

Houses, Jobs, and Maine People: 2001



**Report by Frank O'Hara, Planning Decisions
to the 2001 Governor's Affordable Housing Conference
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Today housing and economic development are considered separate fields. Each has its own associations, conferences, programs, jobs.

It didn't start out this way. In the beginning, economics was defined as the management of the house. In ancient Greek, "oikos" meant "house," and "nomos" meant "rule." Economics meant "house rule," or "household management."

Here's what the philosopher Aristotle said in his book called Economics.

"The house must be arranged both with a view to one's possessions and for the health and well-being of its inhabitants. The house ought to be airy in summer and sunny in winter. All household utensils should have their proper place, be ready for use, and not require searching."

Today we would call this kind of advice "home economics." In this paper I want to talk about home economics, but of a different sort than the high school home ec teacher. I want to discuss the relationship between homes and economics, between affordable housing and economic development. Specifically, I want to explore five ways in which housing can and should be an integral part of economic development strategies in Maine.

Before going into the five areas, it is helpful to consider the issue more generally. Sometimes, when you read reports on housing and economic development, the relationship can seem simple and linear. "Houses and jobs, houses and jobs, you can't have one without the other."



But in fact you can have housing without jobs. Here in Maine those regions with the most available and affordable housing – Washington County, Aroostook County, Piscataquis County, Franklin County – are precisely those who have the greatest challenge when it comes to economic development. Housing alone is not enough for economic development. But it is part of the context, part of the picture. Put another way – economic development requires people, schools, roads, airports, telephone lines, stores, universities, and many other things.

Housing is on the list. But no one of these elements alone – not schools alone, nor roads, nor houses – is sufficient. They all have to be present. And more than being present, they all have to fit together. They have to make a community, a topic I will return to at the end of the paper.

Another way of thinking about housing in its economic context is to consider, for a moment, your own home. It is, in the first place, a waterproof and heated box, protection from the elements. But it is also much more. Your house address is a ticket giving you the right to vote in certain elections, the right to send your children to certain schools, the right to use certain restricted parks and beaches. Your house driveway is a ticket giving you access to telephone and cable lines, to plowed roads, to sewers and water lines and sidewalks. Your house itself is a major family



investment, a source of retirement income, a savings account from which you



may draw to pay for schooling or cars or vacations (note: two years ago a colleague, Richard Genz, estimated that the value of owner-occupied homes in Maine was \$23.6 billion, of which \$17 billion was held free and clear). Your house is a social club for meeting and entertaining friends and co-workers. Finally, your house is an advertising billboard, communicating an image of your family to the world – modern and hip, or traditional and historic; bold reds and yellows, or subdued greens and blues.

Service access, investment, advertising – these are economic functions. And if your house performs all of these functions for you and your household, it performs these and more for your community, region, and state.

With this as background, we can go on to address five specific ways in which housing policies can encourage economic development in Maine.

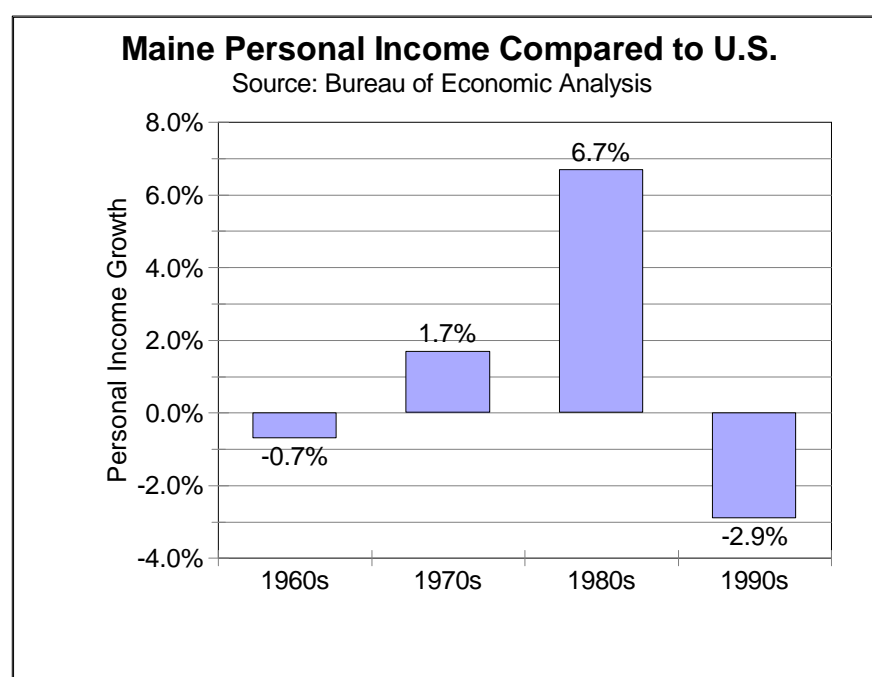
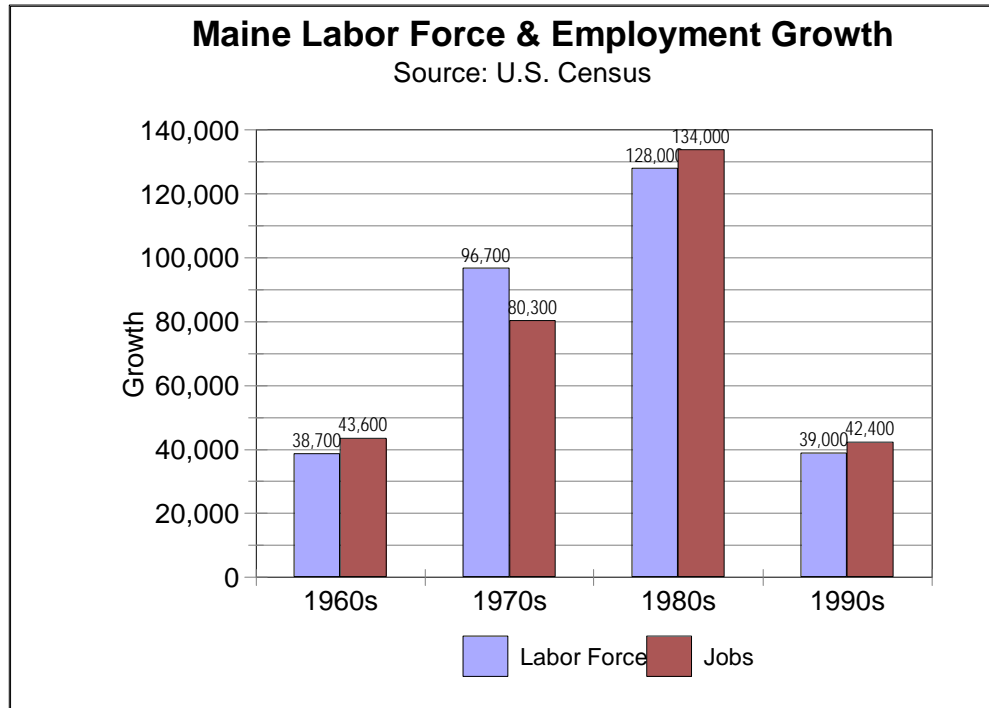
1. Create Apartments to Make Maine Attractive to Young People

Last summer I facilitated three economic development strategy sessions with over 30 community and business leaders on behalf of the Eastern Maine Development Corporation. The top issue they wanted to talk about was not money, roads, or airports. Instead it was how to attract and retain young people in the area. It was the first economic development discussion I have ever participated in where the major topic of discussion was how to liven up the night life in Bangor!

The concern of these community leaders is entirely rational. Let me step back a moment and explain why.

Start with the basics. Maine's jobs can only grow as fast as Maine's labor force. Put another way, every new job

needs a new person to fill it. Here's the labor force and employment growth record for Maine in the past forty years.

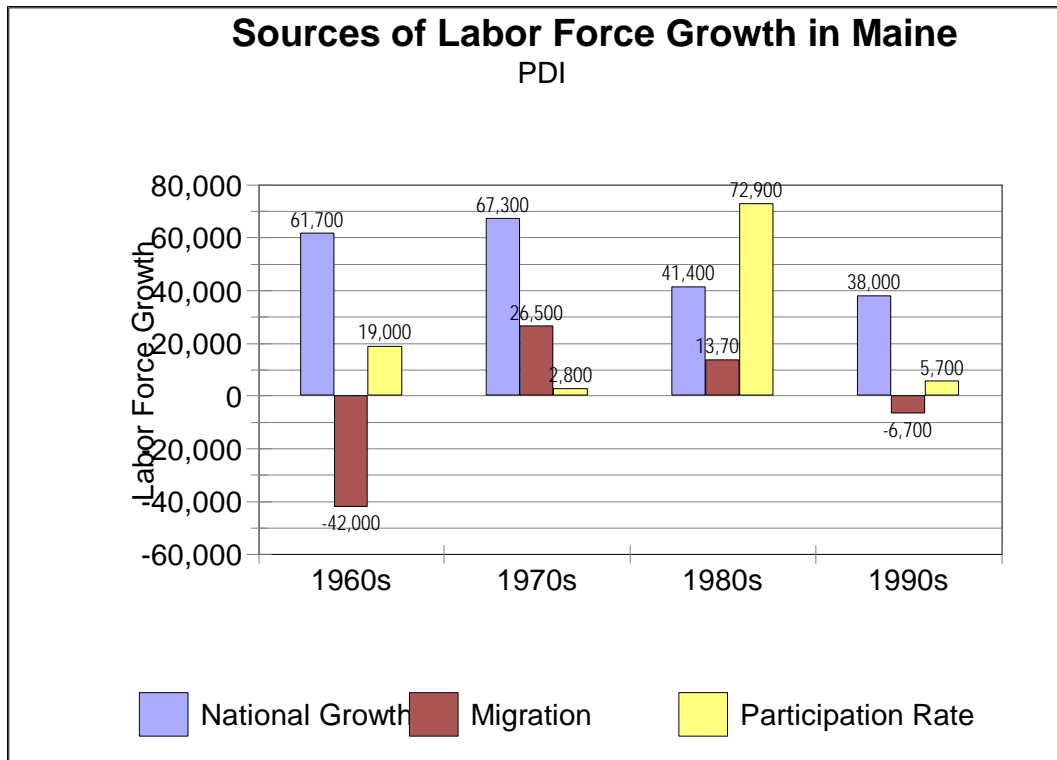


The chart shows that there has been modest job and labor force growth in Maine in the 60s and 90s, and significant growth in the 70s and 80s.

Why is it important for jobs to grow? Because it takes job growth to increase incomes in Maine. It just so happens that Maine's personal income grew relative to the nation during the 70s and 80s, when there was significant job and

labor force growth, and fell relative to the rest of the country during the 60s and 90s, when there was not. The reasons for this association would take some time to explain. For our purposes, it is only necessary to understand the bottom line – without continued job and labor force growth, Maine's incomes will continue to lag behind.

Now let us look at the labor force growth more closely. It does not all come from “natural growth,” namely, the entry of young people into the labor force (less the retirees leaving). There are two other sources as well. The first is the historic increase of labor force participation; in other words, the likelihood that an individual adult in Maine will be in the workforce rather than at home. The second is the net in-migration of workers.



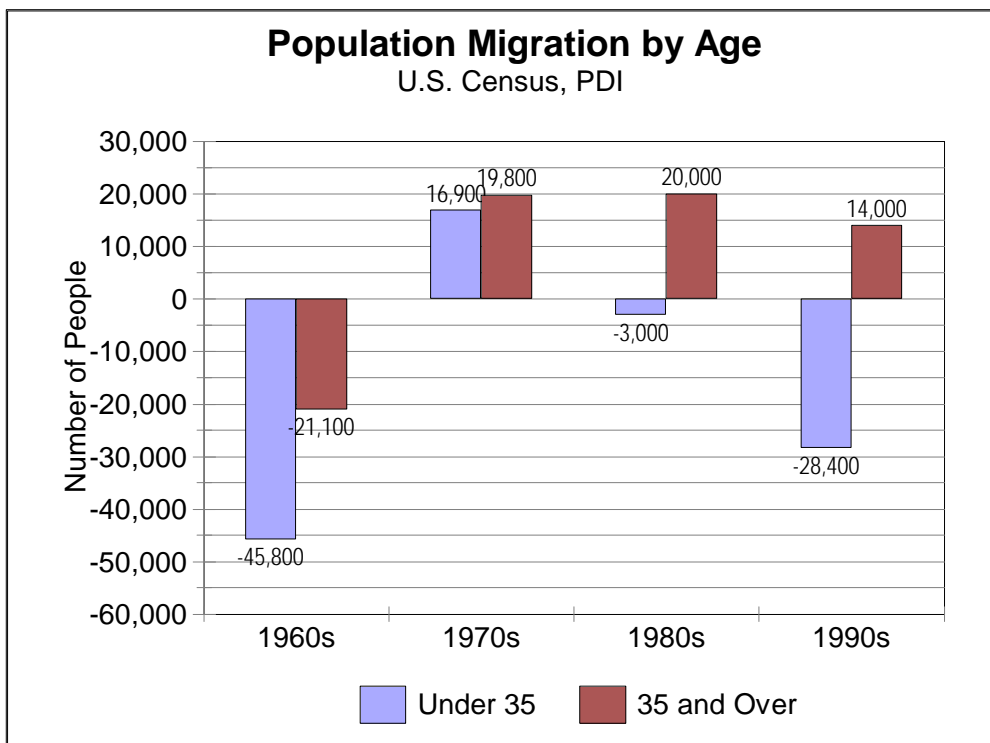
In the 1960s Maine had a net labor force growth of about 40,000 workers. This was largely from natural growth. In fact the state had a net out-migration of 42,000 workers in that period. During the 1970s the “back-to-the-land” migration turned the numbers around. Maine’s total labor force grew by nearly 100,000. In the 1980s the in-migration tailed off, but worker participation rates grew dramatically. The big change was the move of Maine women into the workplace. Participation accounted for half of Maine’s labor force growth of 128,000. In the 1990s Maine’s labor force grew slowly. Because of a lower birth rate, natural growth has fallen off. Because most women (and men) are already working, there aren’t many workers still back at home.

If current trends are maintained, Maine’s labor force growth will be even slower in the next ten years. Natural growth is projected to provide about 30,000 workers. Participation rates are expected to remain stable, which removes this as a source of labor force growth. That leaves migration. Unless Maine can do

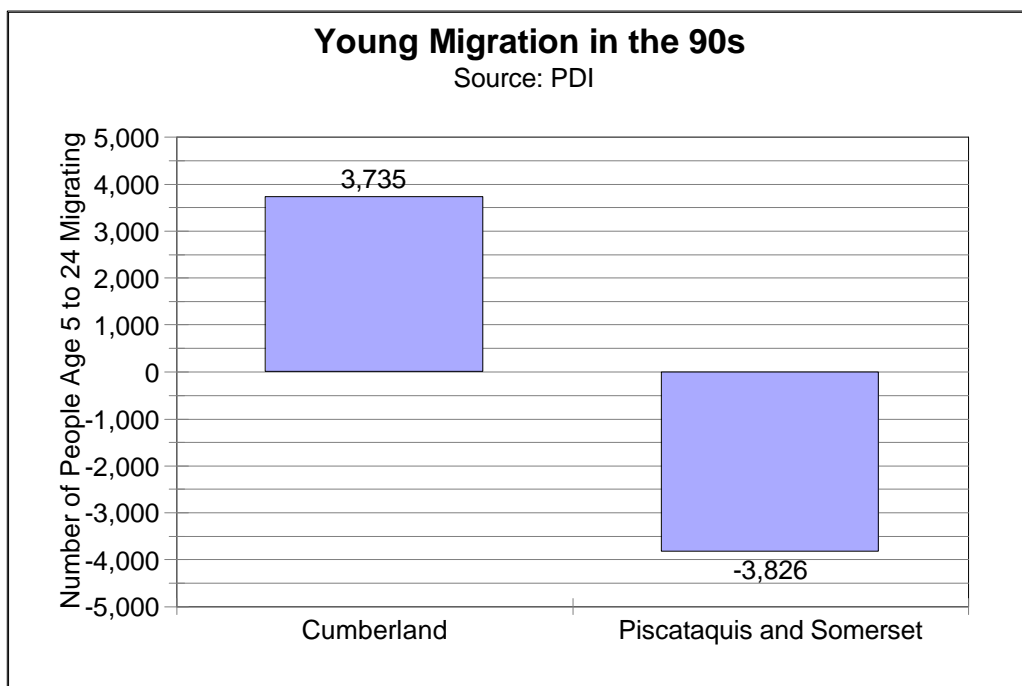
better in attracting in-migrants – especially young people – it cannot expect much economic growth or improvement in incomes.

This is the reason why the discussion in Bangor last year was perfectly rational. Making Maine an attractive place for young people is indeed a key to our economic future.

Unfortunately, Maine’s past record of attracting the young is not good. The in-migrants we do attract are more likely to be retired than to be young. Only in the 1970s, during Maine’s brief stint of popularity among the young, has the state had a positive in-migration of people under age 35. During the 1990s Maine lost nearly 30,000 young people.



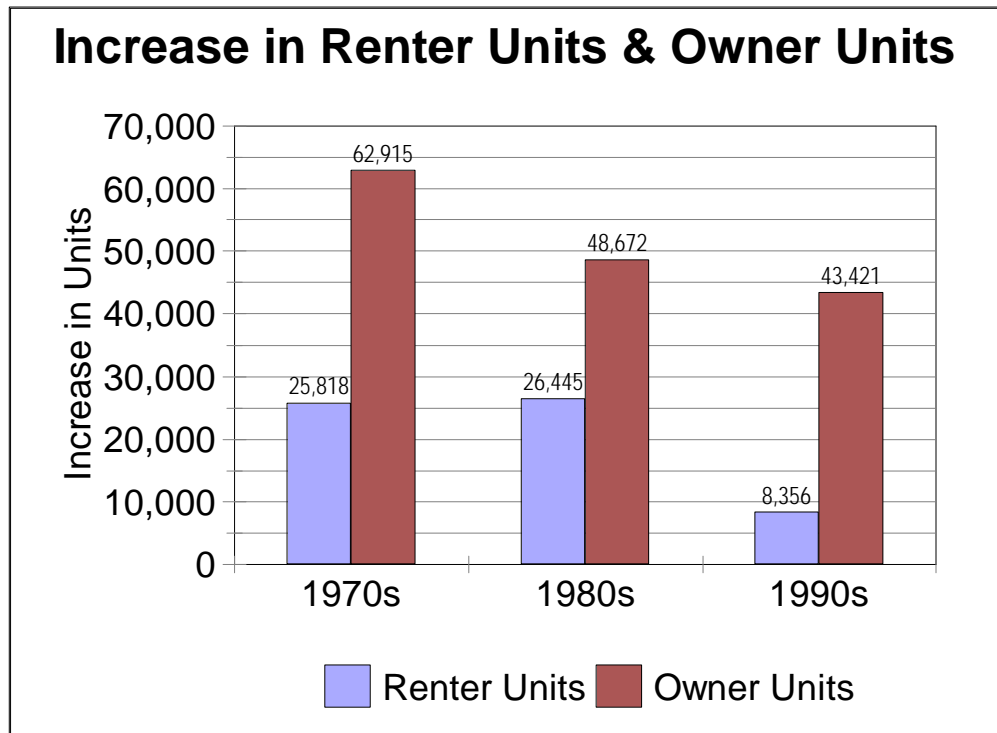
This is the big picture. If you dig a little, you see that not all young people move out of Maine. Many move to Greater Portland. Cumberland County had a net in-migration of people under 35.



What does it take for Maine to do better in attracting young people? The data on Cumberland County offer a hint. Young people are not looking to live in the forest or on a lake – though it’s nice to have them nearby. They are seeking good-paying jobs, the intellectual stimulation of a university, and the experience of night life. University of Maine Professor Emeritus Louis Ploch and State Planning Office analyst Joyce Benson have found as much in their twenty-year survey of Maine in-migrants. They found that while older in-migrants value the environment and small town atmosphere, younger in-migrants tended to be moving towards jobs and schools.

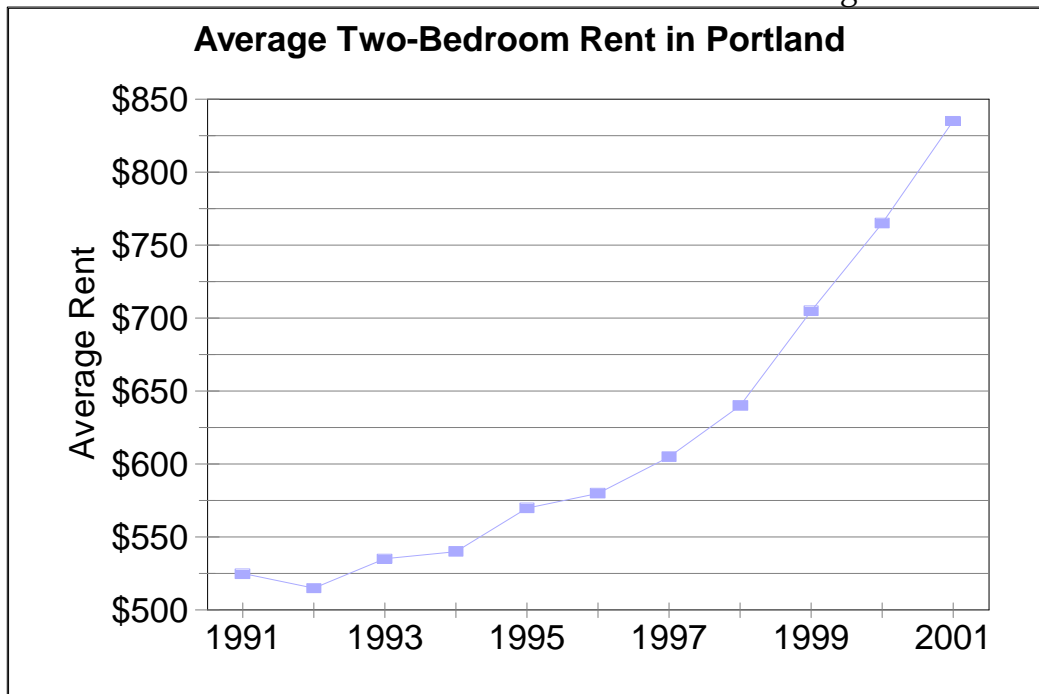
And when they come here, where do they live? Now, finally, we’re getting to the housing part of the story. Young people mostly live in apartments. In this respect they are different from older in-migrants. Young households are mobile, they don’t expect to settle down, they like to live where the action is. Half of households (52%) under age 35 in Maine live in apartments. Only one in five (22%) older households are renters.

So how is Maine doing in meeting the housing needs of young households? Take a look at the 1990s. In this last decade the construction of apartments in this state virtually came to a standstill. If you take out assisted living apartments, there is little left. Notice



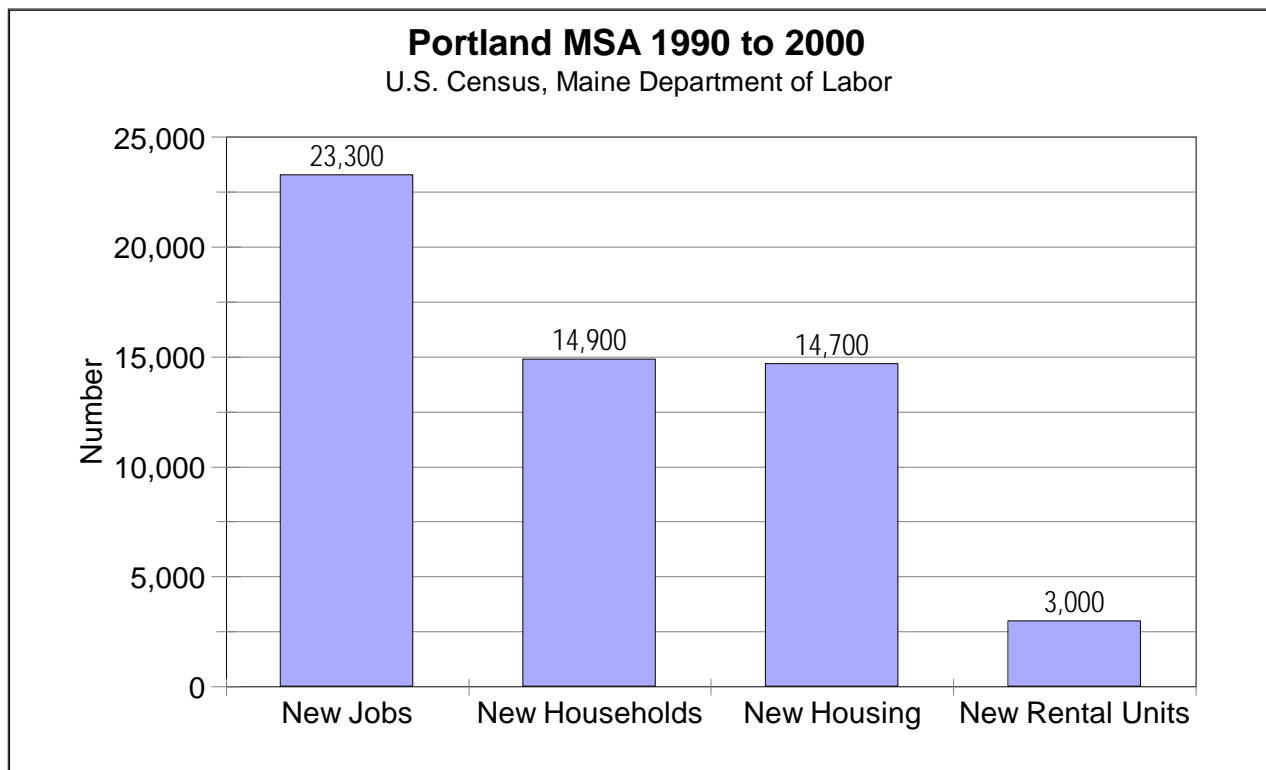
that in the 1970s, when Maine had a net in-migration of young households, Maine added around 25,000 rental units.

When you have jobs and young people coming to an area, like Cumberland County, and no new apartments are built, the consequences are predictable. Supply lags behind demand. Vacancies go down. Rents go up. The average rent for a two-bedroom unit in the Portland area has gone from around \$500 to



around \$850 in the course of ten years – a 70% increase. For young people, strapped with expensive student loans to repay already, this is a major deterrent.

Two years ago Erin MacLean of the Signal Group wrote in The Maine Policy Review that “developers are finding that new market-rate housing is too expensive to build in Portland” and that “the lack of moderately-priced housing has affected local business owners as well, who report they are finding it difficult to hire workers in the \$8 to \$15 range.”



Since she wrote these words, things have not improved. In 1999 and 2000 the State of Maine ranked last among the 50 states and the District of Columbia in its rate of multifamily construction per capita. It was one-fourth of the national average, and one-twelfth of the rate of the highest state, Nevada. In an economic system, when one of the components gets more and more out of whack, eventually the whole system suffers. Greater Portland has been the engine of Maine’s economy during the 1990s. Nearly half of the state’s job growth from 1993 to 1997 took place in this region.

In the last ten years, there were 23,300 new jobs created in Greater Portland. Yet during this same time only enough housing was built to support 15,000 new households. Further, of these, only 3,000 were rental units.

This situation can’t continue forever. Right now the housing shortage in Greater Portland is aggravating sprawl – people are moving further and further

into the countryside to find an inexpensive plot of land. But just as a sudden oil price increase has taken the air out of the national economy several times in the last few decades, so increasing housing costs eventually take the air out of a regional economy. The high cost of housing in Boston and San Francisco was one of the factors that contributed to ending the high-tech boom of the 1980s.

To recapitulate this point – Maine’s economic success in the next ten years will depend largely upon our ability to attract and retain young workers. Young workers want to live in apartments. Right now we’re not building them. If we want the economic growth in southern and coastal Maine to continue, if we want it to spread to other parts of the state, we must create new apartments in lively urban neighborhoods.

2. Neighborhood stabilization and improvement as a property tax strategy

Building housing for workers is an obvious economic development connection. But there are more subtle ways housing contributes to the economy of Maine’s cities and towns.

One way housing helps is by building the property tax base. This is little understood by local officials. The conventional wisdom is that new houses bring new children, which in turn create new school-related expenses. The conventional wisdom would be right except for one thing – the school funding law. The school funding law changes the rules. For cities and towns with declining school populations, and fixed school costs, new housing development can help keep the tax rate down.

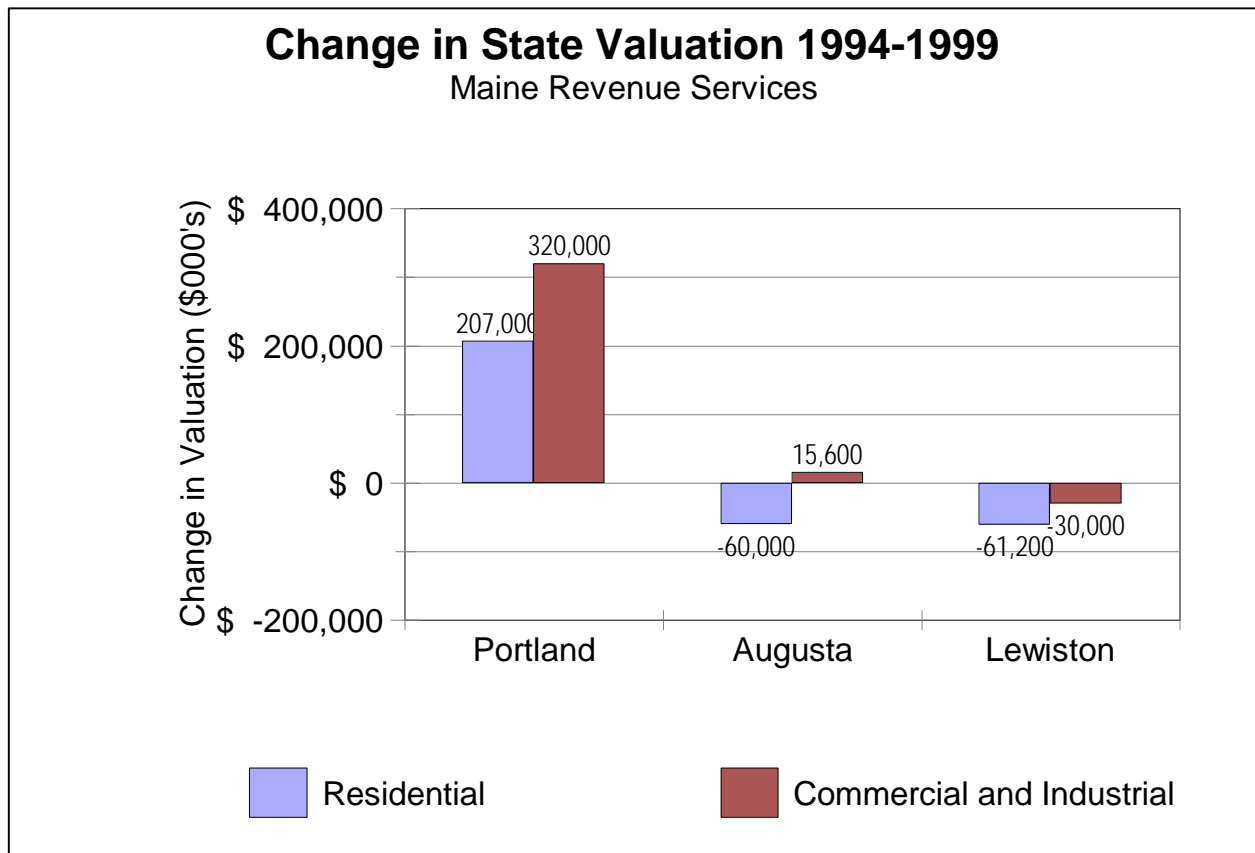
Planning Decisions did a comparison of property tax increases in slow-growing, medium-growing, and fast-growing communities in Maine between 1985 and 1995. We found that school property taxes per household went up the most in slow-growing communities.

Now I want to be clear about this. During this period property taxes per capita nearly doubled during this period. Everyone was paying more. We simply found that those towns which had more residential development had a slower rate of school property tax increases.

What this means is that new housing is not just good for families and good for economic development. It can also help with the property tax burden.

Let’s look at the other side of the property tax coin. Sometimes cities and towns get so focused on industrial and commercial growth that they miss the forest for the trees. Take a look at the state-adjusted change in valuation for Augusta, Lewiston, and Portland between 1993 and 1999. Portland gained in both residential and commercial values. But in Augusta, for every dollar gained in commercial and industrial property, the city lost money from the decline in

value of the residential stock (note: commercial includes apartment complexes with 5 or more units, which may partially explain the decline in commercial values in Lewiston). To put it another way, had Lewiston and Augusta ignored commercial and industrial development entirely, and simply been able to find a way to preserve the value and desirability of their neighborhoods, they would be just as well – or better – off today.



Of course, speaking as someone whose firm has worked on development projects in both Augusta and Lewiston, I can affirm that both cities are working hard to preserve their neighborhood values against great odds. My point here is simply that housing preservation is just as important for the property tax rate as is industrial development.

3. Retirement housing as an economic development strategy

Earlier we looked at a table that showed how, in the 1990s, Maine had a net out-migration of young households, and a net in-migration of older households. The accompanying narrative was about how to turn around the negative out-migration of the young.

Now let's consider the table from the point of view of an opportunity. That is Maine's continued success over a thirty year period in attracting older households to move here. Ploch and Benson report that quality of life issues, natural beauty, and small-town values are more important to older families than to younger ones.

Here is an area where Maine's natural assets, and national demographics, are both working for us. Here – unlike the case of younger households – we have the assets the people are looking for in place. And here the demographic group will be doubling in the next thirty years – unlike the young.



Maine has already over 3,000 retirement apartments, cottages, assisted living units, long term care beds, and Alzheimer's units, according to the publication "Retiring in Maine." Most were developed in the last ten years. These units have an estimated rent and maintenance expense of about \$75 million a

year. This in turn, circulating through the Maine economy, alone would sustain 3,400 jobs and \$200 million in total retail and service sales. The Maine State Planning Office reports that one state has found that every retiree household has the economic impact of 3.7 factory jobs. This is, by the way, a recession-proof industry – retiree spending goes on regardless of the business cycle.

The Retirement Industry Advisory Council has made recommendations on how to improve cultural and volunteer opportunities, the tax climate, and housing finance programs to encourage this housing in Maine. Many of the quality of life improvements called for in the report would enhance Maine's attractiveness to in-migrants of all ages – including the young.

This is a housing opportunity where Maine can build on what is already a successful economic sector here.

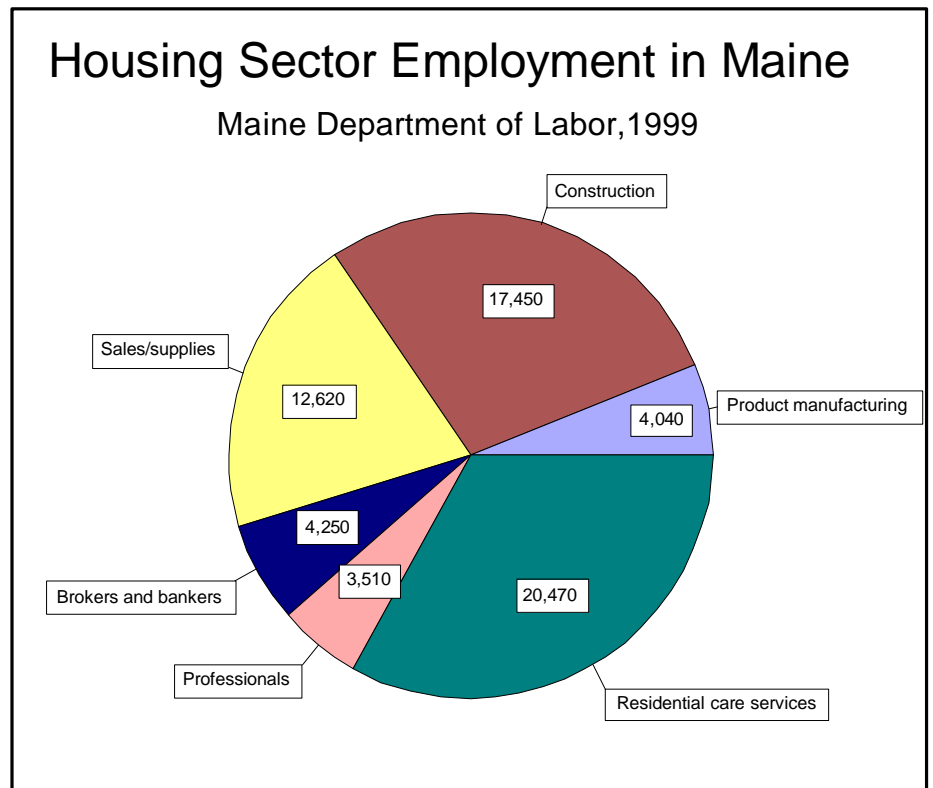
4. Building up the construction industry

The housing sector is already a major employer in Maine. There are over 4,000 people engaged in manufacturing housing-related products – mobile homes, concrete blocks, carpets, cabinets, and the like. There are another 17,000

engaged in hammering, wiring, plumbing, papering, plastering, roofing, drilling, and digging in Maine. Then there are 12,000 who buy and sell lumber and hardware and home furnishing supplies. Another 4,000 are brokers or bankers. Another 3,500 are architects and engineers. And 20,000 provide services to residents in nursing or boarding or residential care homes. In all, one in nine workers is in the housing sector.

Jobs in the housing sector are open to people with all levels of experience and formal education. Generally they offer a ladder of advancement based on effort and skill. In this respect housing is one of the most “democratic” of professions.

The vast majority of jobs pay higher than what the Maine Economic Growth Council characterizes as a “livable wage” in Maine, which in 1999 was a little more than \$20,000 for an adult with a dependent child. That year house painters in Maine made an average of \$26,000; plumbers \$32,000; loan officers \$46,000; and architects \$49,000. Even planners and market analysts, I’m pleased to report, earned around \$40,000.



The worsening affordable housing crisis in southern and coastal Maine, and indeed in all of New England, offers the silver lining of an opportunity for economic development. It represents an opportunity for Maine’s already-successful housing businesses to expand and hire more people. Manufactured housing, for example, will certainly be part of the affordable housing picture for years to come. Why not work with the firms in Oxford County to develop solutions that can not only work in Maine but also be sold beyond our borders?

There are also untapped markets within Maine. Last year \$1.7 billion in building supplies were sold in Maine, generating over \$80 million in sales taxes. That’s a lot of money. Yet past research would indicate that it could be much more. About ten years ago our firm surveyed homeowners in the midcoast area, and found that they undertook only about a third of the home repairs they said

they wanted to do. The reasons they gave for inaction included the lack of contractors, the lack of quality guarantees, inordinate time delays, and lack of money. From an economic standpoint, the money not being spent on housing is being spent on something else – perhaps cars or boats or vacations, most of which take the money outside of the state. Why not professionalize home repair services and expand the labor supply, and keep the spending in state?

5. Building Neighborhoods and Communities Instead of Units

The examples above have dealt with specific opportunities – building apartments to attract the young, preserving neighborhoods, promoting retirement housing, encouraging housing businesses. There are many others that could have been discussed as well – such as employer-assisted housing, downtown revitalization, energy-efficient housing, and inclusionary zoning. But at this point I would like to deal with a more general point which applies to many current issues in housing.

To do this we must return to the idea the report begins with, namely, that housing is part of a larger context, a piece of a larger picture. The vocabulary we in the housing business use does not reflect this reality. We talk about ourselves as people engaged in producing units. This is a factory metaphor, used by managers to describe how many identical widgets have come off the assembly line. I would urge that we instead describe ourselves as in the business of building neighborhoods, or building communities.

The difference between building units and building neighborhoods is easily visible. You can see with your own eyes when a developer has done a cookie-cutter subdivision or apartment building that is unconnected to the houses and buildings all around, that could be in Anywhereville, USA, and just happens to be on this spot. This is adding units without building neighborhoods. On the other hand, when you see houses connected visually and in style and scale with the community around it, then you are a developer who is building a community.

Too many units have been added to Maine in the last twenty-five years, and not enough neighborhoods have been built. If you look at the vital neighborhoods in Maine's cities, the vital centers of rural towns, most were built many years ago. If you think of what is special about Maine, the special quality of life and community, few of the newer subdivisions come to mind.

In this respect, we have to take some responsibility ourselves for the rise of the Not In My Back Yard syndrome. We have not given the public enough reason to trust that what we propose to do will be good for the neighborhood. This is not the entire reason, of course, and this is no reason to cave into the selfish resistance to affordable housing which is becoming so prevalent. The short-term answer to the NIMBY phenomenon is something like the anti-snob zoning

law that has been very effective in Massachusetts. But the long term answer is to improve the quality of the housing we create, to use housing development to build rather than detract from existing neighborhoods and communities.

The people who understand this best, today, are the retirement housing developers. A year or so ago I visited Sun City in Hilton Head, South Carolina, to see how one puts together a new community of 40,000 people in a matter of a few years. What interested me about my visit is that the marketing pitch went on for two hours before a house was ever mentioned. They toured people around on golf carts to see recreational facilities, cultural centers, activity rooms, bus tour availability, and so forth – and after two hours of this, they visited a sample house. Sun City is in the business of selling a lifestyle, not a home.

Likewise, when a young family looks for a home, they are looking for the whole complex of things I described earlier – walking and biking paths, quality schools, environmentally sensitive landscaping and building materials, diverse and interesting neighbors. A house purchase is a lifestyle choice.

That's why we need to be building more than housing units. Several concepts are floating around about what is called for. Evan Richert of the State Planning Office calls for the "Great American Neighborhood." Carla Dickstein at Coastal Enterprises Inc. calls for "sustainable housing." The details matter less than the fact that both are placing housing in a broader social context. They are reflecting a hunger out there for something more.



In the end, the best thing that housing developers can do for the Maine economy is to build good housing. That represents good household management, or "economics," and is something that even Aristotle would recognize.