

Housing in Rockville

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As in the rest of the country, Rockville has had a housing bubble that has burst. Beginning in about 1999, the average market value of homes increased 270%. It peaked in 2006 and then began to fall. The graph shows this rise and fall of the average market price in Rockville. The current value is about where it was in 2004. Four thousand

homes were purchased in 2004, 2005, and 2006. In addition to those at risk from declining prices are those homeowners who refinanced their homes based on the elevated market values. Nationally, about 18% of homes and 38% of those that took out a second mortgage are underwater (owe more on the mortgage than the current market value). It is difficult to sell these houses now without incurring a financial loss. The future does not look bright for a quick market recovery. The graph shows a dashed line extrapolating current trends. If this is what happens then

market values will be down to what they were in 2002. This is the case in most American cities. If this occurs in Rockville, an additional 2800 homes will be placed at risk. The shape of the bubble is replicated in most cities in the nation. See the Case-Shiller data at bit.ly/kpPfuN, especially the dashed curve in the second graph.

There is only land available in the city for a couple of dozen more single family homes and these are quite expensive. A number of apartment buildings have been built recently. Sales of condominiums were slow and most are now available as rental units, Briefly put, the market for homes is bad. Because of the prospect of foreclosures that have yet to be put on the market, it looks like it is going to get worse before it gets better. Rockville prospers from incomes derived directly or indirectly from federal government activities. Severe budget cuts proposed in congress would have a marked effect on Rockville.

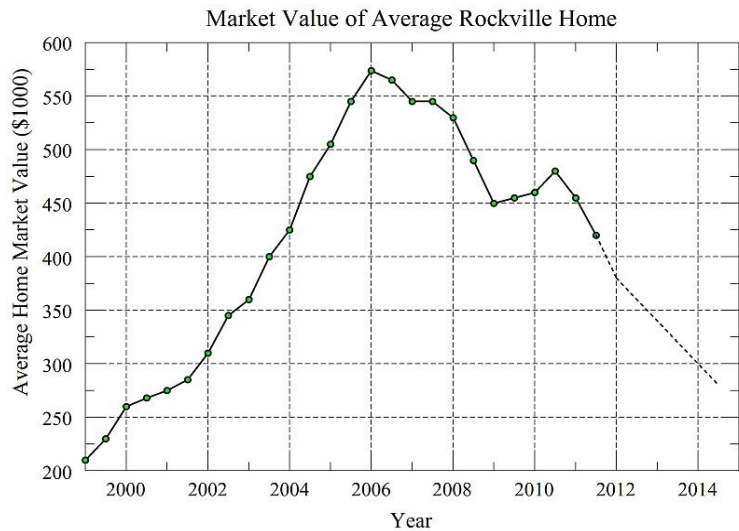
The Adequate Public Facilities Ordinance (APFO) stipulates that if the student population of a school is greater than 110% of its core capacity then residential construction of homes in Rockville is prohibited for the area that would feed students to that school. This is now true for a large area of the city. The imposition of a moratorium is intended to reduce the supply of new students into the school system. Can the enforcement of this law reduce the student population?

The remainder of this report will lay out the factors involved:

- 1.) An adequate supply of resale homes and rental units available to new residents
- 2.) The birthrate of the current population and new young families

The city grew at the rate of about 1000 people per year for the last ten years, It seems likely that it will continue at this rate for the next ten years because of the continual creation of available resale homes. These homes arise from several sources. In relative importance they are: 1.) natural turnover of population, 2.) mortality, and 3.) foreclosures.

A previous report (Voter List Analysis) closely examined the turnover in the population as revealed



in the registered voter lists released by the city for February 2011. Comparing this list with the voter list used in the 2009 election, we see that there are about 3000 new registered voters added and about 2000 voters lost per year for a net gain of 1000 new residents in the city each year in agreement with the observed growth rate for the last ten years.

Housing for the new residents is generated by the vacancies generated by those leaving the city (including deaths) and by foreclosures. The average age of those leaving the city is 52 and the average age of the new residents is 40. About 30% of those lost to the voter rolls probably died. The turnover in the population thus represents a new generation with new child bearing potential. As shown in the report "Births and Deaths in Rockville," we now have an increase in the first grade population of about 4% per year from babies born to Rockville residents. The constant influx of new young families will maintain that growth rate without any increase in new housing.

Although not shown in the voter lists, many of the young families will no doubt also be bringing their already born children. The following table shows the distribution of elementary school children in the city schools. The table shows the rate of growth of the different groups. The data in the table show an average growth rate of 3.7% in agreement with the birth rate growth of 4%

Group	2010	Additional	Rate of
	Students	Students/yr	increase
Asian	1387	70	5%
Black	707	13	2%
Hispanic	943	94	10%
White	2065	12	1%

The APFO goal is to reduce the student load by putting a moratorium on housing construction. But this cannot succeed. The turnover in population provides enough resale housing to accommodate the new families moving in. The natural birth rate of the resident population plus any new children moving into the city will assure that the school population will continue to increase in the near future.

For the near future, at least, the APFO does not play a significant role in the providing or denying housing for most new families coming to the city. As a long range policy the moratorium is not sustainable but for now it has no practical effect on the housing market and certainly not on the growth of the student population. Current economic conditions deny the resources or the motivation to build new residential construction. It is thus ironic that for the present it makes little difference to most people whether the moratorium is retained or not

Unfortunately that is not the end of the story. The official city publication on the city demographics "Strategic Scan, 2010" shows that Rockville has a deficit of affordable workforce housing of over 8000 units. Workforce housing is defined as costing no more than 30% of salary for 4-member families with yearly incomes between \$61,000 and \$102,000. The city currently has 2200 affordable housing units in the Moderately Priced Dwelling unit program. Clearly there is a need for many more. There is no barrier to adding more students if you rent an available apartment or buy an available house. So far, the APFO has been used to prevent the construction of workforce housing on the basis of the additional students that would be generated. Under the present circumstances, the only new students that have been excluded from the city are those that would have come from new affordable Workforce Housing. Is this a sufficient reason for keeping the APFO as it is?