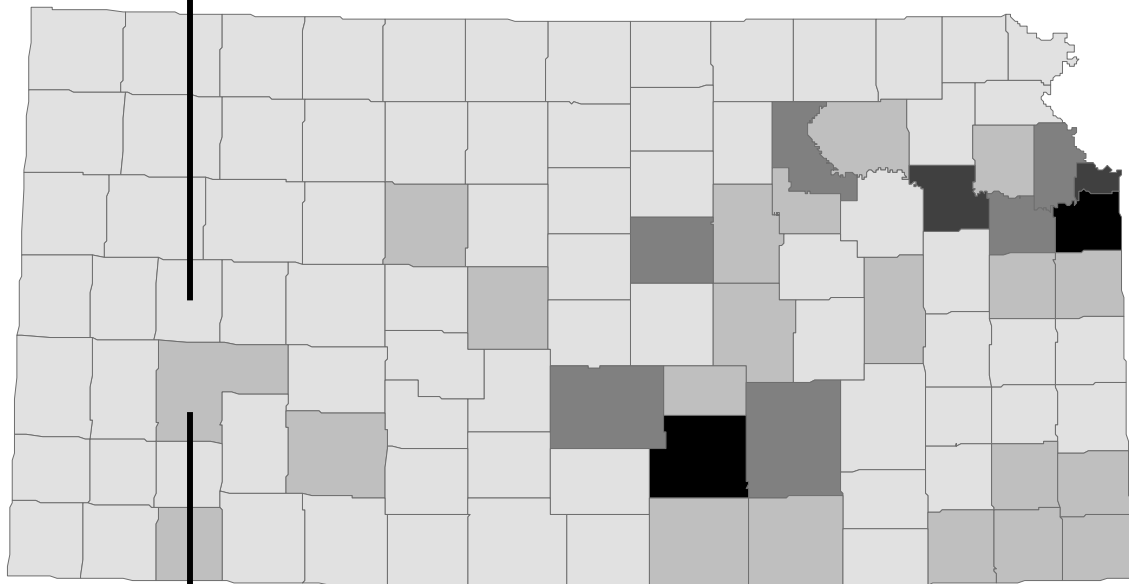


Presentation to  
**Kansas Catholic Conference**

## **Housing Needs in Kansas**



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**Question: *What are the housing needs of Kansas?***

Answer: Kansas is not one market, but many.  
These many markets differ one from another.  
The housing problems differ between markets, thus Kansas needs housing solutions that fit the intrinsic problems found in each market.

**Housing Economics**

Ultimately housing problems are a mismatch between the supply of housing and the demand for housing.

Demand is based upon the income of the residents.

Each household needs housing, but wants to spend only a reasonable percentage of its income on housing.  
Each household has made a decision to own or rent. This decision is based upon accumulated wealth (do they have the savings to make a down payment?), long-term plans (do they plan to stay in this location long enough to make owning worthwhile?), and simple preferences (do they hate mowing a lawn so much that they choose to rent an apartment?).

Supply is a function of providers' willingness to offer units in the market.

Landlords must own and offer rental units for rent.  
Owners must own and offer owner-occupied units for sale.

Principle of economics: Supply follows demand.

Supply does not create demand.  
"Build it, and they will come." This is a great line for baseball movies, but it is bad thinking when it comes to housing markets.

Demand must be present to cause suppliers to enter a market.

If the response of suppliers is too small, the supply will be scarce and prices rise.  
If the response of suppliers is too large, the supply will be in surplus and prices fall.

Principal of economics: Investment flows to the area of highest return on investment.

Suppliers will make investments where the return on investment is at or above the threshold that attracts their investment dollars.

Suppliers will disinvest where the return on investment is below the threshold necessary to attract their investment dollars. This will take the form of reducing maintenance expenditures, of selling units at a loss, or at the extreme, abandoning properties.

How do these principles play out in housing markets?

Demand for housing is what drives the housing market.

If the population of a market is growing, demand for that housing will grow, assuming the that the new members of the population will have some income that they can spend on housing.

If the population of a market is declining, demand for that housing will contract. As people leave a market, they do not take their housing with them. If too many houses exist for the remaining population, the supply is in surplus. Prices fall. Disinvestment occurs. The disinvestments is not just to the surplus of unoccupied homes but to all homes, as all homes are affected by the reduction in values.

**Examination of population trends in Kansas:**

Kansas witnessed 8.5 percent growth over the years 1990 to 2000. The nation grew by 13 percent,

Of the 105 counties in Kansas,

Decline	45
Grow	41
Stable	19 (within plus or minus 2 percent over the 1990s.)

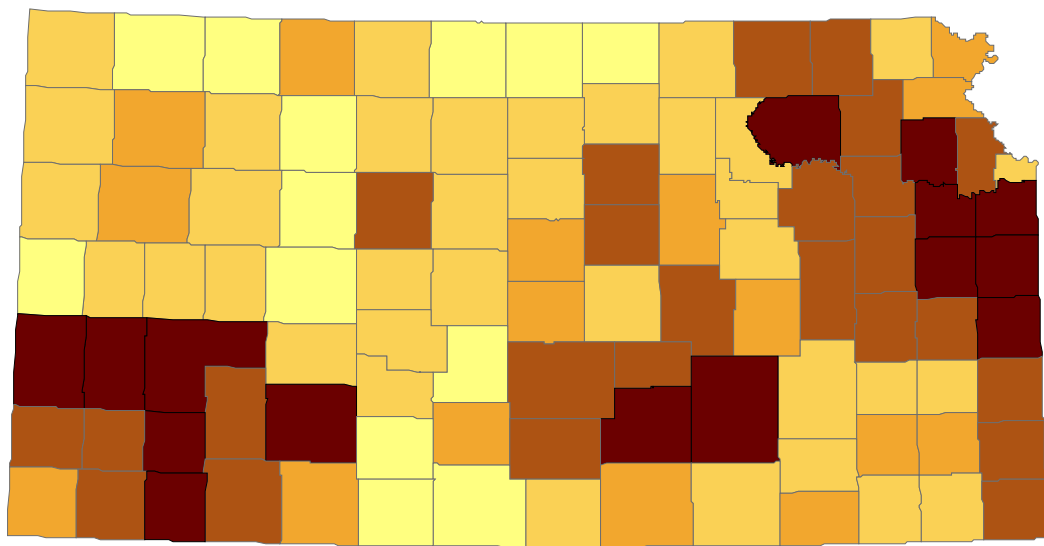
**Table 1.: Population Growth and Decline in Kansas**

	<i>Category of Population Growth or Decline</i>	
	<i>Number of Counties</i>	<i>Percent of Counties</i>
<i>Grew more than 10%</i>	16	15.2
<i>Grew 2 to 10%</i>	25	23.8
<i>Stable -2 to +2%</i>	19	18.1
<i>Declined 2 to 10%</i>	34	32.4
<i>Declined more than 10%</i>	11	10.5
<i>Total</i>	105	100.0

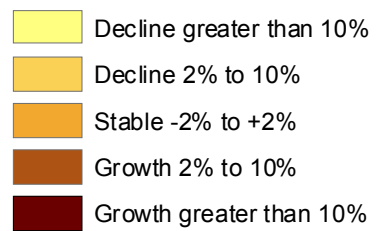
Source: Census 2000 and Census 1990

# State of Kansas

## County Population Growth or Decline 1990 to 2000



### County Population Growth or Decline 1990 to 2000



Source: Census of Population 1990  
Census of Population 2000

We have 105 counties in the State.

Fewer than one-half of the counties are growing.

Only 14 are growing at or above the rate of growth of the nation's population as a whole. Most of these are the "edge growth" counties.

Our most urban county, Wyandotte, is not growing. Another urban county, Shawnee, is growing but well below the national rate of 11 percent. However, Sedgwick is growing by 12 percent. This over all rate masks decline in certain urban neighborhoods and rapid growth in many suburban areas of the county.

Of the 14 growing counties, 7 are counties bordering onto urban areas. One is Sedgwick, an urban county.

The other 6 growing counties are the "meat packing" counties. Those counties in the southwestern area of the state are the home of the meat packing industry. This industry has rapidly increased its scale, attracting new immigrant labor to these markets.

At some level, the story of housing markets in Kansas is four separate stories.

1. **Urban decline.**

The white flight and capital flight that plagued our central cities in the 1950s and 1960s continues. Wyandotte County is the extreme case in Kansas with population decline otherwise only found in rural areas.

2. **Urban and Suburban expansion.**

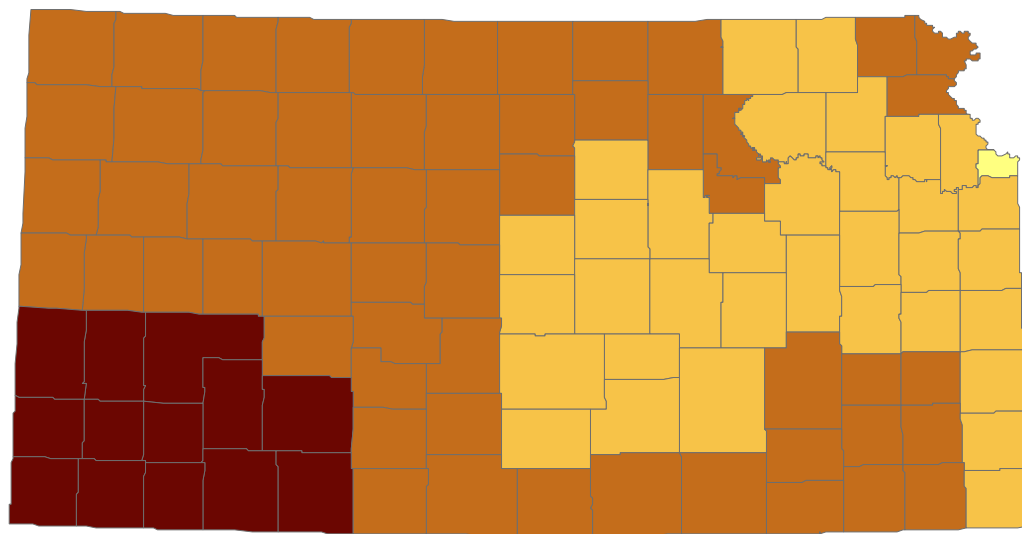
The suburbs are now larger than the central cities. Johnson, Douglas, Miami and the other suburban and exurban counties now contain more population than the older central cities they surround.

3. **Rural exodus.**

The movement from the farm to the factory that began decades ago continues in the form of movement from the rural areas to the suburban areas and to the employment opportunities provided there.

# State of Kansas

## Housing Market Category



### Housing Market Category

- Urban Decline
- Urban Expansion
- Rural Decline
- Immigrant Expansion

#### 4. Immigrant Expansion.

Driven by employment in a few sectors that make use of immigrant labor, notably the meatpacking companies, immigrants are coming to parts of Kansas to take up jobs. These new residents need housing.

### Measures of Housing Market Performance

We use the same measures of market behavior across the various housing markets to help us assess the right form of intervention. These measures are:

#### *Comparing population change to housing stock change.*

If population grows faster than the housing stock, shortages exist and prices rise.

If housing stock grows faster than population (or if population declines faster than stock contracts), surpluses exist and prices fall.

#### *Comparing growth in rents and home values over time with increases in incomes and inflation.*

If rents grow faster than incomes, then hardship results. Paying more than 35 percent of their income toward housing is deemed to be the standard identifying housing affordability hardship.

Similarly if home values grow faster than incomes, it is a gain to the existing owners as it adds to their wealth, but it is a burden to those households seeking to buy homes. This is especially true for low-income households who want to buy. Rapidly increasing house prices push the entry price of homes higher and higher, sometimes beyond their reach.

#### *Poverty is a problem in housing as it is in all aspects of our society.*

The amount of housing assistance offered by the federal government is sufficient to help less than 5 percent of the population (one in twenty households). Over 8 percent of the population lives below poverty, and about one-third is of low-income. If we do not have enough housing assistance to help all of the people below poverty, much less do we have enough to help all of the low-income population, then we must rely on the private sector to house the remainder without any assistance.

The private sector cannot both provide housing suitable for those who are in poverty and maintain that housing in good condition.

The rents and prices that the poor are able to pay do not provide revenues sufficient to keep housing in good shape and generate a reasonable return on investment.

Pockets of poverty are indicators of housing problems and a need for assistance.

**Table 2.: Housing Market Conditions in Kansas**

<b>Housing Market Indicators</b>	<b>Housing Market Type Average of County Values</b>				<b>State of Kansas</b>
	<b>Urban Decline</b>	<b>Suburban Expansion</b>	<b>Rural Exodus</b>	<b>Immigrant Expansion</b>	
<i>Percent Change in:</i>					
<i>Population 1990-2000</i>	-2.53	14.27	-4.11	16.33	8.51
<i>Housing Stock</i>	-5.77	14.99	-1.26	10.36	9.03
<i>Vacancy Rates</i>					
<i>Owner Occupied Housing</i>	2.98	2.05	3.61	2.36	2.47
<i>Renter Occupied Housing</i>	9.46	8.63	10.71	9.27	9.05
<i>Median Value Owner-Occupied Homes</i>	\$ 53,400	\$ 97,086	\$ 55,534	\$ 67,249	\$ 81,000
<i>Percent Change in Median Value</i>	27.75	61.62	61.87	40.68	56.37
<i>Median Gross Rent Renter Occupied</i>	\$ 492	\$ 534	\$ 382	\$ 555	\$ 498
<i>Percent Change in Median Gross Rent</i>	31.20	35.40	35.00	33.56	33.87
<i>Median Household Income</i>	\$ 33,784	\$ 45,314	\$ 32,517	\$ 38,095	\$ 40,624
<i>Percent Growth in Income</i>	42.07	45.11	48.69	44.52	48.85
<i>Percent Population in Poverty</i>	8.51	4.15	7.41	6.53	5.23
<i>Percent Paying 35+% of Income on Housing</i>					
<i>Owner Occupants</i>	8.51	4.15	7.41	6.53	5.23
<i>Renter Occupants</i>	29.39	26.38	24.71	23.53	27.19

Source: Census 2000 and Census 1990

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**What do we find from examination of these measures in Kansas?**1. *Urban decline*

Wyandotte County has suffered a 2.5 percent decline in population but a 5.8 percent contraction in stock. It is sad to see wholesale demolition of older homes, but this is essential to the preservation of the remainder of the housing stock.

If we are to stop the flight to the suburbs and attract people back to the city, we must stop the decline in value of homes. This means removing the surplus stock.

During the 1990s in Wyandotte County, incomes were up 42 percent (compared to 49 percent for the State). While lagging the State, this is still better than the growth due to inflation of about 32 percent. Thus, there has been some real growth in buying power. This has also meant a reduction in poverty. Poverty fell in Wyandotte County from 17 to 9 percent, while in the State it fell from 11 to 5 percent.

Rents increased by about the same rate as inflation (32 percent), while home values did not (28 percent).

About 9 percent of the owners in Wyandotte County paid more than 35 percent of income toward housing, and 29 percent of renters suffered this housing affordability hardship.

2. *Urban and Suburban Expansion*

Counties with suburban style expansion saw an 14 percent growth in population with a comfortable 15 percent growth in the stock.

Incomes are high at \$45,300, which is the highest among the categories of housing markets. Household income is not only high but growing fast in these urban and urbanizing counties. Average growth in household income is at 45 percent. Not surprisingly, poverty is lowest in these counties.

Given the high levels of income, the suburban markets have the lowest incidence of homeowners paying over 35 percent of income toward housing at only 4 percent. However, rents are not a bargain with 26 percent of renters suffering a housing cost burden.

### 3. *Rural Exodus*

The rural counties experienced about a 4 percent population decline and but only 1 percent stock contraction. This means that there is a growing surplus of housing. This is reflected in the low value of homes (\$55,500) and low rents (\$382) and high vacancy rates (11 percent rental and 4 percent owner). Note that nationally, housing market analysts expect rental housing to be in the 5 to 7 percent range and owner-occupied housing to be in the 1.5 to 2.0 percent.

Household incomes are low at \$32,500, and poverty at 7.4 percent is above the statewide average. The low home values and low rents mean that housing is affordable, thus the percentage of the population suffering from housing affordability burden is about normal.

### 4. *Immigrant Markets*

The immigrant markets are growing, as the name suggests. However, the population is growing at over 16 percent, but the stock is growing at only a little over 10 percent. This has not yet translated into significant shortages and the vacancy rates are at statewide averages. However, home value and rents are being pushed up to levels rivaling the suburban markets.

#### Conclude:

These categories of housing markets differ from each other. Two deal with expansion, the urbanizing and immigrant markets.

Urbanizing counties enjoy robust growth in income and housing markets.

Immigrant counties enjoy growth in population, but the housing markets are being tested as many new members of the labor force are unable to afford market-rate housing.

Two deal with decline, the declining urban market and the rural market.

The declining urban market continues to suffer from white flight, but the contraction of the housing market has softened the blow.

The declining rural market is realizing the pain of loss in population, but these counties have yet to address the need to make their housing markets contract to fit the remaining demand.

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## What housing strategies fit these housing markets?

The debate in housing policy is over production programs (programs that cause units to be built or rehabilitated) and voucher programs (programs that give subsidy to households helping them to buy or rent housing units already existing in the marketplace).

To simplify a long set of ornate and complicated arguments:

Production programs add to the stock of housing but they are very expensive. Because they add to the stock, they work best where there is a shortage of units. There is a tendency for them to help the least worst off of the poor.

Voucher programs do not add to the stock, instead they depend upon units being available in the market that are in good condition. If these units are available, voucher programs are much less costly than production programs and tend to help the poorest of the poor. However, these programs only work where good quality housing is in ample supply.

Which strategy is best in each market?

1. *Urban Decline:* Vouchers work best where there is already a surplus of units at affordable prices. These programs can help very low-income people rent units and buy units that are available. Production tends to be limited to renovation of existing structures and some new construction where neighborhood revitalization strategies require it.
2. *Urban and Suburban Expansion:* These markets have active housing production industries. The government intervention is largely one of protecting the poor from harm. Vouchers are the best way to assist these needy households. When the market is building units, it is advisable to provide incentives to private developers so that some of the units are made available to low-income households in a mixed-income setting. This can be accomplished through the use of the federal tax credit program on the rental side and the use of below market financing on the ownership side.
3. *Rural Decline:* These markets need to confront the fact their markets need to contract. Code enforcement and forced demolition initiatives need to be followed. Production programs should be limited to proposals where existing structures are being rehabilitated or replaced. Any net addition to the stock is counter-

productive. Given the surplus of housing, the poor can be protected most easily through the use of vouchers.

4. *Immigrant Expansion:* This is the market that needs the traditional production programs. The supply of units affordable to low-income households needs to be expanded, and we cannot depend upon the private market to provide these units without extensive subsidies.

### **What does Kansas need to accomplish these tasks?**

Kansas needs to make the most effective use of scarce resources.

The federal government provides the vast majority of the funds available in Kansas to pursue affordable housing programs.

For renters, the public housing program continue, but are static in size. Section 8 Housing Choice Vouchers are available in large scale; they will probably continue to be the largest source of housing assistance for the poor. Low-Income Housing Tax Credits are administered by the state and are the largest production oriented program in the nation.

For owners, financing programs exist. These include the FHA and VA insurance programs as well as the Mortgage Revenue Bond program that provides below market interest rate loans to first-time buyers.

Other block grant programs exist, most notably the HOME Housing Partnership program. These funds can be used for either production or voucher style assistance to owners or renters.

To make effective use of these scarce resources, Kansas needs a single entity that can coordinate and direct the use of these scarce resources. These programs are run by the Kansas Department of Commerce & Housing. Their administration is capable and dedicated, but they suffer from a lack of tools.

Kansas is the only state in the union that does not have a state housing finance agency.

Kansas could do a better job of taking the lead in defining the appropriate housing strategy for each type of market. It could prepare housing initiative and offer them to the development community, rather than waiting for developers to generate the initiative. The current approach leaves developers in the lead, and they will pursue the path of least resistance and most profit. Rarely will this be the path to resolving the most pressing housing problems in the state.

This agency could:

- Coordinate the use of subsidies so that the right program goes to each market,
- Combine subsidies so that housing solutions not workable with any one program alone can be made feasible, and
- Allocated scarce resources equitably according the needs of the poor who reside in Kansas.