners tend to have higher levels of achievement in math and reading and fewer behavioral problems (which often carry over into reduced deviant behavior in later years). Better social outcomes arise as parents provide a more supportive environment for their children. These factors, as well as many others, help explain increased educational attainment and higher lifetime annual incomes of homeowners' children. Research has also confirmed that access to economic and educational opportunities are more prevalent in neighborhoods with high rates of homeownership and community involvement (Ellen and Turner, 1997). Boehm and Schlottmann (1999) show that the average child of homeowners is significantly more likely to achieve a higher level of education and, thereby, a higher level of earnings. The authors further find the housing tenure of parents plays a primary role in determining whether or not the child becomes a homeowner.

A study examining whether homeownership has positive effects on the academic achievement of children finds significant effects of home environment, neighborhood quality, and residential stability on the reading and math performance of children between the ages of three and
twelve (Mohanty and Raut, 2009). Because it appears that educational outcomes were strongly influenced by homeownership and residential stability, the authors suggest that government policies that promote homeownership or residential stability should be considered as part of any strategy to improve education.

Green et al. (2012) show that the act of saving has some association with child outcomes and specifically the degree to which children of homeowners drop out of high school by age 17. Using panel data, they conclude that the children of homeowners with down payments are generally less likely to drop out of school than those of renters. However, those parents who buy homes without making a down payment have children who behave like children of renters, and thus those children are more likely to drop out than homeowners with down payments.

**HOMEOWNERSHIP AND PARENTING**

Though the homeownership effect on success of children has been debated in academic literature, a recent study by Weiss et al. (2010) approached this question from a different perspective. Instead of trying to account for unobserved characteristics of homeowners, they examined whether there is a relationship between homeownership and engaged parenting behaviors in the home, school, and wider community for low to moderate income households. Researchers focused on four variables: parental school involvement, frequency of reading to child, child’s participation in organized activities, and child’s screen time (television viewing and playing videogames). Altogether, these measures reveal parenting behaviors broadly believed to be associated with positive child outcomes. The authors propose that homeownership provides for engaged parenting practices in two ways: economic and psycho-social. The economic impact of homeownership refers to the positive impact of nurturing neighborhoods. While both homeowners and renters may aspire to be engaged parents, homeowners likely live in neighborhoods with more opportunities for school involvement or participation in neighborhood activities. The psycho-social component refers to the idea that being a homeowner may limit the severity of economic hardships and the degree to which financial hardships result in psycho-social stress and disengaged parenting. This idea works through two channels. First, low- to moderate-income households that are able to buy a home have already found ways to manage their limited finances in order to become eligible for a mortgage. If such effective strategies are sustained, it could help reduce economic pressure. Second, they have greater access to formal credit to sustain the household during times of economic hardship, putting less strain on familial relationships and parenting. Homeowners in this study have higher adjusted net worth and liquid assets than renters. The authors, therefore, assume that homeownership promotes parental engagement by giving parents more options for managing financial hardships and reducing the severity of financial hardships when they do occur, thereby reducing stress and disengagement from children. It is important to emphasize, especially considering the housing crisis, that all of the homeowners studied received prime fixed-rate 30-year mortgages with a 38% debt-to-income criteria. Therefore, these homeowners have not experienced the financial shocks of interest rate adjustments or the stress of excessively high interest rates associated with many sub-prime mortgages. The results of the study suggest that children of selected homeowners are more likely to participate in organized activities and have less screen time when compared with renters. However, homeowners were found less likely to read to their children than renters. There was no effect of homeownership on parental school involvement. On the whole, their findings suggest that homeownership and financial stability may create opportunities for parents to engage in some positive parenting behavior. As noted, the group of homeowners surveyed in this study was less likely than renters to report financial hardships. The authors suspected that these financial stressors may reduce the ability of renters to afford organized activities for their child. Screen time, on the other hand, is relatively inexpensive for most families.

**HOMEOWNERSHIP AND CIVIC PARTICIPATION**

Homeowners have a much greater financial stake in their neighborhoods than renters. With the median national home price in 2015 at $223,900, even a 5 percent decline in home values will translate into a loss of more than $11,195 for a typical homeowner. Because owners tend to remain in their homes longer, they add a degree of stability to their neighborhood. Based on two studies by Rossi et al. (1996) and Rohe et al. (1996), homeowners also reap the financial gains of any appreciation in the value of their home, so they also tend to spend more time and money maintaining their
residence, which also contributes to the overall quality of the surrounding community. Renters, with less wealth tied to a specific locality, have less incentive to protect the value of their property via the political process. The right to pass property to an heir or to another person also provides motivation to homeowners to properly maintain the property.

The extent of community involvement and the benefits that accrue to society are hard to measure, but several researchers have found that homeowners tend to be more involved in their communities than renters. For example, homeowners were found to be more politically active than renters (Cox, 1982). Homeowners participate in elections much more frequently than renters. A study by Glaeser and DiPasquale (1998) found that 77 percent of homeowners said they had at some point voted in local elections compared with 52 percent of renters. The study also found a greater awareness of the political process among homeowners. About 38 percent of homeowners knew the name of their local school board representative, compared with only 20 percent of renters. The authors also found a higher incidence of membership in voluntary organizations and church attendance among homeowners.

Lindblad and Quercia (2015) found that the association of homeownership with civic engagement is driven by the amount of time lived in the home and the sense of control that ownership imbibes. Findings suggest that “the association of the homeownership with nonfinancial benefits changes with the structure of the dwelling”. While detached dwellings seem to discourage social involvement, “detached housing is associated with a decrease in the effect of homeownership on health and civic engagement”. Thus, analysis suggests that the impact of homeownership on civic participation may be magnified in attached structures such as condominiums and townhomes.

There also is some evidence that homeownership programs may result in increased property values near subsidized or locally assisted homeownership sites and can, under the right circumstances, draw other non-housing investment to the community (Ellen et al., 2001).

Two other recent studies examined civic engagement and social capital of homeowners. Rotolo et al. (2010) looking at civic engagement investigated whether people volunteer more if they have a stake in the community such as owning a home. The authors argued that homeowners have a stake in the community given that a home is a unique investment where the asset is tied to a fixed geographical location and consequently the value of the property is determined by the condition of the neighborhood in which it is located and the social institutions that serve its residents. The study found that simply owning a home increases the number of hours volunteered, but low-value homeowners do not volunteer any more or less than high-value homeowners. Thus, while homeownership increases the number of hours volunteered, home value itself has no impact on volunteering. Another important finding suggests that homeownership yields a positive influence on volunteering regardless of how long the homeowner has lived in the neighborhood. This result challenges previous studies which implied length of tenure was critical. The second study focusing on social capital discusses the importance of social networks and given the greater social network of homeowners, homeowners’ resultant access to social capital (Manturuk et al., 2010). Social capital refers to social resources a person can access through contacts with others in his or her social networks. To differentiate between an individual’s overall social capital and the social capital connected with his or her neighborhood, authors asked whether any of the people a respondent knows who could provide a given resource reside in his or her neighborhood. If homeownership creates social capital, homeowners are expected to have more overall social capital resources and also more resources within their neighborhoods. If homeownership only influences the geographical distribution of social capital, homeowners are expected to know more people in their neighborhoods but not more people overall. In other words, if homeownership produces beneficial social impacts associated with social capital, homeowner will have more social contacts inside and outside his neighborhood than renters. But if homeownership only fosters relationships within a neighborhood and there is not a greater social benefit to it, homeowners will only know more people in the neighborhood but not also outside of it. The results indicate that homeownership does create social capital and provide residents with a platform from which to connect and interact with neighbors. Neighborhood tenure duration has no impact on social capital acquired via social ties with neighbors. But, neighborhood group membership does, as does having a child in the home.

The study also discusses several interesting phenomena about homeownership and the power of attachment arising from homeownership. Homeowners in many ways identify with their neighborhood, whether through interaction with neighbors, membership in neighborhood groups or by selection of social ties with other homeowners. As the authors argue, homeowners are more likely to seek out opportunities to interact with their neighbors because they
feel a sense of attachment to others who live near them, particularly in urban communities. Owning a home means owning part of a neighborhood, and a homeowner's feelings of commitment to the home can arouse feelings of commitment to the neighborhood, which, in turn, can produce interactions with neighbors. Overall, attachment to the neighborhood is stronger for homeowners and long-term renters than for more transient residents. Woldoff (2002) found that the strongest predictor of attachment is not a place characteristic, but rather whether the person is a homeowner.

Another interesting point the authors made is that individuals select the people with whom they form social relationships within a social space that facilitates routine interaction with others. The most common place to form social relationships is the workplace. Like a workplace, homeownership serves to facilitate interactions within a neighborhood and open opportunities for the acquisition of social capital. However, based on Van Der Gaag and Snijders (2005), people also consider the potential long-terms costs and benefits, thus homeowners may see ties to other homeowners as more valuable because of a higher potential for longer-lasting relationships. As the authors further argue, both homeowners and renters are less likely to look for social ties with renters because renters are perceived as temporary residents. Homeownership implies permanence, while renting implies mobility (Coffe, 2009). In fact, in a previous study, Coffe and Geys (2006) have found mobility does impact the creation of social capital. Communities with higher in-migration and out-migration were shown to have lower levels of social capital.

After the sharp decline of home prices, McCabe (2013) reevaluated the social role of homeownership by theorizing about the mechanisms through which homeownership increases civic engagement and decomposing the effect to account for both residential stability and locally dependent financial investments. In doing so, the study provided new empirical evidence about the role of homeownership as a catalyst for community participation. In particular, it identified two pathways—residential stability and financial investments in local communities—to explain higher rates of participation in local elections, neighborhood groups, and civic associations among homeowners. The author concluded that residential stability increases the likelihood of electoral participation but is unrelated to participation in membership groups. By stabilizing households within communities, homeownership can help individuals overcome institutional barriers or develop social networks that lead them to participate in the formal political process. Interestingly, even after accounting for their increased stability, the author reported that homeowners remain more likely to participate in local elections, civic groups, and neighborhood organizations than renters.

**HOMEOWNERSHIP AND HEALTH BENEFITS**

Research shows that homeownership has an impact on both physical and psychological health. Many studies have examined the impact of housing quality and crowding on physical health. According to Krieger and Higgins (2002), there is a strong positive relationship between living in poor housing and a range of health problems, including respiratory conditions such as asthma, exposure to toxic substances, injuries, and mental health. Homes of owners are generally in better condition than those of renters (Galster, 1987). Rohe and Stewart (1996) found that homeowners, unlike renters and landlords, have both an economic and use interest in their properties. This combination seems to provide powerful incentives for owner-occupants to maintain their properties at a higher standard.

Focusing on middle-aged and older Americans, Hamoudi and Dowd (2013) examined the impact of the recent downturn on physical health outcomes for this group (born between 1924 and 1960). Findings reveal that increases in housing wealth were associated with better health outcomes for homeowners. Homeowners who lived in communities where prices increased rapidly had lower waist circumference and higher levels of self-reported and measured function, compared with those who lived in communities in the same metropolitan area where prices were more sluggish.

With respect to the impact of homeownership on psychological health, Rohe and Stegman (1994) found that low-income people who recently became homeowners reported higher life satisfaction, higher self-esteem, and higher perceived control over their lives. But the authors advised caution with respect to the interpretation of the causation since residential stability was not controlled for. Similarly, Rossi and Weber (1996) concluded that homeowners report higher self-esteem and happiness than renters. For example, homeowners are more likely to believe that they can do things as well as anyone else, and they report higher self-ratings on their physical health even after
controlling for age and socioeconomic factors. In addition to being more satisfied with their own personal situation than renters, homeowners also enjoy better physical and psychological health (Rohe et al., 2001). Another study showed that renters who become homeowners not only experience a significant increase in housing satisfaction, but also obtain a higher satisfaction even in the same home in which they resided as renters (Diaz-Serrano, 2009).

More recently, research examining the association of self-rated health with socioeconomic position has shown that social mobility variables, such as the family financial situation and housing tenure during childhood and adulthood, impacted one’s self-rated health. In particular, the socioeconomic disadvantage indicated by not being able to save any money or not owning or purchasing a home, is negatively associated with excellent or very good self-rated health (Chittleborough et al., 2009). A similar examination, but looking at self-reported financial well-being, also showed that financial well-being depends on homeownership, the number of children, health insurance, age, and income (Penn, 2009).

Finnigan (2014) found that homeowners have a significant health advantage over renters, on average. Based on his analysis, homeowners are 2.5 percent more likely to have good health. The homeowner advantage is even larger, 3.1 percent, when adjusting for an array of demographic, socioeconomic, and housing-related characteristics. This research also points out that the relationship between homeownership and health benefits has large racial and ethnic disparities. White homeowners have an almost four percent higher probability of good health than comparable White renters. However, the impact of homeownership on the health condition of Black homeowners, while positive, is smaller than among Whites. Additionally, there is little evidence that Latino and Asian homeowners experience a significant advantage. Thus, findings reveal that homeownership’s significance as a health resource is stratified by race and ethnicity.

Because previous research demonstrated that homeownership’s effects on health outcomes derived from the overall wealth-boosting effect of homeownership, researchers are now examining the effects of homeownership during the crisis, when many home owners experienced a loss in wealth as a result of ownership. Recent post-crisis studies tried to analyze the impact of the financial crisis on the relationship between homeownership and mental health. Some of those studies showed positive psychological health effects from homeownership while other studies turned their attention to examining the negative impacts of homeownership on mental health.

Manturuk (2012) studied the relationship between homeownership, sense of control and mental health. Based on the findings, the increased sense of control that comes from homeownership entirely explains the decrease in mental health difficulties. In light of the recent housing downturn and rising mortgage delinquencies, the author also examined if the effects of homeownership on health vary based on mortgage delinquency. He found that homeowners who experienced a mortgage delinquency had a lower sense of control than homeowners who had never been delinquent, while homeowners with a minor delinquency had a higher sense of control than renters. Thus, the sense of control is partially mediated by housing experiences. The current study not only demonstrates that homeownership reduces the risk of mental health difficulties but also shows that the sense of control is the causal mechanism of this impact. Moreover, in a separate study, Manturuk et al. (2012) studied how homeowners and renters were impacted by the financial crisis in 2009. Their findings indicate that while both renters and owners experienced similar levels of financial hardship, the homeowners were less psychologically stressed overall and reported feeling more satisfied with their financial situation.

In contrast, other studies have linked mortgage foreclosure and mortgage delinquency with psychological stress. Menzel et al. (2011) studied the association of changes in foreclosure rates and medical diagnoses using hospital discharge data. Examining the period between 2005–2008, the authors studied whether changes in foreclosure rates were related to stress-related diagnostic measures at the zip code level. Currie and Tekin (2015) also linked foreclosure rates to measures of stress-related health using data on all foreclosures and all hospital and emergency room visits from four states that were among the hardest hit by the foreclosure crisis. Both studies found a positive association between foreclosure rates and health issues. However, their findings are based on aggregate data. This means that individual foreclosed homeowners cannot be associated with stress disorders. In other words, aggregate data cannot determine whether there is causality between home foreclosure and psychological stress or whether other factors present and unaccounted for were causing both the spike in foreclosures and the spike in stress disorders. After reviewing a fairly extensive list of literature on foreclosure and health, Tsai (2015) concludes that, to date, there has been no systematic assessment of the effects of foreclosure on health and mental health.
Finally, Lindblad and Quercia (2015) present models that estimate the direct, indirect and total effects of homeownership on health. Given that financial benefits explain the positive homeownership effect on health, their findings suggest that there is no association of homeownership with health outcomes when homeowners report low or negative home equity. Therefore, it seems that the indirect effect of homeownership through the sense of control depends on home equity. As home equity depends largely on house prices, these findings support the notion that neighborhood house price declines, which can be exacerbated by foreclosure sales, can negatively influence health.

Thus, early studies of homeownership and health outcomes found that homeowners and children of homeowners are generally happier and healthier than non-owners, even after controlling for factors such as income and education levels that are also associated with positive health outcomes and positively correlated with homeownership. More recent studies have found that the wealth building effect of homeownership and the sense of control it provides to homeowners in a stable housing market affect homeowners’ mental and physical health in a positive way. However, the literature is mixed in times of housing market instability.

While some studies showed that homeowners fared better than renters during the recent housing crisis, other studies suggest that areas of high housing distress also had high rates of mental health and stress-related diagnoses. More research is needed on the relationship of health outcomes and homeownership.

**HOMEOWNERSHIP AND CRIME**

Homeowners have a lot more to lose financially than do renters. Property crimes directly result in financial losses to the victim. Furthermore, violent non-property crimes can impact the property values of the whole neighborhood. Therefore, homeowners have more incentive to deter crime by forming and implementing voluntary crime prevention programs.

Research on crime and homeownership shows that homeowners are far less likely to become crime victims. A study of both property and violent crime in New York City suburbs found that homeowners encountered significantly lower crime rates even after controlling for other socioeconomic variables (Alba et al., 1984). Glaeser and Sacerdote (1999) also found a lower incidence of crime victims among homeowners.

From sociological literature on social disorganization, research by Miles-Doan (1998) showed residential mobility as a contributing factor for the higher violence rate by spouses and intimates. In a similar vein, a study by Kubin (2003) found that residential mobility is significantly and positively related to homicides.

The results are congruent with sociologists’ theories of social disorganization, or a breakdown in social bonds, family and neighborhood association (Shaw and McKay, 1942). A high level of social disorganization is said to exist where there is a high level of deviance in social norms and a lack of community to realize common values. Crime, suicide, juvenile delinquency, teen pregnancy and drug usage are all the consequences of social disorganization. The generally accepted causes of social disorganization include poverty, low educational attainment, family disruption, and racial segregation in urban life. In addition, frequent residential mobility is also considered one of the key causes of social disorganization.

For example, one of the first college textbooks on the subject, appropriately titled Social Disorganization, mentions crime, unemployment, divorce, venereal disease, illiteracy, undernourishment, and mobility and transiency as indications of a disorganized society (Elliot and Merrill, 1941). In another study Bursik (1999) showed the link between mobility and crime.

A stable neighborhood, independent of ownership structure, is also likely to reduce crime. It is easier to recognize a perpetrator of crime in a stable neighborhood with extensive social ties. Therefore, the empirical studies showing a lower crime rate among homeowners and people living in a stable housing environment are consistent with theories on social disorganization.

A more recent study by Lindblad et al. (2013) examined the link between homeownership, collective efficacy—or the ability of a community to influence members’ behavior to bring about social order—and subjective neighborhood crime and disorder taking into account the housing downturn and foreclosure crisis. Even though the role of homeownership was criticized, the authors concluded that both homeownership and collective efficacy lead to less neighborhood crime. Focusing on lower income households, the findings suggested that there is something about owning a home which produces socially desirable outcomes for lower
income households and then reduces perceptions of neighborhood crime and disorder.

However, with respect to the housing crisis and the increased foreclosure rates, several studies re-addressed the relationship between homeownership and crime examining the effects of foreclosures on neighborhood crime. Goodstein and Lee (2010) analyzed national county-level panel data for the period 2002-2007. They found that counties with a one percentage point increase in foreclosure rates are expected to have a 10 percent higher annual burglary rate in the following year, all else equal. Unfortunately, the large geographic scope of their data is considered to be a limitation of this study since the causal processes may vary within a county.

### HOMEOWNERSHIP AND PUBLIC ASSISTANCE

We found earlier that housing stability lowers teenage pregnancy. There is vast literature on the link between teen pregnancy and the likelihood of receiving public assistance (Sawhill, 1998). Therefore, to the extent that homeownership and stable housing reduce teen pregnancy, one can expect a reduction in the incidence of public assistance among those living in a stable neighborhood.

Furthermore, Page-Adams and Vosler (1997) found that homeowners are better able to adjust after being laid off from a job due to their access to home equity credit lines, and hence, lessening their need for public assistance.

Based on the NY Federal Reserve Survey, 47 percent of homeowners indicated that they used their home equity credit lines to help pay their other debts, such as credit card debt, auto loans, student loans, or medical bills. It seems that homeowners have the advantage of using their home equity lines, and thus, diminishing their need for public assistance.

Focusing on the direct impact of vacancy on crime, Ellen et al. (2013) evaluated the impact of foreclosures on crime rates in New York. Using Real Estate Owned (REO) status as a proxy for vacant, they indicated that additional foreclosure leads to an increase in violent crimes on a given blockface of between 1.4 percent and 2.6 percent. Cui and Walsh (2015) also found that while foreclosure alone has no effect on crime, violent rates occurring within 250 feet of foreclosed homes increased by roughly 19 percent once a foreclosed home becomes vacant compared to crimes in less proximate areas (between 250 and 353 feet away). The results show that this effect is estimated to increase with length of vacancy.
Another key benefit received by homeowners is the structural quality of their housing (Dietz and Haurin, 2003). However, a well-maintained home not only generates benefits through consumption and safety, but research has shown that high-quality structures also raise mental health (Evans et al., 2003).

It is often suggested that owner-occupied housing is better maintained than renter-occupied. In a study by Henderson and Ioannides, the authors argue that landlords cannot distinguish between households that will maintain a rental unit from those that will cause damage. Consequently, landlords charge rents based on the expected level of care that will be taken by renters and households that plan to take care of their dwelling are motivated to become homeowners (Henderson and Ioannides, 1983). Further, homeowners have a financial interest in ensuring that their unit is well-maintained and repaired while mobile households may ignore damage (Galster, 1983). In contrast, Ozanne and Struyk (1976) find that including information about the neighborhood and housing structure in estimating statistical relationships causes the owner-occupancy effect to disappear.

Another early study finds that owner-occupant landlords are more likely to rehabilitate housing dwellings than other rental housing landlords because owners most directly experience the improvements, as opposed to current and future renters or tenants (Mayer, 1981).

Heywood (1997) also finds that income impacts the level of maintenance, with low-income owner-occupants maintaining their homes less than high-income owner-occupants.

When looking at the different effect renters have on maintenance, research compared differences in price appreciation using the repeat sales technique and found some evidence that renter-occupied housing appreciates less than owner-occupied housing (Gatzlaff et al., 1998). Finally, a study by Ioannides (2002) looking at how much neighbors affect each other provides evidence that the maintenance behavior of individual homeowners is influenced by those of their neighbors.

Based on a report by the Joint Center for Housing Studies (2015), homeowners spent five times more than the amount that renters spent on improvements and maintenance in 2013 (Figure 7). Also, homeowner improvement spending accounted for just under 65 percent of the $300 billion remodeling market. While homeowner improvement spending is still below the 70 percent peak in 2007, there was an increase in spending since 2011. At this level of spending, the home improvement market appears to be returning to its long-term trend. While home prices and equity gains are rising after the recent housing downturn, homeowners spend more in improving their houses. Thus, the positive impact of homeownership on housing quality is expected to be expanded.
CONCLUSION

Owning a home embodies the promise of individual autonomy and is the aspiration of most American households. Homeownership allows households to accumulate wealth and social status, and is the basis for a number of positive social, economic, family and civic outcomes. 63.7 percent of all U.S. households who own their home currently are enjoying these benefits.

The positive social benefits from homeownership and stable housing are compelling. As this paper has shown, there is evidence from numerous studies that attest to the benefits accruing to many segments of society. Even after considering the effect of the recent housing downturn, many studies found that homeownership still provides a variety of social benefits. Homeownership boosts the educational performance of children, induces higher participation in civic and volunteering activity, improves health care outcomes, lowers crime rates and lessens welfare dependency.

Owning a home is different from renting. With the home purchase comes the pride of ownership and the sense of belonging in a community where one has a financial stake in the neighborhood. Perhaps homeowners are “happier” just from having achieved the so-called “American Dream”—a sense of accomplishment, a milestone. Also, ownership entails greater individual responsibility. As discussed above, homeownership requires a large (if not the largest) financial outlay of a person’s life and often requires the responsibility of a mortgage spanning 30 years. Therefore, it is a long-term commitment, which may alter human psyche and behavior.

Given such an opportunity, public policy makers would be wise to consider the immense social benefits of homeownership for families, local communities and the nation.

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SUPPLY-SIDE HEADWINDS FOR HOME BUILDING

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ABSTRACT

Modest single-family construction growth is a limiting factor with respect to housing inventory. Given declines in existing, single-family homes for sales, rising home prices and improving job and demographic prospects, why has the home building sector not expanded more rapidly over the last few years? The answer to this market challenge lies on the supply-side of the industry. In the post-recession period, home builders face scarce availability of labor, lots and lending. The industry’s infrastructure was severely reduced during the Great Recession, including the loss of approximately 1.5 million workers. And recent increases in building materials prices and expanding regulatory costs have limited the amount of production that single-family builders can add to the market. NAHB survey data indicate the regulatory costs alone make up on average 25% of a newly-built home’s price. Overall, these market constraints have caused the industry to shift to building larger, more expensive homes. However, while recent trends suggest that construction will continue along the post-recession trend for volume growth, home builders are starting to add increasing numbers of smaller, more affordable homes to meet rising demand.

Keywords: construction, home building, inventory, labor, land, regulations

INTRODUCTION

A key challenge for the nation’s housing markets is lack of inventory. In many markets, home price gains are increasing faster than area incomes due to growing housing demand and scarcity of homes for sale. Economic intuition suggests that rising prices and a shortage of homes would create a favorable environment for home builders to increase production and add inventory to markets with growing populations.

However, single-family construction growth has remained modest, despite favorable demand conditions and robust home builder confidence. Why aren’t builders building more housing? For the overall construction industry, the key challenges to increasing the volume of construction currently lie on the supply-side of the market. The industry’s infrastructure includes a workforce, business lending channels, the land development pipeline and other factors that determine the cost of construction. These components of the industry were dramatically reduced by the Great Recession.

Expanding, and in many cases restoring, the supply-side of the home building industry is happening. However, the rate at which the industry can increase single-family construction will depend on how fast the industry’s infrastructure can grow. And while the residential construction sector continues a modest, constrained expansion, regulatory costs associated with land development and housing construction have increased. These rising costs are limiting not only the volume of single-family construction but also affecting the types of homes being built. As costs have increased, builders have shifted away from starter homes. This is a critical concern with respect to housing affordability, particularly for the entry-level housing market.
In the current market, the most significant impediment to an efficiently operating national housing market is lack of inventory. According to estimates from the National Association of REALTORS® (NAR), as of April 2017 there were a total of 1.93 million residences available for purchase, marking only a 4.2 months’ supply. And the amount of available supply, relative to the size of the housing market, has been falling in recent years. For example, the same NAR data finds that for 2016, there was a 4.4 month’s supply, which in turn was lower than the 4.8 and 5.2 month’s supply available in 2015 and 2014 respectively.

This inadequate inventory occurs in a market with gradually improving demand, driven in part by favorable demographics for home purchases. For example, according to NAHB analysis the peak age of the Millennials is currently age 27. As this large group of individuals ages into their early 30’s, home buying demand for single-family homes will rise accordingly.

The beginnings of this demographic growth in demand can already be seen in household formation data compiled in the Census Bureau Housing Vacancy Survey. From the first quarter of 2016 to the first quarter of 2016, a total of 1.2 million households formed on a net basis. This marks a robust improvement over the years immediately prior to and after the Great Recession (2007-2010), when household formations averaged approximately a half million a year. Moreover, the first three months of 2017 were the first quarter in the post-recession period during which the growth of owner-occupied households (854,000 over the past year) exceeded the growth in renter households (365,000).

The unsurprising result of tight inventory and growing demand is home price appreciation. According to NAR estimates concerning existing homes, median price increased 6% from April 2016 to April 2017 and was 11.7% higher on a two-year basis. These growth rates are faster than the growth in household incomes, which is a clear sign of scarcity in terms of housing inventory.

Given this environment, the economics of the market would suggest substantial growth for single-family construction. However, this is not occurring. While home building is growing, it is doing so at fairly modest rates. For example, according to NAHB analysis of Census Bureau data, single-family home building posted only a 4.9% growth rate to a 648,000 annual starts total in 2014. The data for 2015 was not much better, with construction growing 10.3% to a 715,000 starts tally. And 2016 was consistent with trend growth, recording a 9.4% growth rate for a total of 782,000 units beginning construction. In contrast, multifamily construction has expanded rapidly, increasing from 245,000 starts in 2012 to 392,000 in 2016.

**Figure 1: Single-family Construction Starts (2000-2017)**

Why is this occurring?

2 https://www.census.gov/housing/hvs/data/histrabs.html
SUPPLY-SIDE HEADWINDS

The answer lies on the supply-side of the market, and in particular among the fundamental economic drivers of the home building industry.

Without a doubt, industry sentiment indicators indicate positive market conditions. The NAHB/Wells Fargo Housing Market Index (HMI)\(^3\), a monthly gauge of single-family builder confidence is well above the key breakeven level of 50. As of May 2017, the HMI stood at a level of 70 on a 100-point scale. This is near the post-recession high of 71 recorded in March.

However, to translate growing single-family demand and high levels of builder confidence into significantly expanding single-family construction, the industry infrastructure of workers, land, and financing must be in place. I have referred to these inputs for the home building sector as the three L’s: labor, lots and lending. And recent policy actions have added a fourth L to this list.

LABOR

According to a 2017 NAHB survey of home builders\(^4\), the cost and availability of labor was the most significant problem the industry faced in 2016 and was expected to be the top challenge the industry confronts in 2017. Indeed, 82% of home builders indicated that accessing the labor was expected to be the top business challenge in 2017.

The reason for the scarcity of workers in the residential construction sector has its roots in the Great Recession. The industry lost 1.47 million of a total workforce of 3.45 million, as of April 2006. The loss of 43% of the home building and remodeling sector’s workers meant that many of these skilled individuals retired, sought out new careers outside of construction, or moved to seek employment in areas without unmet current demand for construction work.

The restoration of the industry’s workforce is a work in progress. From the low point of industry employment (January 2011, 1.98 million), the sector has added workers, albeit slowly and modestly. As of May 2017, the total workforce for the home building and remodeling sectors stands at 2.7 million, a gain of 715,000 from the cycle low. Employment has grown with the early rebound for multifamily building, and the ongoing, slow improvement in single-family construction.

However, single-family construction could grow faster if more workers were available in markets with demand for housing. This unmet need for labor is clearly shown in Bureau of Labor Statistics Job Openings and Labor Turnover Survey (JOLTS) data. Since 2012, the rate of unfilled jobs in the construction\(^5\) has gradually grown in the overall construction industry. In fact, current rates of unfilled jobs are now higher than it was during the housing and building boom prior to the Great Recession.

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\(^3\) [http://www.nahb.org/en/research/housing-economics/housing-indexes/housing-market-index.aspx](http://www.nahb.org/en/research/housing-economics/housing-indexes/housing-market-index.aspx)

\(^4\) [http://eyeonhousing.org/2017/01/top-challenge-for-builders-is-labor-costavailability/](http://eyeonhousing.org/2017/01/top-challenge-for-builders-is-labor-costavailability/)

The consequences of a growing number of “help wanted” signs and unmet labor demand is rising wages and building delays in the residential construction space. NAHB survey data from 2016 reveal that the occupations with the most common reported shortages include carpenters, framing crews, and masons. The same survey found that 75% of builders reported have to pay higher wages or subcontractor payments, 68% had to raise the price of new homes (pricing some buyers out of the market), and 64% had difficulty completing projects on time. Considering these impacts together, the result is higher costs of construction and some projects that simply do not make economic sense to undertake. On the whole, this means less single-family construction than otherwise would take place.

LOTS

The second most important supply-side headwind is a lack of building lots. Home builders cannot build homes unless land is developed and sites are prepared and approved for single-family construction. After the Great Recession, a large inventory of unbuilt lots existed. However, as the recovery gained momentum, much of this excess inventory has been utilized.

In contrast, there currently exists a shortage of lots. A 2016 NAHB survey found that 64% of builders reported lots were low or very low in their market. This was up from 62% in 2015 and 58% in 2014. The causes behind the lot shortage are similar to those related to the worker shortage. During the Great Recession, many land development companies left the industry. This reduced the nation’s infrastructure for community development. Moreover, regulatory rules and costs associated with land development increased during the post-recession period. More on this factor later in this article.

The consequence of the lot shortage is another variable increasing the cost and constraining the potential output of the home building sector. The average lot price in the United States, according to NAHB analysis of Census data, rose to a then record high of $45,000 in 2015 and survey data indicates that those costs have continued to increase.

LENDING

The third L among the supply-side headwinds is lending. Typically, in a housing context, lending refers to the cost and availability of mortgages for prospective homebuyers. This is clearly a critical feature of the housing market in terms of housing demand. However, in this context lending refers to the available financing for home building business purposes. Keep in mind that a builder (and land developers) must obtain financing to operate because revenues come only at the end of a capital-intensive production process.

Moreover, most home construction in the nation is undertaken by small business. For example, the top 10 publicly-traded home builder market share was only 27.4% in 2016. According to NAHB industry analysis, 92% of the more than 48,000 home building countries nationwide has less than $5 million in annual revenue. Such firms by necessity rely on debt financing to operate.

This debt takes the form of acquisition, development and construction (AD&C) loans. The decline in housing production during the Great Recession severely curtailed the amount of lending available for AD&C purposes. My analysis of FDIC data indicates that lending for 1-4 unit construction loans fell 80% from March 2008 to March 2013. Since the trough of available industry lending, there has been progress. The stock of such loans has grown by $30 billion, rising to $70.7 billion.

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8 http://eyeonhousing.org/2016/05/shortage-of-lots-now-worse-than-ever/
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However, lending remains tight. NAHB survey data indicates that lending conditions are easing\(^{13}\), but that rate of easing has limited the amount of financing available for builders to expand production volume. In part, this is due to the fact that builders primarily rely on smaller lending institutions for development financing. For example, NAHB analysis\(^{14}\) previously found that 86% of home building loans were held by institutions with less than $5 billion in assets. And recent evidence suggests a slowdown for lending among such banks due to Dodd-Frank regulatory requirements concerning real estate lending concentration ratios.

**LUMBER (AND BUILDING MATERIALS)**

A new supply-side headwind emerged at the end of 2016, a fourth L in this formulation: lumber. At the start of 2017, softwood lumber prices spiked. At one point, such prices were 30% higher\(^{15}\) than those recorded at the start of the year. The reason behind this jump was the expectation of U.S. countervailing duties on Canadian softwood lumber, imposed in April of 2017.

There have been multiple rounds of trade disputes between the United States and Canada concerning lumber. The housing market is in the middle of a new round of these disputes. In April, the Commerce Department announced a 19.88% effective duty rate on Canadian softwood lumber products to the United States. Approximately 1/3 of lumber consumed in the U.S. is imported, and 95% of that total originates in Canada.

NAHB’s initial analysis of the duty indicates that the tariff would increase by $1,236 the price of a typical newly-built single-family home. The typical home uses about $15,000 in lumber for construction purposes.

It is not possible at this time to forecast how long the current dispute will last, but history suggests that the political fight will last years. Moreover, other building material costs are rising. For instance, April data from the Bureau of Labor Statistics reveal that gypsum prices, an important component for drywall, increased 5% that month alone. As the volume of construction activity grows, prices for most building materials can be expected to increase as well.

**REGULATORY COSTS**

There is a final limiting factor, another arising from policy. This is the rise in regulatory costs associated with construction. A 2016 NAHB research article\(^{16}\), which followed a prior 2011 research effort, uses industry survey data to determine the cost impact of regulatory burdens on land development and home construction in the single-family market.

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13 http://eyeonhousing.org/2017/05/adc-financing-standards-continue-to-ease/
16 http://www.nahbclassic.org/generic.aspx?sectionID=734&genericContentID=250611&channelID=311&g a=2.35821857.129762546.1496666141-710959076.1438286519
The research divided these regulatory burdens as arising in either the lot development stage of construction stage. For the 2016 study, regulations at the lot development stage accounted for 14.6% of the final price of the home. These regulations included cost increases due to zoning and subdivision approval processes, the cost of land required to be unused or left unbuilt, the impact of development standards, and the cost of approval and other development delays. On average, developers reported that regulations added 6.6 months to the development process, with some respondents noting delays of up to five years.

On the construction side, total regulatory costs account for 9.7% of a home’s final price. These costs, which are mostly local government imposed, include permit, hook-up and impact fees. And approximately two-thirds of this class of impacts are due to building codes and standards. It is important to note that these rules can, in some cases, add value to the home. However, by adding to the gross cost of a home, some buyers are priced out of the market and some building does not occur.

On the whole, these regulatory costs make up 24.3% of a typical newly-built single-family home’s purchase price. And these costs are rising faster than inflation and incomes. Comparing the 2016 findings with data from 2011, costs due to regulations increased by 29.8%. Over the same period, personal incomes rose 14.4% and inflation increased 6.1%.

The impact of these cost increases, as well as the previously noted production limits, has not only resulted in lower than expected growth rates for single-family construction. The market for building itself has shifted to larger and more expensive homes. As an example, the typical difference between median existing and median new home prices over the last few decades was approximately $20,000. During the post-recession period, however, that gap has grown to more than $60,000. Additionally, newly-built home size has increased significantly as builders reduced their activity in the entry-level market. According to Census data, median new home size increased from just under 2,100 square feet in 2000 to more than 2,400 square feet in 2016.

**HOME BUILDING OUTLOOK**

What is the future for home building given these supply-side headwinds?

Trends suggest more of the same. The labor force is growing, albeit slowly. The amount of land available for building is increasing, although limited by policy, geography and cost. The amount of financing for builders and developers is growing, although that growth rate is constrained by policy and market forces. In the meantime, inventory in the nation’s housing markets remain tight, and prices continue to increase as demand grows.

However, there are positive signs for some acceleration, particularly in the entry-level market. Some larger builders are experimenting with smaller, lower cost starter homes. And the single-family attached market (townhouses) has been growing in terms of market share. The typical townhouse is just under 2,000 square feet, and offers an excellent building opportunity in a land scarce development environment. A smaller home also offers an attractive bridge from rentership to homeownership.

While we can expect building to grow, there is no indication on the horizon of a fundamental change with respect to the supply-side headwinds that would enable more rapid single-family construction growth. This means that inventory can be expected to remain tight, prices should continue to increase, and home building industry will remain below historic norms. Currently, home building constitutes 3.5% of U.S. GDP. Historically, home building has made up 5% of GDP.

The good news is that housing demand will support an ongoing expansion, even if it is slower than the industry hopes. NAHB’s long-run forecast calls for single-family starts to increase to 1.3 million a year, but the sector is unlikely to reach that pace for another four years. In the meantime, policymakers and regulators could help by reducing the cost of building in order to improve housing affordability and add inventory to markets in need.

17http://eyeonhousing.org/2016/08/new-single-family-home-size-declining/
19http://eyeonhousing.org/2017/04/housing-provides-boost-to-gdp/
PROMOTING SUSTAINABLE HOMEOWNERSHIP IN CALIFORNIA

Chuck Reed
Special Counsel, Hopkins & Carley, and Former San Jose Mayor

It’s great to be speaking to you as a former mayor. I can tell you what the problems are and what you need to do and I have no responsibility to do anything.

I am now practicing law with the land use and property rights team as part of Hopkins Carley real estate group in San Jose. Before that, I had 28 years of experience in local government. I was Mayor of San Jose for eight years and served on the City Council for six years and as a city and county planning commissioner for 14 years. During those 28 years, I sat through around 1,000 hearings on housing projects.

My bottom line conclusion: California cares about housing, just not enough to do anything significant about it. It’s like caring about starving children in Africa and sending a contribution of $10 a year.

Yes, housing is important in California. It’s just not as important as keeping the unions happy. It’s just not as important as keeping the environmental groups happy. It’s just not as important as keeping existing residents happy. In fact, it is not as important as hundreds of other programs funded and supported by state and local governments every year.

Yes, California cares. It cares so much there is a bill in the legislature for a $3 billion bond to help fund affordable housing. The cost will be about $3 per person per year. That tells you how much California cares.

There are about 100 bills in the legislature purporting to help with housing production. None of those would make significant substantive changes to help with housing production. The Governor’s proposal to allow streamlining for affordable housing projects died last year. This year, government subsidized affordable housing might get some modest help with permit processing, but only under extremely limited circumstance and only with some minor restrictions on local governments’ ability to delay and deny projects.

California has not met its annual housing production need for over a decade. Production has been way below the need by tens of thousands of units annually, and probably totals a million units over the last decade. The presentation today in Berkeley of the data makes the shortfall abundantly clear.

Why is that? It’s because California is organized top to bottom to make it hard to build housing of any kind and investment in market rate housing is discouraged.

1. Housing decisions are made by local governments via local control, which is permitted by state law.
   • Expansion opportunities are limited by LAFCOs, Local Agency Formation Commissions, which operate all over the state to restrict growth outside of city boundaries.
   • That means it’s very hard to grow outward so cities need to grow upward, with higher density housing. But, densification opportunities are limited by NIMBYs, who don’t want more cars on their streets or more children in their schools.

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1 Speech delivered at the Sustainable Homeownership Conference 2017. The Sustainable Homeownership Conference 2017 was sponsored by the National Association of REALTORS® under the leadership of 2017 NAR President Bill Brown and Berkeley Hass Real Estate Group, chaired by Dr. Ken Rosen. The event was held at the University of California at Berkeley on June 9, 2017. The Sustainable Homeownership Conference brought together a group of experts to examine the trends in homeownership and its impact on society. With the input of leading policy experts, real estate practitioners from around the country, and public officials, the event discussed potential ways to reverse the decline in homeownership in recent years.
• NIMBYs are empowered by CEQA, the California Environmental Quality Act, which makes it easy to delay projects and easy to litigate projects that are approved.

• From an elected official’s view, existing residents are engaged and they vote. Future residents do not vote and are not organized. We don’t know who they are and they don’t know who they are.

2. California’s fiscal structure makes housing a losing proposition for cities, except for very high densities, which can get approved in only a few cities.

• Cities get about 10% of property taxes. It’s a significant amount in total but not nearly enough to pay for the services demand from new residents.

• Sales taxes are allocated based on store location, not by where the customers live.

• Commercial developments generate more revenues and less demand than most forms of housing.

• Cities with high ratio of jobs to housing are rich, and the rest of us want to be rich.

As a result, economic development means jobs, not housing, and the obvious connection between having a job and needing a house is lost on most elected officials.

3. Investment in housing is discouraged through a thicket of legal and fiscal disincentives.

• The 5th Amendment’s protection of property rights get little respect in California courts, state or federal. Cities can and do impose Profit control, occupancy control, eviction control, change in use control, and going out of business control. All of these discourage building new housing.

• Cities can and do levy development fees, impact fees, services fees, and taxes on housing projects. New housing has to pay for parks, “affordable” housing, transportation, schools, public art and practically anything else the city wants. The total ranges from $50,000 to $150,000 per unit and is a huge disincentive for many developments.

What can be done by National Association of REALTORS® and its allies?

1. Litigate restrictions on property rights to US Supreme Court. That is the only court where the 5th Amendment seems to be taken seriously.

2. Change the California fiscal structure to favor housing.

• Modify property tax allocation so that permitting housing generates enough money for cities to pay for increased service demand.

• Share sales taxes based on residence of the customer.

• Allocate state and federal transportation money to support high density housing

3. Reform CEQA to reduce NIMBY power.

• Put the environment back into CEQA and change the procedural rules so that it is not the California Extraction Quantification Act

• Allow housing that is consistent with General Plans and zoning without further environmental review.

4. Elect pro-housing legislators who understand that workers all need places to live.

5. Fight against local ordinances and ballot measures that impinge on property rights.

Congratulations on the win on the Santa Rosa rent control referendum Constitutional rights are not much good unless you fight for them.
THE IMPACT OF GREEN BUILDING CERTIFICATES ON REAL ESTATE

Fadia Sorial
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ABSTRACT

The study investigates the impact of green building certifications on the marketability and selling price of real estate assets and the justifiability of high price points for certified green buildings. Using a combination of quantitative (survey) and qualitative method (interviews) to gather information from brokers, developers, and home buyers and sellers in the Greater Vancouver area, the findings indicate that a green building certification positively affects real estate marketability and value. The study conducts a review of literature which show that environmental and social benefits associated with the adoption of green features translate into economic benefits by reducing operating costs which increase the return on investment and the value of the property. The high price points of green-certified buildings reflect increased revenues and occupancy rates, reduced operating expenses, and minimal liability risks associated with substandard living and working environments. The study recommends more information dissemination and sharing about the impact of a green certification on a property’s marketability and price.

Keywords: green building certification, real estate market, real estate prices

INTRODUCTION

The implications of global warming and the unsustainable exploration of earth’s resources are a major concern for many people. In this regard, people buy and use green products as one way to encourage and promote environmentally responsible economic development activities (Dippold et al., 2014). In the real estate industry, the adoption of environmentally sustainable practices has become a leading concern, with the industry increasingly adopting “green” practices and providing clients with eco-friendly properties (Harris, 2007). The adoption of environmentally sustainable features has in part been driven by the need to comply with regulatory/policy requirements, which has led to a wide spectrum of environmental certification systems. (Miller et al., 2008). Although documentation on the possible benefits of green building is extensive, documentation about the impact of adopting green approaches and having a green certification is still limited due to the still small number of properties that have a green certification (Baas, 2013; Dippold et al., 2014).

BACKGROUND AND JUSTIFICATION

The development of green buildings began as a response to the demand for increased efficiency and effectiveness in the use of energy, water, and other building resources. The demand for green features started with building/home occupants who were increasingly becoming environmentally conscious. Regulators then followed to encourage, support, and promote this desire for sustainable development practices. The combined demand from occupants, regulators, and investors subsequently increased the development of green buildings (Baas, 2013).

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1 Based on the capstone research paper submitted to REALTOR® University. The original paper has been shortened to highlight the key results and meet the Journal’s guidelines.
Integrating environmentally sustainable features in building design/construction continued to increase over time along with the adoption of green rating systems, one of the most important trends in real estate development (Vancouver Economic Development Commission, 2009).

Currently, the green building movement is shifting its emphasis on the economic aspects of integrating sustainability features such as risk mitigation, return on investment, and marketability (Baas, 2013). Studies indicate that investors derive tangible benefits from integrating sustainability into the investment process through the effect on rental growth, asset values, marketability, and occupancy costs. However, many of these claims are theoretical in nature and require supporting evidence from the market in terms of statistical data (Garber & Miller, 2013). Investors in the real estate industry point out that the benefits that come with green building certifications include government incentives, marketing buzz, anti-green washing, and forward-thinking designs that depict improved efficiency in the usage of resources, including energy, water, and waste efficiency (Chappell, 2007a; Chappell, 2007b). In this regard, it is essential to ascertain the efficacy of these claims by taking to different participants in the real estate industry.

LITERATURE REVIEW

THE PARADIGM OF SUSTAINABLE DEVELOPMENT

The paradigm of sustainable development, described in Agenda 21 of the Earth Summit, is an appropriate framework to analyze the effect of real estate developments because the development of cities primarily involves real estate (Basiago, 1999). Basiago (1999) points out that the paradigm of sustainable development rests on three conceptual pillars: (a) economic sustainability, (b) social sustainability, and (c) environmental sustainability.

Economic sustainability. The conventional view of achieving economic sustainability is characterized by a focus on the market allocation of resources, investment and consumption levels, and the assumption that natural resources are unlimited. However, the paradigm of sustainable development expands the view that development involves not only monetary capital but social, natural, and human capital. The expanded view favors restraining economic growth and consumption (Patridge, 2005; Circo, 2009). An examination of the effect of green building certification regarding this dimension of sustainability should consider how real estate development can balance economic advancement with environmental and social advancements (Halog & Manik, 2011).

Social sustainability. Social sustainability concerns the notions of empowerment, equity, participation, accessibility, cultural identity, sharing, and institutional stability (Basiago, 1999). On the one hand, some people argue that in the short term it is essential to accept economic activities that lead to the consequences associated with environmental degradation while pursuing economic development. On the other hand, others argue that one does not need to adopt a trade-off approach (Basiago, 1999; Patridge, 2005). An examination of the effect of green building certification regarding this dimension of sustainability should consider ways through which real estate activities optimize resource allocation without compromising environmental and social development for economic development. Real estate development should balance the three conceptual pillars (environmental protection, social equity, and economic development) of sustainability accordingly (Drexhage & Murphy, 2010).

Environmental sustainability. Environmental sustainability is concerned with the integrity, biodiversity, and the carrying capacity of the ecosystem. It requires that people maintain natural capital as a source of economic inputs. This indicates that the rate of harvesting resources should not be faster than their rate of regeneration. In addition, it requires people to ensure that the emission of wastes does not take place at a faster rate than their rate of assimilation by the environment (Basiago, 1999; Patridge, 2005). An examination of the effect of green building certification regarding this dimension of sustainability should consider ways through which development activities reduce the emission of wastes, and maintain the usage of natural resources (U.S. Green Building Council, 2009).
THE IMPACT OF GREEN BUILDING CERTIFICATES ON MARKETABILITY

The marketability of real estate developments with green building certificates comes from their environmental and social benefits which create economic benefits to the businesses and people who live and work in these structures. Most of the environmental and social benefits do not appear directly in the income statement, which makes their integration during financial decision-making relatively limited, but the benefits accrue to the society and community considerably (Welch, Benfield, & Raimi, 2011).

Environmental benefits. A real estate development with a green building certificate can be marketable with respect to its location, use, latitude, and exposure to sun and wind, among other factors. This is because the building's site relative to these factors considerably affects its reliance on artificial lighting, mechanical cooling, or heating, and hence, the costs associated with these activities. Carefully planned green buildings lessen expenditure on these activities or extend the life of existing infrastructure, which makes them highly attractive to people (Chappell, 2007a). In addition, green building certification related to indoor air quality affects the marketability of real estate development. Newman (2010). High quality of indoor air means that the environment is healthier and better ventilated. Green building certificates, such as Leadership in Energy and Environmental Design (LEED), encourage the integration of green features from the design stage, which results in improved productivity for the people living or working in the property due to healthier and more pleasant living and working conditions (Garber & Miller, 2013).

The green building certification affects the marketability of buildings because they save on energy costs through reducing energy demand and the total consumption. According to the U.S. Green Building Council (2015), LEED-certified buildings use 25% less energy, on average, than similar conventional structures, through a combination of natural and artificial lighting strategies, natural ventilation, energy-efficient fixtures, and the use of renewable sources of energy. Buildings produce about 40 percent of greenhouse gases emitted over their lifecycle. O’Mara and Bates (2012) and Miller et al. (2008) point out that green building certification related to atmospheric emissions can affect the marketability of buildings. For example, New Jersey offers emission credits to green building owners so that they can trade those credits at premium market values. Currently, the green buildings in the six states that offer emission credits are highly marketable (O’Mara & Bates, 2012). The use of market-based incentives remains limited thus far. The hesitation by many governments to tax atmospheric pollution—given their preference for regulation instead of incentives that reward good practice—does not help in promoting the marketability of green buildings. The adoption of market-based incentives will increase the marketability of green buildings considerably.

Green building certification pertaining to the reduction of materials and waste also affects the marketability of buildings. Green buildings typically use and re-use local, renewable and/or recyclable materials, thereby helping the economy and the environment by subsequently reducing the extraction and processing of resources. Using environmentally benign materials enhances the quality of indoor air, which is a considerable factor in the marketability of green buildings (Newman, 2010).

Green building certification pertaining to water usage also affects the marketability of buildings. Typically, green buildings adopt rainwater capture, efficient appliances, low-flow fixtures, and wastewater treatment which reduce the use of potable water and the associated costs (O’Mara & Bates, 2012). In green buildings, the integration of permeable pavements and landscape technology assist in the replenishment of the water table through storm water management. This lowers the development costs associated with the need to build a storm water infrastructure (O’Mara & Bates, 2012).

Social benefits. The social benefits being experienced by individuals and companies who develop and use green buildings include increased productivity, low absenteeism and improved morale due to pleasant working conditions, and better wellbeing of those working or living in such high-quality environments (Davies, 2005). These benefits have financial benefits that are becoming central to the overall benefits provided by green buildings (Garber & Miller, 2013). Employee overhead constitutes the highest costs...
associated with commercial buildings, which means that the reduction of turnover and absenteeism and the improvement of productivity are the most significant economic contributions of green buildings to businesses (O’Mara & Bates, 2012). According to Garber and Miller (2013), the enhancement of a company’s image is also an aspect that green buildings provide businesses. In this regard, a business that occupies a green building benefits from a positive image portrayed by carrying out operations from an environmental-friendly building. This helps in attracting and retaining employees, clients, and tenants, who subsequently benefit the owners and shareholders. The building’s green character provides a symbolic message to the public, demonstrating that the company adopts advancements in technology and it cares about the environment. In essence, companies can exploit this advantage with respect to marketability (Garber & Miller, 2013).

THE IMPACT OF GREEN BUILDING CERTIFICATES ON THE SELLING PRICE

Garber and Miller (2013) point out that the green building certificates are instrumental in increasing the selling price of real estate properties. Most of the green features discussed in the previous section reduce operational costs and increase net operating income (NOI). Using an income approach in valuing such a building will indicate a higher price for green certified buildings than similar conventional buildings (Garber & Miller, 2013). An increase in NOI increases the appraisal value of the building by ten times the annual cost savings (Bernstein & Mandyyck, 2013).

There are other ways a green-building can improve marketability, other than through reductions in operational cost. According to Garber and Miller (2013), green-certified buildings are unlikely to encounter the liability risks associated with lawsuits over mold-related health issues, among others. The green buildings are healthier for occupants because they use pollution-and-contamination rejection strategies, moisture-control detailing, and ventilation tactics, among others. Green building certification increases the selling price of buildings because most Canadian citizens, U.S. citizens, and city dwellers in general, spend most of their time (90 percent) indoors (U.S. Environmental Protection Agency, 2015). In turn, this makes the quality of the indoor environment highly important and many people are willing to pay premium rates to live and/or work in such environments (McCarthy, 2012). For green certified buildings in states such as New Jersey which provide emission credits to the adoption and integration of green features in buildings, the green building certificates increase the selling price considerably because their emission credits have tradable market value (Wallace, 2012).

According to a study by McGraw Hill Construction (2013), green buildings increase in value by over 10 percent for new constructions and about 6.8 percent for existing building projects. The U.S. Green Building Council (2015) indicates that the homeowners of green buildings revealed that their return on investment (ROI) increased by 19.2 percent, on average, for existing green buildings and 9.9 percent, on average, for the new ones.

THE JUSTIFIABILITY OF HIGH PRICE POINTS FOR GREEN-CERTIFIED DEVELOPMENTS

Revenue. Rental premiums have become an aspect of green buildings because many of the best tenants are willing to pay premium rates for green spaces (Garber & Miller, 2013). For them, leasing such a space is a chance to attract the best employees, demonstrate their commitment to sustainable business practices, and improve productivity accordingly. In that regard, many developers and owners of green buildings experience an increased profit margin compared to those with conventional buildings (Fregonara et al., 2014; Newman, 2010).

Occupancy. High rates of occupancy of green buildings are increasing the business case for making green investments. In that regard, the integration of green features during the design and development phases of new real estate projects, as well as in the renovation of existing buildings, results in high occupancy rates, which is good for business (Jackson, 2009; Newman, 2010). In turn, higher occupancy rates of green buildings make owners of conventional buildings decide to integrate green features that would lead to a green certification, thereby repositioning the property as a green building. However, the rental rates and/or the selling price of the conventional building after conversion to a green building will often only increase to the point that the owner can recoup the green investments (Davies, 2005; Garber & Miller, 2013).

Operating expenses. According to Garber and Miller (2013), lower utility bills associated with owning a green-certified building is the most straightforward value
proposition. This is because the significant reduction in operating expenses also increases the net operating income (NOI), thereby having positive effects of the value of the property. The increased or higher NOI justifies the high price points of green-certified buildings (O’Mara & Bates, 2012).

**Risks.** The justifiability of the high price points of green-certified buildings is also evident in terms of risk-mitigating protections that such buildings provide to owners, as well as banks (Garber & Miller, 2013). The appraisal and underwriting process of green-certified buildings provides hedges against the risks of changing consumer preferences, new laws, and the increase of energy prices. Being green-certified gives a property the opportunity of obtaining the best-in-class market position, which in turn future-proofs it as an asset, as well as protects the outgoing cap rate (Newman, 2010; BCCA, 2012). In recognition of the safety of green-certified buildings, some insurers have begun offering discounts for green buildings (Garber & Miller, 2013). The justifiability of the high price points of green-certified buildings within the context of an operating statement can be proven by quantifiable property metrics, as well as favorable adjustments that are critical for adding value during the appraisal and underwriting process (Chappell, 2007b; Davies, 2005).

**METHODOLOGY AND DATA SOURCES**

**PURPOSE**

The purpose of this thesis is to investigate the impact of green building certifications on the marketability and selling price of real estate assets by examining the experiences of individuals concerned with developing, marketing, and selling properties including REALTORS®, developers/builders, and real estate buyers/sellers. The problem statement is: Do green building certificates influence the marketability and selling price of real estate developments?

The three specific research questions that this study aimed to answer are:

1. What effects do green building certificates have on real estate marketability?
2. What effects do green building certificates have on real estate selling price?
3. Is selling real estate properties with green building certificates at higher price points justifiable?

**RESEARCH METHOD**

The research process used mixed methods research, which involves both quantitative and qualitative research methods.3 The quantitative approach used closed questions while the qualitative approach used open-ended questions.4 Information is gathered from three types of real estate stakeholders, namely, (a) REALTORS® or brokers, (b) builders or developers, and (c) buyers or sellers. These stakeholders are often familiar with green buildings and most of them employ the green building certificates as incentive

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3 The choice of combining the quantitative with the qualitative research methods helps one set of collected data from the quantitative method support the findings from the qualitative research method (Bryman, 2006). According to Driscoll et al. (2007), this approach to research is effective in providing highly reliable findings because it expands the scope, as well as the breadth of the research, thereby offsetting the weaknesses associated with either approach alone. The data collection process adopting the two methods sequentially, as in this study, is beneficial in the sense that the questions used to collect data in the qualitative process aimed to obtain explanations for the industry trends revealed by the statistical data obtained through the quantitative process (Driscoll et al., 2007).

4 The mixed-methods research occurred at the stage of forming the research questions (Johnson, Onwuegbuzie, & Turner, 2007). The qualitative data originate from open questions in prearranged personal interviews, while, the quantitative data generate from an online survey. The open-ended questions aim at obtaining sufficient information to explain the trends in the real estate industry associated with green buildings that the statistical data indicated. Thus, the questionnaire provided to gather statistical data (quantitative method) can back up the findings of in-depth interviews (qualitative method) of selected participants (Reja et al., 2003).
marketing tools. These are the main players in the real estate market: occupants, investors, and agents.5

Quantitative information was collected from an online survey.6 The survey was sent to a randomly selected sample of participants who comprised roughly five percent of roughly 3,000 REALTOR® members of the Real Estate Board of Greater Vancouver REALTORS®. Members who responded to the survey were then asked if they could provide names of developers/builders and buyers/sellers who had transactions related to green buildings. All in all, 30 participants responded to the survey, broken down into 17 REALTORS®, six real estate brokers, four developers/builders, and three real estate buyers/sellers.7

The survey had three questions:
1. To what extent do you agree or disagree with the view that green building certificates impact the marketability of real estate? Rate on a scale of 1-5, 1 being strongly disagree and 5 being strongly agree.
2. To what extent do you agree or disagree with the view that green building certificates impact the price of real estate? Rate on a scale of 1-5, 1 being strongly disagree and 5 being strongly agree.
3. To what extent do you agree or disagree with the view that selling real estate with green building certificates at higher price points is justifiable? Rate on a scale of 1-5, 1 being strongly disagree and 5 being strongly agree.

Qualitative information was collected from three survey respondents who had indicated they were willing to participate in an interview after completing the survey. One person represented each group of brokers/REALTORS®, builders/developers, and buyers/occupants.8 These interviews are the primary sources for the qualitative aspect of this research because the selected participants possess substantial and extensive first-hand knowledge. As a group, they provide insights on how and why green building certificates impact the marketability and price of real estate properties.

The three participants answered three open-ended questions that were designed to evoke a professional reflection and draw descriptive and insightful responses. The qualitative information provides context and support to the quantitative survey results.

1. Do you think that green building certificates have an impact on real estate marketability?
2. Do you believe that green building certificates affect the real estate selling price?
3. Do you agree with the view that selling real estate with green building certificates at higher price points is justifiable?

RESULTS AND ANALYSIS

QUANTITATIVE (SURVEY) RESULTS

Tables 1, 2, and 3 show the tabulation of the data collected from the quantitative research process. A rating of 1 means strongly disagree and a rating of 5 means strongly agree. The results show that the bulk of respondents scored the impact as 4 or 5, indicating that green building certificates improve marketability, affect the real estate selling price, and that higher price points of green buildings are justifiable.
Table 1: Tabulation on the Impact of Green Building Certificates on the Marketability of Real Estate

<table>
<thead>
<tr>
<th>Work Group</th>
<th>Number of Participants</th>
<th>1 (Strongly Disagree)</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 (Strongly Agree)</th>
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</thead>
<tbody>
<tr>
<td>Realtors</td>
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<td>4</td>
<td>13</td>
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<tr>
<td>Brokers</td>
<td>6</td>
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<td>6</td>
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<tr>
<td>Sellers/Buyers</td>
<td>3</td>
<td>1</td>
<td>2</td>
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<tr>
<td>Developers/builders</td>
<td>4</td>
<td></td>
<td>1</td>
<td>3</td>
<td>13</td>
<td>13</td>
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<td>Total</td>
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<td>1</td>
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<td>13</td>
<td>13</td>
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<tr>
<td>Percent Share</td>
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<td>0.0%</td>
<td>3.3%</td>
<td>10.0%</td>
<td>43.3%</td>
<td>43.3%</td>
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</tbody>
</table>

Table 2: Tabulation of the Impact of Green Building Certificates on the Price of Real Estate

<table>
<thead>
<tr>
<th>Work Group</th>
<th>Number of Participants</th>
<th>1 (Strongly Disagree)</th>
<th>2</th>
<th>3</th>
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<th>5 (Strongly Agree)</th>
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<td>Sellers/Buyers</td>
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<td>Developers/builders</td>
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<tr>
<td>Total</td>
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<td>1</td>
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<tr>
<td>Percent Share</td>
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<td>0.0%</td>
<td>3.3%</td>
<td>50.0%</td>
<td>46.7%</td>
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</table>

Table 3: Tabulation of Justifiability of High Price Point of Buildings with Green Certificates

<table>
<thead>
<tr>
<th>Work Group</th>
<th>Number of Participants</th>
<th>1 (Strongly Disagree)</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5 (Strongly Agree)</th>
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<tbody>
<tr>
<td>Realtors</td>
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<td></td>
<td>14</td>
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<td></td>
<td></td>
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<tr>
<td>Brokers</td>
<td>6</td>
<td></td>
<td>2</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sellers/Buyers</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
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<tr>
<td>Developers/builders</td>
<td>4</td>
<td></td>
<td>4</td>
<td></td>
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<tr>
<td>Total</td>
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<td>4</td>
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<td>Percent Share</td>
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<td>3.3%</td>
<td>13.3%</td>
<td>60.0%</td>
<td>23.3%</td>
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</table>

QUALITATIVE (INTERVIEW) RESULTS

Three participants—one REALTOR®, one developer, and one buyer/occupant—answered three questions that were designed to gather insights on how and why green building certificates impact the marketability and price of real estate properties and if higher price points are justifiable.

Question 1: Do you think that green building certificates have an impact on real estate marketability?

The broker’s response indicated that green building certificates are an effective way of marketing a property, even if the property is still under development. The broker noted that real estate brokerages benefit the most regarding marketing properties, more than any other player in the market. Consider the following response:

“… in the past it was the broker’s responsibility to find buyers of properties. However, the adoption of green building certifications markets the building even before it gets listed in the market, which essentially draws buyers to brokers assigned to sell the property, instead of the broker adopting strategies that would draw attention to the property, as was the case in the past …”
The developer's response also indicates that developers benefit considerably from green building certificates and that buildings which integrate green features are easier to sell even without using the services of a real estate broker. Consider the following response:

“… green features are increasingly becoming attractive selling points due to clients being environmental conscious and focusing on the health benefits that come with green certified buildings…”

The buyer's response reflects the comments given by the developer and broker, but the emphasis is on the environmental and social benefits rather than economic benefits, which seemed to be on top of the developer's and broker's list. Consider the following response:

“… you cannot quantify the value of human life. Therefore, being healthy and living in a healthy environment is very important, thereby making the demand for green buildings among buyers and occupants very high…”

**Question 2: Do you believe that green building certificates affect the real estate selling price?**

The broker's response indicated that green building certificates increase the selling price of green buildings because they provide credibility with regards to the benefits of the green features integrated in the property. Consider the following response:

“… the green movement is a trend that is accelerating to the point that some brokers opt to greenwash the property they are selling just to seal the deal with clients because the demand is high as well as the prices…”

The developer's response to the second question indicated that this was the main reason the adoption of green features and the development of green building was becoming common among many developers. Consider the following response:

“… many developers are shifting from developing conventional buildings to green buildings because the profit margin associated with green buildings is unmatched by conventional ones…”

The buyer's response to the second question also indicated that the value of the green-certified buildings reflected the health benefits, as well as the reduction in maintenance costs. Consider the following response:

“… the high value of green-certified buildings is an aspect of spending more money acquiring the property, instead of spending more money maintaining it in the future…”

**Q3: Do you agree with the view that selling real estate with green building certificates at higher price points is justifiable?**

All participants agreed that selling buildings with green certificates was justifiable because of the reasons they had already given on their responses to previous questions.

**ANALYSIS OF SURVEY RESULTS**

It was evident from quantitative data and the qualitative responses that green building certificates provide economic, environmental, and social benefits to all players in the real estate industry (i.e. REALTORS®, developers, and buyers/occupants).

The importance of the benefits associated with green building certificates vary depending on the level of involvement in the real estate market. From the broker's perspective, the most important benefit of green building certificates relates to enhanced marketability primarily because it lessens the burden associated with their work responsibilities. Accordingly, the broker's job is to point out the economic, environmental, and social benefits that the buyers or occupants experience by owning or renting the property, regardless of whether it is residential or commercial. In essence, the economic, environmental, and social benefits associated with green building certificates provide credible selling points for brokers, thereby making their work relatively simple.

From the developer's perspective, the most important benefit relates to increased selling price. The developer also pointed out that most of the people in Vancouver are increasingly becoming health-conscious, and this is critical to the adoption of green buildings and green building certificates. If this was lacking, the call for adopting green building designs would not have received such immense support. Government incentives associated with adopting green features also require green building certifications, which are offered by third parties that provide a credible verification of the environmental-friendly real estate developments eligible for various incentives.
From the buyer or occupant’s perspective, the benefits cut across the economic, social, and environmental spectrum. The economic benefits include reduced operational and maintenance costs associated with minimal water usage, energy usage, and waste materials. The environmental benefits include the superior indoor air quality associated with improved health and wellbeing, the lack of health risks associated with toxic building substances like mold. The social benefits include improved aesthetics, enhanced public image, and higher levels of productivity, among others.

The interview responses also revealed that some unscrupulous property developers and brokers engage in green washing (false presentation of the green image through false information) as a way of increasing the value of their property without truly integrating the appropriate green features. Many buyers and occupants of buildings who have limited understanding of the green movement fall into such traps and subsequently pay substantial amounts of money without experiencing the benefits they expected. On that note, green building certification benefits them by acting as an effective “anti-greenwashing” mechanism which distinguishes true green-certified buildings from the non-certified ones.

Green building certifications also affect the real estate industry through the presentation of forward-looking designs that future-proof developments from risks. The recognition of the forward-looking approach to real estate developments is increasingly becoming clear among insurance providers. Some have begun offering discounts for green buildings because the risks associated with future existence and operations are minimal even though the associated building value increases considerably (Miller et al., 2008).

**BARRIERS TO THE PROLIFERATION OF GREEN BUILDING CERTIFICATIONS**

There is still a lack of comprehensive understanding and experience, especially among small developers and construction companies. Creating awareness about high property values of green-certified buildings may be instrumental in encouraging and promoting the development of green properties and the subsequent certification (Heberling, 2013).

Also, no data exists to provide sufficient correlation between reduced energy costs from green certification and benefits to property owners, especially landlords, because leases do not consider a building’s green features. This limits the benefits and incentives for owner-investors as opposed to owner-occupants.

Outdated building and planning codes also limit the adoption of green features. Vancouver is at the forefront of modernizing building and planning codes. However, some regions in Canada have outdated building and planning codes, which make the integration of green features economically unfeasible (Davies, 2005; Heberling, 2013; Newman, 2010).

**POTENTIAL STRATEGIES TO INCREASE GREEN BUILDING CERTIFICATIONS**

First, more communication and information about all relevant facets of green buildings and associated green building can boost market demand for green buildings and green building certification. The proponents of green buildings and green building certifications should find effective ways of convincing skeptics about the value of green buildings and green building certifications.

Second, appraisers need to increase their understanding and involvement in evaluating green features of buildings so that they differentiate the value of green buildings from conventional buildings. Their role is instrumental in incorporating the importance of green building certifications into the value of the property.

Third, stakeholders in the real estate industry, especially the large entities, should share their experience associated with effectively adopting and integrating green features in buildings. This can include sharing of financial data so that other developers can opt to pursue the development of green buildings. This strategy will be instrumental in constructing a convincing business case for the adoption and integration of green features in existing conventional buildings, as well as in the development of new green buildings.
CONCLUSION

The review of literature using the sustainable development paradigm as a framework of analysis shows that integrating green features provides economic, environmental, and social aspects. The economic benefits include energy cost savings, water cost savings, reduced operational costs, and increased net operating income. The environmental benefits include superior indoor air quality, and reduced carbon emissions. The social benefits include increased productivity, green public image, and improved aesthetics, among others discussed in the literature review section. The effects associated specifically with green building certificates include credibility regarding the claims of green features (anti-greenwashing), association with innovation and forward-looking designs, and benefits from government incentives, among others.

This study analyzed the effect of green building certification in the Greater Vancouver area using a combination of quantitative (survey) and qualitative (interview) methods. The results indicate that green building certificates have positive impact on marketability and prices, and that selling real estate with green features at a higher price point is justifiable.

Although the adoption of green features provides numerous benefits, the integration of green features faces certain barriers, mainly lack of awareness about and limited understanding of green strategies and outdated planning and building codes that hinder the approval of green building plans in some regions.

An area of future research is the integration of the benefits of sustainability in real estate valuation. This research will be instrumental in quantifying the benefits of green features and green building certifications.

REFERENCES


CORE STANDARDS: AN EXAMINATION OF THE EFFECTIVENESS OF THE NATIONAL ASSOCIATION OF REALTORS® POLICY

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ABSTRACT

The National Association of REALTORS® instituted the Organizational Alignment Core Standards policy in 2014. Local associations need to prove compliance on an annual basis on 47 requirements in six areas: Code of Ethics, Advocacy, Consumer Outreach, Unification Efforts and Support for the REALTOR® Organization, Technology, and Financial Solvency. The purpose of this paper is to analyze whether the policy goals are being achieved, the ease of implementation at the local, state, and national level, and the strengths and weaknesses of the policy. The three surveys I conducted among local, state, and national association executives and staff show a mixed perception about the success of the policy. At the local association level, some respondents do not consider the policy a success, while others think it strengthens the association’s value to the public and/or its membership. At the state level, most state association leaders believe the policy is being implemented successfully. At the national level, the respondents expected the process to be more difficult than was in fact reported by the local associations. Either way, all REALTOR® Associations are working hard to ensure they meet the requirements either on their own, through shared services, or by merging with other associations.

Keywords: change management, core standards, REALTOR® associations

INTRODUCTION

On May 17, 2014, the National Association of REALTORS® (NAR) Board of Directors approved a revised policy referred to as the Organizational Alignment Core Standards policy, more commonly known as the Core Standards. The policy states,

Every local and state association of REALTORS® shall annually demonstrate compliance with the following Core Standards... Local associations will be responsible for communicating and describing the programs, products, and services of national and state associations such that all members understand value propositions at all three levels (NAR, 2014, p.2, para, 4-5).

The policy required about 1,200 local REALTOR® organizations to complete and submit annually a 47-point online worksheet on six core standards: Code of Ethics (seven points), Advocacy (seven points), Consumer Outreach (25 points), Unification Efforts and Support for the REALTOR® Organization (six points) Technology (one point), and Financial Solvency (one point) (Schwaar, 2014). The Board of Directors set June 30, 2015 as the first deadline for local associations to meet the Core Standards. Failure to meet these standards by June 30 every year and during the subsequent appeal process period would result in an organization having its charter revoked by the National Association of REALTORS®.

1 Based on the capstone research paper submitted to REALTOR® University. The original paper has been shortened to highlight the key results and meet the Journal’s guidelines. To request the full paper, please contact Jim Haisler at j6@HeartlandRO.com
The new policy has raised many questions which this study hopes to shed some light on. Does the policy set clear objectives that establish whether a local association should exist? Is NAR truly ‘raising the bar’ or simply lifting it off the ground? Does the policy go far enough to be effective? Do the policy’s goals serve the purpose of determining a local association’s value to its membership? Should it be a local REALTOR® association’s mission to meet NAR’s goals or to focus its efforts on meeting the needs of its own membership? To note, answers to these issues are still evolving and are difficult to answer because the policy is still in its infancy.

The purpose of this thesis is to assess the policy’s strengths and weaknesses in determining whether a local REALTOR® association is worthy of maintaining its national charter and the ease of implementation of the Core Standards among local and state associations. This research is primarily intended for those in the REALTOR® organization leadership at the local, state, and national levels. Ideally, the information from this research can provide insights to those involved in the policy’s implementation to enable them to implement changes to the policy, if needed, at an appropriate time.

LITERATURE REVIEW

This section provides a brief review of NAR’s structure and standards and how the Core Standards policy may affect the industry leaders charged with implementing the new requirements. It also briefly reviews the literature on change management theory and how this framework can be applied to NAR’s implementation of the Core Standards policy.

NAR ORGANIZATION AND STANDARDS

The REALTOR® organization can be characterized as a “federation”, with state and local associations tied to NAR through a “three-way agreement” (REALTOR.org, 2015). This agreement bonds the organizations together, and it is this unique partnership that gives the REALTORS® a powerful and unified voice.2 As NAR’s website states,

In the simplest of terms, the federated structure allows the REALTOR® organization to use its combined resources (both human and financial) and influence to have a unified, powerful voice in shaping public policy, set recognized standards for ethical real estate practice, and contribute to the betterment of the real estate industry (Answer Book, 2015, last paragraph).

In 2014, NAR tied itself even more tightly to its federated organizations by proposing and implementing the Core Standards. These standards put in place a set of guidelines for its charter members, the state and local associations of REALTORS®. At the time of the NAR’s Board of Directors’ approval of the policy in May 2014, there were 1,319 local and state associations of REALTORS® across the country (1,269 local associations and 50 state associations).3 State associations were tasked with implementing the policy, which includes annually re-certifying local associations by June 30th every year (NAR, 2014). Failure to meet these standards by June 30 every year and during the subsequent appeal process period would result in an organization having its charter revoked by the NAR, effectively putting the local association out of business (REALTOR.org, 2015).4

Under the new policy, local associations who do not meet the required objectives can appeal the decision to keep their charter with NAR. Should they not pass and fail in their appeal, the policy stipulates that their charter will be revoked and they would be forced to either merge with another local association that has met the Core Standards or dissolve (NAR, 2014).

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2 Other trade organizations such as the American Medical Association do not have local and state arms (AMA, 2015).
3 A May 2014 study contracted by the National Association of REALTOR® indicated that there were 1,269 local REALTOR® associations in the country when the NAR Board of Directors approved the policy (Martin & McQueen, 2014).
4 The discipline for failing to comply was approved in another approved motion: “the charter of all associations that have not complied with the Mandatory Core Standards by June 30, 2015, will be automatically subject to revocation”. The specifics of such were to be added to the organization’s Code of Ethics and Arbitration Manual as approved in still another motion (REALTOR.org, 2014, p. 7, Item #4).
### Table 1: Number and Sizes of Local REALTOR Associations as of May 2014

<table>
<thead>
<tr>
<th>Membership size breakdown</th>
<th>Approximate total number of associations by size</th>
</tr>
</thead>
<tbody>
<tr>
<td>5000+</td>
<td>6% (74)</td>
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<tr>
<td>1000-4999</td>
<td>17% (221)</td>
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<td>1-99</td>
<td>19% (241)</td>
</tr>
</tbody>
</table>

Source: NAR study by Martin & McQueen, 2014.

Before the passage of the Core Standards, local and state associations of REALTORS® were obligated to abide by the Organizational Standards which covered seven areas: Governing Documents, Legal Status, Dues Collection, Administrative Support, Communications Process, Orientation, and Code of Ethics. The new Core Standards included most of the obligations under the Organizational Standards, but the new policy went further by adding new areas and consolidating others. Additionally, the Board of Directors approved a second motion at the May 2014 meeting that adopted the “Mandatory Core Standards for Associations of REALTORS® compliance policies and procedures (REALTOR.org, 2014).”

Implementing the new policy was problematic for some local associations, especially those with limited staff. Some of these organizations are extremely small with very limited staff, in some cases with simply one part-time staff person, like the 26 member Belvidere Association of REALTORS® in Northern Illinois. A major challenge was how these businesses could meet the requirements (Vitu, 2015). Moreover, with the deadline looming in 12 months, NAR still had to finalize the program’s requirements and disciplinary process, implement an online compliance tool, distribute the tool to state and local associations, and prepare to answer the numerous questions that would arise. At the same time, many associations were not present at the Board meeting where they would have become aware of the new requirement or hear the rationale for implementing the Core Standards. Moreover, while NAR did its best to communicate the new requirements, implementing the new policy fell to the state associations (Brambila, 2014).

There was great concern that the new policy would result in the elimination of many local associations through mergers or dissolutions, with estimates running as high as 30 percent of the local associations. To ensure that the local and state associations could comply with the new policy, NAR allocated financial resources. Specifically, $20 million dollars were made available to local and state associations for implementing new programs, conducting strategic planning sessions, undertaking mergers, and other activities to enable local associations to meet the new policy requirement (Wiggin, 2014).

### CHANGE MANAGEMENT THEORY

In his research conducted in the 1930’s, German social psychologist Kurt Lewin developed a theory on how people react to and adapt to change, known as the Change Management Theory. He theorized that people react to change in a similar way: “unfreeze, change, freeze” (Change Management Coach, 2015). Other models have been developed since Lewin’s initial works. McKinsey developed the 7- S Model, so-called because the steps to dealing with change begin with the letter “S”: Strategy, Structure, Systems, Shared Values, Skill, Style, Staff. John Kotter, a Harvard Business School professor, developed an eight-step process about change management that is highly regarded today (Create, Build, Form, Enlist, Enable, Generate, Sustain, Institute).

Another theory is the Nudge Theory which proposes the use of non-coercion to implement change, a rather simple approach to change management theory. Another is the ADKAR theory, an acronym for the five steps relating to change management (Awareness, Desire, Knowledge, Ability, Reinforcement). Bridge’s Transition Model and Kübler-Ross Five Stage Model are other change management models. All these theories are very similar in that they recognize the participant’s likelihood to recognize change, to resist it or adapt to it, and then to become comfortable with change before truly adapting to it (Entrepreneurial Insights, 2015).

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5 According to sources quoted by Inman News in 2014, industry experts believe that the new requirements would have significant impact on those numbers, including one comment that suggested as many as 30% of the associations might be eliminated, either through merger or dissolution within the next ten years. The same article quotes an NAR volunteer leader as saying that it is not NAR’s goal to reduce the number of associations but rather to ensure that each are meeting the new criteria (Brambila, 2014).
While all have similar ideas, Lewin’s model was the first and perhaps the simplest, and it can easily be applied to the change required of the local and state organization leaders regarding the Core Standards policy. Figure 1 below reprinted from Entrepreneurial Insight (2015) illustrates the theory.6

Figure 1: Change Management Theory

The first stage in Lewin’s model is called “unfreezing”. In this “unfreezing” stage, people try to figure out how they are going to implement the change while still doing things the “old way.” This phase can be represented by the learning curve at the bottom left corner of the chart. Lewin believed that people need to be willing to change. However, they have to understand it and be ready to move away from their current position (Muo, 2014). In his “Force Field Analysis”, Lewin wrote that as long as the positive aspects of the change outweigh the negative aspects, change will likely occur. When change is necessary but negative impacts outweigh the positive effects, additional forces have to be added to encourage action (Change Management Coach, 2015). Thus, “unfreezing” is necessary to overcome the strains of individual resistance and group conformity.

Once the leaders of the associations are “unfrozen” and ready to take action, “change”, also referred to as “transition”, begins. Lewin recognized this step as a process, as opposed to an absolute event, when the actual change starts to occur. As the “change” is implemented, there is a “disruption” that occurs within the organization as they shift over to the “new way” and begin to “manage the change.” Tackling change often takes courage as the process typically involves uncertainty or even fear. Many reasons exist as to why people resist change, and adapting to change takes time and support. Applying this to NAR, the local leadership had to support their staff, the state association heads had to support the local leadership, and the national level staff had to support the state organizations as well as their own staff, who faced both change and adversity as the process was being implemented (Entrepreneurial Insight, 2015).

In this third stage, the participants begin to accept and internalize the change. They form new habits around the new behaviors. Solidifying or “freezing” these new patterns is the final step. Some modern social psychologists prefer to think of the “refreezing” as a less rigid end-result because change is happening so quickly that often there is little time for the new habits to “freeze” before additional, new change is demanded (Change Management Coach, 2015). In the case of NAR, now that the first June 30th deadline has passed, and the local and state associations have completed the process and begun the second year of implementation, an awareness of the policy has taken hold among those in management and leadership, putting them in the third stage of “freezing” or “refreezing”.

**METHODOLOGY AND DATA SOURCES**

To gather information from those impacted by NAR’s Core Standards policy, I conducted three surveys at the local, state, and national level over a four-week period.7 The first two surveys asked local and state leaders questions pertaining to the implementation of the Core Standards. The third survey asked national leaders involved in developing the Core Standards policy about their expectations and perception of the effectiveness of the policy after the June

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6 This is a very simple model that does not consider other ongoing changes within any organization. A more realistic image might have multiple lines showing other changes that are occurring due to many factors affecting the business. Depending on the change, there may or may not be an overlap, as sometimes, the change may require a full switch-over to the new method. Nonetheless, the ‘refreezing’ takes shape as the staff of the organization begins to adopt the new way of doing business. Furthermore, the gap, which represents the disruption, might be larger or smaller depending on the severity of the impact of the change. Regardless, in today’s busy business environment, change has become the norm (Holmes, 2013).

7 NAR’s REALTOR® Party Resources Work Group also conducted a survey to examine two areas of the Core Standards.
30, 2015 deadline. The respondents were informed that their responses would be anonymous so they would be free to state any criticisms they had without fear of retribution.

The first survey was sent out to 55 local association executives (AEs) throughout the country through direct email requests, and the survey link was also posted on two AE Facebook pages. There were 59 responses from across the country, which represents nearly five percent of the roughly 1,200 local associations. As a background, Local AEs are responsible for running the local REALTOR® organizations, which range from serving as few as a handful of members to as many as 20,000 REALTOR® members. Association staffing also ranges from as little as just one part-time staff person to as many as 120. As such, the role of an AE can vary greatly, including the responsibility for completing the Core Standards worksheet and submitting it. In some cases, the AE may have delegated significant portions of the process to other staff people. The delegation of this task was one of the questions asked in the survey.

The second survey was sent to all 50 state association executives to gauge their involvement with the Core Standards process, 11 of which responded to the survey. One might think that smaller state associations may have an easier time meeting the Core Standards requirements because they have less work to do, and yet these smaller states are more likely to have less staff to manage the program. On the contrary, while the larger states might have more staff who can review the local association responses, those state associations may have more opportunity for local association consolidation or providing shared services to smaller associations, requiring more work on their part.

The third survey was sent to the twelve NAR staff who were instrumental in the planning and development of the revised Core Standards. The survey did not define the role or categories of the respondents, so the respondents self-identified themselves as “NAR staff” (two respondents), “NAR Senior staff” (one respondent), “AE leadership” (three respondents), and “volunteer REALTOR® leadership” (one respondent). This small yet comprehensive set of participants can provide a comprehensive view of the goals and expectations of the policy before its implementation.

RESULTS

LOCAL ASSOCIATION SURVEY RESPONSES

The first question in the local survey sought to gather information about the distribution of the membership size of local associations (Figure 2). Among the 59 respondents, 35 percent of the AE respondents represented “small/medium” associations that have less than 500 members. Just over 50 percent of the respondents represented 501 – 5000 members, and about 10 percent came from mega-sized associations who had 5001 or more members.

8 In identifying the respondents, I first reached out to an NAR contact who knew the people who were most involved were from the NAR side (staff and volunteers), and I added other contacts who I figured might also be involved in developing the Core Standards. My cover letter asked them to complete the survey if they were involved or instrumental in the development and implementation of Core Standards.

9 Due to the small number of respondents among local association and NAR staffs, the results are intended to be illustrative of the insights and concerns of REALTORS®. Caution should be exercised in treating these figures as accurate numerical estimates of the population parameters.
The next question asked whether the ease of completing the requirements by June 30, 2015 was “Very Easy”, “Easy”, “Standard”, “Hard”, or “Difficult” (Figure 3). Of the 59 respondents, 24 percent reported that the process was “Hard” or “Difficult” (Figure 3).

Figure 3: Ease of Completing Core Standards Requirement Among Local Association Respondents

The third question asked the respondents to rank the difficulty of implementing the six Core Standards areas from “1” (“Most Easy”) to “6” (“Most Difficult”) (Figure 4). The easiest areas to meet were the Code of Ethics and Financial Solvency. The Code of Ethics standard was rated by 78 percent of the AE respondents as either “1” or “2”, while Financial Solvency was rated by 55 percent of the AE respondents as “1” or “2”. The third easiest appears to be the Technology area where 31 percent of AE respondents gave it a ranking of either “1” or “2”. Advocacy was the most difficult area to accomplish with only 17 percent giving it a ranking of “1” or “2”. The next most difficult areas to meet were Consumer Outreach and Unification/Support. Consumer Outreach received the highest number of “6” (“Most Difficult”) among AE respondents, with 31 percent giving it this rating.

Figure 4: Ease of Implementation of Core Standards Among Local Association Respondents
The survey asked local AEs about the number of hours it took to complete and submit the Core Standards online compliance worksheet. Slightly more than half, 54 percent, reported they completed the online worksheet within 20 hours or nearly three work days.

The survey asked respondents to assess if the AE/CEO of the organization did all the work in completing the online compliance tool or if they delegated the work load to other staff (Figure 6). All respondents reported that the AE/CEO were involved in the process, and on average, the AE/CEO undertook 74 percent of the assignment. The association’s second most senior staff person completed about 10 percent of the online compliance tool, the state association staff undertook about five percent of the task, the Government Affairs Directors (GAD) did about four percent of the work, and the accountant/bookkeeper and staff who work with members, professional standards, and other local staff did seven percent of the work.

The survey also asked how frequently the staff assisted in completing the Core Standards online compliance tool (the prior question asked how much of the worksheet the staff completed). All respondents reported that the association’s AE/CEO worked on completing the online compliance tool. One third of the respondents reported that their second most senior staff person was involved. Nearly half of the respondents reported that the association’s GAD also helped. About one-third of respondents reported the local association staff accountants also helped. Slightly more than one-third of respondents reported that the state association staff helped local associations complete the online compliance tool (Figure 7).

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10The titles of the second most senior staff vary greatly among local associations.
STATE ASSOCIATION SURVEY RESPONSES

Respondents from state associations, who certify the local association’s compliance, answered the same questions asked of local association respondents to gauge the state association’s perception of the ease/difficulty local associations had in completing the online Core Standards worksheet.

The state association respondents perceived the process to be less difficult than how local association respondents reported undertaking the process. Among the 11 respondents from the state associations, 18 percent (two respondents) felt the process was either “Hard” or “Difficult”, whereas 24 percent of the local association respondents had reported that the process was either “Hard” or “Difficult”.

The state associations rated the ease of implementation of the Core Standards differently than did the local associations (Figure 9). The state association respondents rated Code of Ethics as the easiest area for the local associations to complete, with all respondents giving a rating of “1” or “2”. Technology was the second easiest area to complete, with 91 percent (ten respondents) rating the ease as either “2” or “3”. The third easiest area to complete was Unification Efforts, followed by Consumer Outreach, and Advocacy. State associations rated Financial Solvency as the most difficult area to complete, with 73 percent giving it a rating of “5” or “6” (“Most Difficult”). By contrast, local associations rated Consumer Outreach as the most difficult to meet.
The state association survey asked the respondents to estimate the number of hours the local associations spent working to enter the information on the compliance tool. More than half of the state association respondents, 54 percent, reported that local associations spent 40 hours or less. This share is lower than the 74 percent of the local association respondents who reported they spent 40 hours or less (Figure 10). This indicates that state associations perceived the local associations took a longer time to complete the online tool than in fact the local associations did.
The state association survey also sought to gather information on who did the work required at the state level and how much work was done by the executive or staff. Eight state leaders reported that their CEO was involved and that, on average, the top executive did 40% of the work. Seven associations indicated their second-in-charge employee was involved, and on average reported that the second-in-charge did 22% of the work required at the state association level. Six respondents reported that other full-time staff were involved and, on average, performed 30 percent of the work. On average, temporary staff did seven percent of the work, while “other” state staff did one percent of the work required from the state association.

NATIONAL ASSOCIATION SURVEY RESPONSES

The survey asked the 12 NAR architects of the Core Standards about their perception of the ease in completing the Core Standards online worksheet, including all required attachments. Of the 12 NAR staff, seven responded to the survey. Of the seven respondents, 71 percent reported that the process is “Standard” compared to less than half of local (44 percent) and state association (45 percent) respondents. Only seven percent of the NAR respondents reported the process to be “Very Easy” or “Easy” compared to the local association (32 percent) or state association respondents (36 percent). None of the seven NAR respondents expected the process to be “Very Easy”. One limitation of the survey is that it did not ask the national leaders if the size of the association should be a factor in their ability to either complete and submit the forms or to adhere to the Core Standards requirements.
When asked how many hours they expected local associations would take to complete the online worksheet and submit it with its many attachments, 57 percent (four respondents) of NAR leaders reported 40 or less hours, about the same as the 54 percent of state association executives. However, 74 percent of local association respondents reported they completed the worksheet in 40 or less hours.

![Figure 13: Number of Hours to Complete Core Standards Worksheet](image)

The data for NAR refers to the hours the NAR leaders expected it would take the local associations to complete the online compliance worksheet.

**QUALITATIVE FINDINGS**

**LOCAL ASSOCIATIONS BORE THE WEIGHT OF THE NEW POLICY**

Based on comments received from the respondents of the three surveys, there seems to be a consensus that the local associations bore the weight of this initiative.

First, these businesses were just coming out of the Great Recession of 2008–2009, and many had to cut back on their own programs, products, services, and staffing levels because of reduced membership and revenues during the housing downturn.

Second, even though the NAR provided financial support to local and state associations ($20 million), it seems that many of the locals were either unaware of the assistance or simply did not take advantage of it.

Third, comments from the open-ended questions of the survey indicate that even if many of the state organizations offered services to help local associations, many local associations did not accept the offer of assistance. This can be an area for further research. Why did this happen? Was there a lack of communication? Was there stubbornness on the part of some of the local leaders in not wanting to accept the assistance? Did the local leaders not realize the money was available for them? Did they think it was only available to others? What effect will this have going forward? Will fewer resources be available in future recording periods to assist the state and local leaders in the compliance efforts? If resources do not become available, what effect will that have on the local associations, and even the states? Will more mergers be necessary? Will merger assistance be available further down the road?

Fourth, several state associations decided to make their own work load more manageable by moving up the deadlines for the larger associations within their state, which made the
process more difficult for local associations.\textsuperscript{11} Shortening the deadlines seemed to be a realistic plan for the state organizations, but it added to the burden of the local organizations who had to fast-track their timelines. In the first year, these organizations had less time to become compliant.

Based on the respondents’ comments, one technical issue that made this more difficult for the local associations that were given an advanced compliance deadline was that the compliance tool did not reset until after the June 30th deadline, resulting in a delay to use the tool to report their activities in the second year. Another issue is that state organizations were effectively implementing their own compliance timelines, plans, and initiatives to implement the \textit{Core Standards} policy, resulting in a modified measurement of the success of each local organization.

Local associations did not deem Financial Solvency a difficult standard to meet, and yet the state organizations, who had to grade the local association's submissions, rated this as the hardest area for the local leaders to pass. This difference in perception suggests Financial Solvency may be an issue for local associations in the future. Will the local associations struggle more with this area in the second year of compliance? Have they put the required policies in place so that next year it will be easy to comply with? What can explain this inconsistency between state and local associations regarding the financial solvency of local associations?

\textbf{INCONSISTENT BENCHMARKS FOR COMPLIANCE}

Comments from both the state and local association respondents showed there were inconsistent expectations or yardsticks for compliance because several of the 47 questions on the online worksheet did not provide clear indicators for compliance. As an example, the second question of the compliance tool asks: “Does the association have a professional standards committee? (REALTOR.org, 2015, Section 1, Code of Ethics #2)” It sounds like a simple “yes/no” response but some associations may require their Professional Standards Committees meet on a frequent basis to discuss their role and function, or attend training. However, the bylaws of other associations require that members can only serve on their Professional Standards Committee if they attend the state organization’s professional standards training based on a specified frequency. Thus, not all professional standards committees are equal (C. Meyers, a personal conversation, September 2, 2015). As a recommendation, the policy could perhaps include additional criteria to meet the standard. Both local and state association executives would also like to see the online compliance tool better organized and more clear, including adding a functionality to attach video links. For example, the “Technology” section of the online tool does not ask a question but simply requires that an association have a website. It is only in the heading’s description and the sub-heading “B” that additional requirements are listed (REALTOR.org, 2015).

\textbf{MORE MERGERS}

The comments regarding the effect of increased mergers vary.

On the one hand, some respondents commented that the policy is unfair to small or specialized associations (e.g., commercial overlay boards), because larger associations can more easily offer the required programs. One respondent opined that NAR’s intent was to reduce the number of smaller associations. In the wake of the implementation of the \textit{Core Standards}, a handful of associations have dissolved and merged with other associations\textsuperscript{12} to offer increased services and/or to comply with the policy’s requirements (National Realty News, 2015). Respondents commented that they expect further merging and possibly dissolution among the local associations, which is in line with a prediction that there may be as many as 30% fewer REALTOR\textsuperscript{®} associations, “going from 1400 to perhaps 1000 within ten years” (Wiggin, 2014). However, other respondents stated

\textsuperscript{11} The Illinois Association of REALTORS®, for instance, asked their larger local associations to move up their deadlines to January 31, 2015, instead of June 30, 2015. Others looked at the end of February, and so on, so that the state association would not be overwhelmed with dozens of plans to review in the last month.

\textsuperscript{12} National Realty News (2015) stated that the Orcas Island Association of REALTORS® is dissolving because of the \textit{Core Standards}. The article notes that the association serves just four brokerages with a total of about 40 members on an island in the State of Washington. The Association had previously been providing continuing education courses and other programs focused on those members; whereas, with its closing they will have to travel off the island, and likely stay overnight, costing members significantly more time (National Realty News, 2015). Those members may be asking how the policy benefitted them.
that this is not the goal of the Core Standards, and that the associations remaining are stronger for their compliance. My conversations with local AEs and feedback from respondents indicate that local associations are reaching out to the public more than they have in the past.13

Even though most of the 59 survey comments noted an increased cost to operate due to having to employ more staff or even outsource portions of complying with the Core Standards, many noted they have implemented new programs/services and have improved their financial policies as a result of the policy, some for the first time.14

INCREASING USE OF SHARED SERVICES

The comments received back from both the local and state leaders indicate that NAR’s Core Standards policy has resulted in more associations working together to provide membership with enhanced service and programs either through shared services or direct mergers and consolidations.

One example of how local associations can meet the requirements is through sharing services. When two associations form a partnership, the members of each association can benefit from the services provided by both. In 2006 an NAR Association Executive subcommittee, the Best Practices Work Group, identified “shared services that may be used among associations to enhance existing services or offer additional services to membership” (Lindenau, 2006). For example, the Illinois Association of REALTORS® (IAR) provides professional standards compliance services to its local associations that are not able to provide those services on their own.15 To take another example, Heartland REALTOR® Organization in Northern Illinois has a shared partnership agreement with three of its neighboring associations to provide lockbox and keycard programs to members of those other associations.16

And finally, the Main Street Organization of REALTORS® provides professional standard’s enforcement services for both the Chicago Association of REALTORS® and the North Shore-Barrington Association of REALTORS®.17 Shared services, which have been a part of REALTOR® Associations well before the Core Standard’s policy was designed, is one option for local and state associations, large or small, to ensure they are meeting the demands of NAR’s policy. “Members benefit from reduced overhead costs and better availability of programs and services”, Meyers noted (C. Meyers, a personal conversation, September 2, 2015).

ROLE OF EDUCATION STANDARDS

One area that has been alluded to in both industry articles and by the respondents is the absence of Education as a major Core Standards area, although this was proposed to be one of the Core Standards. Currently, the policy only requires that association executives prove a minimum of three hours of qualifying “education” during the reporting period. There are many opportunities offered by NAR and state organizations for an association executive to easily meet the requirement, such as attending sessions at NAR’s annual Association Executive Institute or attending statewide conferences. Many AEs believe the policy should be expanded to include REALTOR® members as well. However, one

13 One local association executive noted in his/her survey response, “I believe it made all of staff and leadership aware that our association really makes a difference but we need to make the members more aware through better engagement. Now we are looking at methods to improve the way we, as an association, engage the community and how we serve them (local leadership survey results, p. 9, last comment).” Andrea Bushnell, the Chief Executive Officer for the North Carolina Association of REALTORS®, was quoted in 2014 as saying that it was not the goal of the policy to have associations fail. In fact, NAR hoped all would pass and that the policy would make every association better (Brambila, 2014).

14 Promotion of their activities was improved by many of those who responded, such as this one: “For us we were already doing 90% of the items… We do amazing things, but most of our members don’t even know about it… (The policy)[sic] has focused our value proposition.” Two other responses: “We will be hosting more events also and beefing up communications” and “Generated a great deal of news-worthy items for video, newsprint, elected public officials, and municipal staff.”

15 Rebecca Carraher, Executive Assistant at IAR, administers the program and travels as needed to ensure the Code of Ethics and its enforcement programs are available throughout the state (R. Carraher, a personal conversation, October 5, 2015).

16 Casey Meyers, Heartland’s 2015 President, stated that “this partnership is great for our members as well as theirs. Obviously, for their members, they are able to have access to a program that their association is not currently providing.” For Heartland’s members, this partnership ensures the system they are using is popular and sustainable. Meyers spoke about how their association provides the service to nearly twice as many non-Heartland members through those partnerships as it has itself (C. Meyers, a personal conversation, September 2, 2015).

17 Kate Sax, the Director of Professional Development for (K. Sax, a personal conversation, October 23, 2015).
local leader commented that making Education as one of the Core Standards areas may be “a bit over the top.” Steve Brown, NAR’s 2015 President, noted that this issue is likely to be addressed separately (Brambila, 2014).

**SUMMARY**

Putting together the quantitative results and qualitative feedback from the respondents, the study’s findings are not conclusive, and there is no one position on the outcome of the Core Standards. Some believe the policy has drastically hurt the industry or at least a little part of it while others believe this has been a long time coming. It seems there remains a great divide between those who think the policy has had meaningful impact and those who believe otherwise. Associations who have been doing much of what is required by the Core Standards policy for years think the new policy helps to solidify the industry. Meanwhile, those organizations who had much work to do to meet the Core Standards in a short time or those who may have failed to comply are having a more difficult time backing the policy.

In line with the theory of change management, these association leaders who are having a more difficult process may still be in the process of “unfreezing”—dealing with their fears, meeting their fundamental needs, and managing their expectations all likely need time (Team Technology, 2015). The responses suggest that as the industry’s leaders continue to work through complying with the Core Standards, they will become more comfortable and likely to understand its importance. Furthermore, respondents suggest that it will take a few more years before the effects of the policy are fully clear. Either way, all REALTOR® Associations are working hard to ensure they meet the requirements either on their own, through shared services, or by merger with others.

This survey did not discuss the potential impact of association mergers/dissolutions on local multiple listing services (MLS). Many of the local associations own and run their own MLS. That industry is highly connected to REALTOR® associations and MLSs are already beginning to see many discussions about MLS mergers. Perhaps the policy will help promote the regionalization of MLSs and associations alike.

Future research might look at all the questions raised in previous chapters and sections of this thesis and look even further into the issues identified in NAR’s D.A.N.G.E.R. Report which looks at issues affecting the real estate industry.18

**REFERENCES**


18 DANGER stands for Definitive Analysis of Negative Game Changers Emerging in Real Estate. See DANGERReport.com.


POSTHUMOUS ARTICLE BY ALLAN H. MELTZER: FEDERAL RESERVE FAILURES

Dr. Allan H. Meltzer, Dr. Allan H. Meltzer,
Distinguished Visiting Fellow at the Distinguished Visiting Fellow at the
Hoover Institution and the Allan H. Hoover Institution and the Allan H.
Meltzer University Professor of Political Meltzer University Professor of Political
Economy at the Tepper School of Business Economy at the Tepper School of Business
at Carnegie Mellon University at Carnegie Mellon University

Recently, Stanford Professor John Taylor and I circulated a statement calling on Congress to require the Federal Reserve to choose and adopt a rule—a clearly stated way to make its decisions—that would permit anyone to know what they would do in the future. Our statement was signed by several Nobel Laureates with longstanding interest in and contributions to economic policy. A number of former Fed policymakers and senior staff signed the statement also. Earlier, the House of Representatives adopted the proposal. It could become law. I will forward a copy of the statement on request.

The future is of course obscure and, at times, subject to unpredictable changes. The proposed law permits the Fed to depart from its policy rule temporarily. And the proposed legislation does not impose a specific rule. The Fed chooses the rule it follows, but unlike the present, monetary policy is more disciplined and predictable.

The Federal Reserve has made many large errors in the past. Two well-known examples are the Great Depression of the 1930s and the Great Inflation of the 1970s. Recently, the Fed contributed to the Great Recession in 2008 and following. Several recent errors are described here.

—The Fed made massive purchases of housing securities to bail out the industry that produced the crisis. Former Chairman Alan Greenspan had warned against and ended purchases of government backed mortgages. The Bernanke-Yellen Fed ignored that advice.

—Excessive attention paid to current data announcements and neglect of longer-term consequences. An example is the focus on monthly reports of employment growth. These numbers are subject to major revision. During the sluggish recovery after 2009, revised data the following month often reversed the direction of change. Markets responded because they expected the Fed to respond. The Fed was aware of the poor quality of the information but continued to rely on it because of the excessive attention it gives to current events.

—Overemphasis on current events and neglect of medium-term responses. I first noticed this problem more than 50 years ago in a 1964 report that the House Banking Committee requested me to prepare. The Fed is under pressure from market speculators and members of Congress to respond to current announcements. We do not have enough understanding of these short-term changes to use the data fruitfully to improve outcomes.

—Neglect, even dismissal, of data on money growth is one of the most costly results of the excessive focus on short-term data. Medium and longer-term data on money growth have correctly forecast inflation repeatedly. The Fed not only ignores these data, it paid interest on reserves to discourage banks from creating money. The current Fed ignores money growth and treats the response to policy as entirely given by the movement of interest rates. This is a huge error that is without support in past experience.

—From 1986 to about 2002, Chairman Greenspan mainly responded to a rule—the Taylor rule proposed by my Hoover colleague, John Taylor—that gave the best results over any sustained time period in the first 100 years of Fed policy. Inflation was low, recessions were brief and mild, and recoveries came promptly. This period is known as the...
Great Moderation. It shows how rule based policy improves outcomes.

—As part of the excessive attention given to monthly and quarterly data, several Fed staffs produce forecasts of quarterly GDP, inflation and other variables. Their forecasts are no better than the best market forecasts. All are often subject to large errors. It is long past time when people should learn that ECONOMICS IS NOT THE SCIENCE THAT GIVES ACCURATE QUARTERLY FORECASTS. THERE IS NO SUCH SCIENCE. Economics is a very useful tool for showing the medium and longer term results of current and recent actions.

—In the current recovery the Fed’s forecasts have repeatedly predicted a stronger recovery than occurred. Repeated errors of this kind should raise doubts about the Fed’s model. Does it estimate the cost to the economy’s growth of the huge increase in regulation, starting with Sarbanes-Oxley, Dodd-Frank, EPA rules and labor market changes? Almost certainly not.

—The Fed deserves praise for acting promptly and forcefully in 2008 to prevent a possible financial crisis. Its continued easy policy after 2009 were wrong, in my view. And I claim the Fed should have recognized their error. Almost all the reserves produced after 2009—trillions of dollars’ worth—sit idly on the balance sheets of domestic and foreign banks. The Fed claims that its policy gave us the increase in consumption that we have seen. But there is no sign of increased borrowing by middle and lower income consumers to finance their buying, so I am skeptical that Fed policy did much to improve outcomes for middle and lower income classes. Technology improvements and oil and natural gas drilling seem a more likely source of increased income and consumer spending. A recent study described by the National Bureau of Economic Research finds no evidence of consumers increasing borrowing to spend.

—The chief beneficiaries of Fed policy gained from the rise in the stock markets. Speculators and short-term traders became a vociferous opponent of ending the very big increase in stock prices. What they fail to understand is that unlike the stock market the economy benefits from the rise in stock prices only if the rise in asset prices stimulates new investment. New investment occurs if investors see the lower price of new, current capital as a substitute for purchasing existing assets. This did not happen. Spending for new capital never increased in this recovery. Instead, companies bought existing assets, removing competitors. Fed monetary policy did get some production of new houses through this channel.

—The Fed’s decision to maintain low interest rates permitted the Federal government to finance large budget deficits at the low rates. In all of its prior history, the Fed sacrificed its independence to finance the Federal budget only in wartime. This was a big mistake. It reveals a failure to understand the reasons for maintaining the independence of the Federal Reserve. The policy leaves a great uncertainty about the future. When interest rates rise, holders of government debt will experience large losses. Some of the losses will fall on inexperienced debt owners. These costs are in the future.

—Fed policy of keeping short-term interest rates at historically low values were supposed to encourage borrowing. That failed. One of the unfortunate side effects of low interest rates is that the Fed neglected the other side of the loan market—the lenders. Lenders could not find many profitable opportunities at the low rates that covered the risk on commercial loans. Also, they faced high costs of banking and financial regulation. Many small and medium-sized banks went out of business.

—The Fed has not announced a program for reducing the $2.5 trillion of excess reserves. One response is that by paying interest on reserves, the Fed can control their size. Perhaps that control will be accurate. But at what interest rate will it happen? And will that interest rate be the right rate for full employment with low inflation?

—Former Chairman Paul Volcker showed how the Fed could achieve good results by following a medium-term strategy and by controlling money growth. The Bernanke-Yellen Fed’s major mistake was the decision to replace that successful policy with an alternative that is of much less benefit to the public.

The errors and poor judgments are not inevitable. Monetary policy can make a larger contribution to economic stability and performance. Congress and the public will get better, more consistent Fed actions, if the Fed follows a rule. The Senate should join the House by requiring the Fed to adopt a rule. And the Federal Reserve should end its fascination with interest rates and aim at medium-term targets for money and credit. The policy that worked so well for Paul Volcker is far better than the replacement they chose.
Table 1: Money and Nominal GDP in Leading Economies

<table>
<thead>
<tr>
<th>Economy</th>
<th>Average annual growth rate (%)</th>
<th>Broad money</th>
<th>Nominal GDP</th>
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<tr>
<td>US</td>
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<tr>
<td>1960–2015</td>
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<td>6.7</td>
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<tr>
<td>Five years to 2015</td>
<td>4.3</td>
<td>3.8</td>
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<td>Euroland</td>
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<td>1995–2015</td>
<td>5.3</td>
<td>3.1</td>
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<tr>
<td>Five years to 2015</td>
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<td>Japan</td>
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<tr>
<td>1971–2015</td>
<td>6.3</td>
<td>4.3</td>
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<tr>
<td>Five years to 2015</td>
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<td>UK</td>
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<td>1964–2015</td>
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<tr>
<td>Five years to 2015</td>
<td>3.7</td>
<td>3.6</td>
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STATS AND GRAPHS DATA CORNER

We offer a review, in graphic form, of some industry-related statistics to provide a quick glimpse of some of the underlying trends that influence today’s real estate market.

Included here are home sales, affordability, interest rates, and more for your perusal.

HOUSING MARKET INDICATORS

U.S. HOMEOWNERSHIP RATE 1980 Q1 - 2017 Q2

Source: U.S. Census Bureau’s Housing Vacancy Survey

TOTAL EXISTING HOME SALES JANUARY 1999 - JUNE 2017

Source: National Association of REALTORS®
MEDIAN SALES PRICE OF EXISTING HOMES SOLD JANUARY 1999 - JUNE 2017

Source: National Association of REALTORS®

HOUSING AFFORDABILITY INDEX FOR FIXED RATE MORTGAGES 1981 Q1 - 2017 Q1

Source: National Association of REALTORS®
HOUSING STARTS 1980 - 2016

Source: U.S. Census Bureau

MORTGAGE MARKET INDICATORS

CONTRACT INTEREST RATE FOR NONJUMBO FIXED RATE 30-YEAR HOME MORTGAGE LOANS JANUARY 2000 - JUNE 2017

Source: Federal Housing Finance Agency
LOAN-TO-PRICE RATIO OF NONJUMBO FIXED RATE 30-YEAR HOME MORTGAGE LOANS
JANUARY 2000 - JUNE 2017

Source: Federal Housing Finance Agency

NUMBER OF MORTGAGES SERVICES (IN MILLIONS) 1990 Q1 - 2017 Q1

Source: Mortgage Bankers Association. The number of mortgages serviced (number of loans outstanding at the end of the quarter) includes all delinquent mortgages, nondelinquent mortgages and mortgages in foreclosure.
FORECLOSURE INVENTORY 1991 Q1 - 2017 Q1

Source: Mortgage Bankers Association. Inventory of Mortgages in Foreclosure refers to the total number of loans in the legal process of foreclosure. It includes foreclosures started during the quarter. Some foreclosures included in a quarter may have started in other quarters but have yet to be resolved.

HOUSEHOLD FINANCE

HOUSEHOLD DEBT SERVICE RATIO

Source: Board of Governors of the Federal Reserve System
HOUSEHOLDS’ VALUE OF REAL ESTATE ASSETS (IN TRILLION DOLLARS)
2000 Q1 - 2017 Q1

Source: Board of Governors of the Federal Reserve System

ECONOMIC INDICATORS

GDP GROWTH RATE 2005 Q1 - 2017 Q2

Source: Bureau of Economic Analysis
UNEMPLOYMENT RATE JANUARY 2000 - JUNE 2017

YEAR-ON-YEAR PERCENT CHANGE IN REAL HOURLY EARNINGS OF ALL EMPLOYEES MARCH 1997 - JUNE 2017
CHICAGO ASSOCIATION OF REALTORS® FOUNDATION

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For more information please go to >

ChicagoREALTOR.com

The Chicago Association of REALTORS® Foundation is a 501(c)3 charitable organization. We are the education, philanthropic and research arm of the Chicago Association of REALTORS®.