Guest Editors' Introduction

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When we first started planning for the conference that yielded this themed issue of *Housing Policy Debate* on "Housing and the New Economy," the Dow Jones Industrial Average was close to 12,000, the NASDAQ was just under 5,000, recessions had been relegated to the scrap heap of economic history, and housing prices seemed as if they could move in only one direction—up. What a difference 18 months makes!

Yet what interested us then—and interests us now—is the connection between the structure of metropolitan economies and housing market outcomes. Over the past 50 years, metropolitan economies have grown more alike and more different at the same time. The changes to the economic base of the United States that have occurred in the past 25 years (the new economy) and since World War II (the postindustrial economy) have resulted in the convergence of certain conditions while at the same time producing a diversity of local economies. On the similarity side, almost all metropolitan economies have seen substantial job growth in their service and retail sectors. Many have also seen large increases in tourism and convention-oriented business activity. On the dissimilarity side, there has been a noticeable divergence in the forces driving metropolitan economies.

Fifty years ago, the United States consisted of a few international metropolitan statistical areas (MSAs) such as New York and Chicago; two dozen or so manufacturing-based MSAs such as Detroit and Pittsburgh, each producing particular durable goods for national consumption; and a hundred or so regional and subregional service, financial, and distribution centers. Most major metropolitan economies were dominated by a few large manufacturing or financial corporations, each having what appeared to be an overwhelming competitive advantage in its own industry. Technological advancement meant improvements in production efficiency, mostly through increased mechanization and automation.

Today, technological advancement occurs in every industry and business sector through the continuing integration of information into all forms of economic activity, whether production or consumption. Today's system of U.S. MSAs consists of international finance and advanced service centers; durable goods and high-technology production centers of all types; media, content, and education centers; and regional distribution and government centers. Significantly, many individual MSAs play multiple roles in the U.S. and international economies.

This proliferation of metropolitan economies has been accompanied by increasing differences in housing market outcomes. Thirty years ago, the median price of housing in constant dollars in the nation's most expensive MSA (San Francisco) was only 2.5 times that of the least expensive MSA (Jacksonville, FL). Today, the median price ratio between the most and least expensive MSAs is 5.2. Thirty years ago, the difference in the price-to-income ratio between the highest and lowest MSA was 1.7, whereas today it is 2.5.[1] Thirty years ago, housing overpayment and overcrowding were on their way out as national housing policy issues. Today, they are back, but only in selected markets—typically those characterized by high rates of population growth and lower rates of housing construction. High cost burdens are much more common today in all types of markets than they were 30 years ago.

To what extent is the differential evolution and diversity of metropolitan economies responsible for the proliferation of housing market outcomes? Do new economy housing markets function differently from those associated with older economies. If so, why? And does the increased variety in housing outcomes and dynamics require a new way of thinking about housing policy, whether at the national, state, or local level?

On May 30, 2001, a hundred or so planners, economists, government officials, researchers, and housing policy analysts convened at George Washington University in Washington, DC, under the sponsorship of the Fannie Mae Foundation, to consider these questions.[2] This issue of *Housing Policy Debate* includes many of the papers presented at that conference.

The first two articles address how sectoral and demographic shifts affect metropolitan housing markets. "New Economy Housing Markets: Fast and Furious—But Different?" by John D. Landis, Vicki Elmer, and Matthew Zook explores the effects of metropolitan industrial structure and the presence of knowledge-based and high-technology industries on a variety of housing market outcomes:

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[1] These data compare the 48 MSAs (not including San Juan, PR) that had a population of one million in 1998. Interestingly enough, the various rankings have not changed much for most MSAs in the past 30 years—only the differences between the top and the bottom have altered. There are some exceptions, of course.

[2] The conference was sponsored by the Institute of Urban and Regional Development and the Center for Housing and Urban Economics at the University of California at Berkeley, the George Washington University Department of Economics and its Center for Economic Research, and the National Association of Home Builders, which held the conference as part of the midyear meeting of the American Real Estate and Urban Economics Association in Washington, DC.

- Housing transactions and activity levels: specifically, changes in median home prices

- Housing welfare outcomes, including homeownership rates, cost burdens, and overcrowding

- Housing equity measures, including intrametropolitan changes in the distribution of housing values, rents, and expenditures

The authors start with the assumption that the greater liquidity present in new economy MSAs, as well as resident preferences for slower growth, are likely to contribute to higher housing prices, greater price volatility, higher cost burdens, potentially reduced homeownership, and greater inequities. They find that while prices are higher and price volatility is indeed greater in new economy markets, other housing outcome indicators are more in line with traditional explanations of housing market activity.

The second article, "The New Demographics of Housing" by George S. Masnick, describes four broad demographic themes that will drive housing market demand during the coming decades:

- Increases in the number of foreign-born residents

- A substantial shift in the ethnic makeup of both urban and suburban populations, caused by differences in age structure between whites and minorities

- The continued aging of the baby boom generation, resulting in a proliferation of housing type and location preferences

- Continuing declines in the share of married couple households, with and without children

The first of these trends, Masnick suggests, will occur differentially among new economy and old economy metropolitan areas. The other three will occur more widely. At the national level, the rental housing market will be more affected by these trends than the ownership market, although local variations will dominate national trends.

The next three articles explore particular aspects of the interaction between the new economy and housing markets. Stephen Malpezzi's "Urban Regulation, the 'New Economy,' and Housing Prices" looks at the relationship between high tech and regulation. He finds that amenities and climate have little systematic effect on whether a region is high tech. Regions with strong educational systems and a hub airport are more likely to have a high-tech economy, although the urban regulatory regime is not correlated with the degree of high tech in the metropolitan area. Malpezzi finds that housing prices are affected by regulation as well as by demographics. High tech adds little to the explanatory equation for 1990 housing prices, but was a substantial driver of 2000 prices.

In “Can We Explain the Santa Clara County Housing Market?” Richard K. Green further explores housing prices in Silicon Valley, a major player in the new economy, and evaluates whether stock wealth has been responsible for the recent run-up in housing prices in the county. Although three different measures of the stock market add explanatory power to his housing price model, none of them predicts the housing price increases seen in Santa Clara County in 1999 and 2000. In fact, the stock market does not explain a great deal of the price variation. Green notes that the initially high prices in Santa Clara County are due to the extraordinarily low user cost of housing caused by the interaction between high incomes and the tax deductions available to homeowners.

In their article entitled “Automated Underwriting in Mortgage Lending: Good News for the Underserved?” Susan Wharton Gates, Vanessa Gail Perry, and Peter M. Zorn document the effectiveness of automated credit scoring and underwriting—two products of the new economy—in providing affordable mortgage capital to previously underserved households. These authors find that automated underwriting provides substantial benefits to consumers, particularly those at the margin of the underwriting decision. They also find evidence that automated systems more accurately predict default than manual underwriters do and that this increased accuracy results in higher borrower approval rates, especially for underserved applicants.

The final two articles address the special housing needs of working families and low-income households and how they may be affected by the high-tech economy. The first of these, “Does a High-Tech Boom Worsen Housing Problems for Working Families?” by Roberto G. Quercia, Michael A. Stegman, and Walter R. Davis, evaluates what factors, including a high-tech industrial economic base, affect whether families have critical housing needs, defined for the most part as whether a family pays more than 50 percent of its income for housing. These authors find that, regardless of tenure, the level of high-tech activity positively and significantly impacts the incidence of critical housing problems for all households and for moderate-income working households as well. These effects are over and above employment growth in the metropolitan area.

The last article, "Housing Needs and Effective Policies in High-Tech Metropolitan Economies" by Kathryn P. Nelson, asks whether "winners" and "losers" in high-tech competition require federal housing strategies geared to metropolitan differences. She finds that on average, high-tech economies are those where finding affordable housing was more difficult for low-income renters and owners in the 1990s. However, she also finds that high-tech metropolitan economies, like other regional markets, vary greatly in local housing market conditions and dynamics and concludes that the sharp differences observed among and within metropolitan housing markets make it essential that state and local housing policies respond appropriately to current local conditions. She recommends that federal policy target scarce resources through a menu of programs that permit and encourage local choices.

In sum, all of the articles in this issue conclude that while relationships between particular metropolitan industrial structures and housing market outcomes are transitory, the relationships among metropolitan economic growth, population growth, increasing housing demand, and in some locations, preferences for slower growth are more fundamental. Thus, the higher housing prices, rents, and burdens associated with new economy housing markets stem more from their fast and recent growth than from their sectoral or industrial composition.

Many people contributed to the success of the Housing and the New Economy Conference and the resulting quality of these articles. Robert Lang, formerly of the Fannie Mae Foundation, deserves special thanks for supporting our efforts and encouraging us to explore the many ways the new economy affects housing supply and affordability. John Quigley's assistance in conceptualizing the theme of the conference and providing needed contacts was invaluable. Karen Danielson and David Crowe of the National Association of Home Builders and Anthony M. J. Yezer of the Department of Economics at George Washington University provided cosponsorship and logistical support, as well as intellectual encouragement, for the conference. Barbara Hadenfeldt and Paul Nguyen of the Institute of Urban and Regional Development at the University of California at Berkeley made sure that people were indeed where they were supposed to be with paper and presentations in hand. We thank all of the conference presenters, commentators, and participants. Most of all, we thank our contributing authors for their graciousness and ever-favorable reactions to our comments, suggestions, and requests for "just one more draft." The new economy may make the editors' job easier, but it makes the author's job harder.

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