

***GUAM COMPREHENSIVE
HOUSING STUDY***

Memo Report on Housing Policy Options

**DUEÑAS &
ASSOCIATES**
Inc.

This has to be one of the most boring documents I have ever read. The information is so broad & general that it is difficult to get a good grasp of what the various housing programs are all about. It's difficult to determine which the territory should continue to participate in as well as pursue.

I noticed GEDA's Turn Key housing program isn't included. Although no new loans can be taken out, it continues to exist for those that have not refinanced their homes for lower rates.

* I am concerned about their 1st paragraph in the overview. Our prosperity is on the decline. More now than ever an affordable housing program is required. It should be more general reflecting our economy is constantly in a state of flux

LAND AND HOME SALE PRICES

- This is good base data. Its obvious flaw is that the analysis is Multiple Listing Service only. The consultant states that the MLS represents only 30-40 percent of sales. Consultant should make some attempt to determine whether MLS are represent true mean and median.
- When a property is mortgaged, isn't the deed and the mortgage registered with Land Management? If so, are these public records?
- Verify permission to reproduce copyrighted materials. Report should probably say "reprinted with permission by Sian Solutions" or "Guam Board of Realtors" whoever owns the copyright.
- Since this report turned out to be nothing more than an analysis of the MLS, other data could have been aggregated: average square footage by average sales price; length of time the property was listed; average asking as opposed to average sales
- The Appendix B mentioned on page 21, Affordability Table, is not part of the report.
- Does all R-1 property have infrastructure by definition? The report is supposed to segment land price data according to infrastructure availability, but does so only for agriculture zoned, not for R-1.
- Many of the tables presented would be easier to read if they showed the total number. For instance, page 21. If the table also had number and asking price of homes listed for sale, it would be even more meaningful. Additional data on properties listed for sale might be gathered from the newspaper.

ESTIMATED NEW HOUSING UNITS

- Occupancy permits were used for this study.
- Single-family dwellings average about 40 per month, which seems about right. The number of multi-family is extremely high, but a could be correct. Please verify with consultant that he knows that occupancy permits are issued for renovation, repair and alteration, as well as for new construction.
- Bureau of Planning will continue with this study. We have the occupancy permits for all of 1992, but haven't had a chance to work on the file since Omar.



MEMORANDUM

GUAM COMPREHENSIVE HOUSING STUDY

DATE: January 26, 1993
TO: Steering Committee Members
GEDA: Charles Crisostomo
James Kirkemo
Lester Carlson
GHC: Peter J. Leon Guerrero
Edward Camacho
BOP: Michael Cruz
TPC: Marcel Camacho

FROM: Daniel Forster, AICP, Project Manager

A handwritten signature, likely of Daniel Forster, written in dark ink.

SUBJECT: Discussion Draft on: "List of Housing Assistance Programs Available to Guam"

Enclosed for your comment is a "Discussion Draft" of the Listing of Housing Assistance Programs Available to Guam. We have termed this a discussion draft as we are seeking comments from those in the industry regarding the completeness and accuracy of the programs listed herein. With that said, we are asking that you review this document and make comments to us over the next week so that we may finalize the report in early February.

This document is being sent to the Steering Committee, and to members of the Advisory Committee who represent agencies offering or responsible for implementing housing assistance programs. These include: Roque Mendiola of the Department of Housing and Urban Development, Jose Lujan from the Small Business Administration, Steven Weatherbee from Farmers Home Administration, Priscilla Maanao of GHURA, Bill Perez, Acting Chief Planner for the Department of Land Management, and Senator Edward Reyes, Chairman of the Committee on Housing.

When reviewing the enclosed document we wish you to consider at least the following questions:

- Are the programs described accurately?
- Which programs are used?
- Which programs should be used but are not?
- Which programs are not really applicable to Guam and why?
- Are programs missing, and if so what are they?

We already know, from comments received from The Urban Institute, that some of the programs listed are targeted to areas other than Guam and may therefore not actually be available, are inactive, or otherwise obsolete. These programs will be deleted from the final listing.

We will contact you as a follow-up to this request.

COMMENTS
GUAM COMPREHENSIVE HOUSING STUDY

1. The Micronesian census will not attempt to analyze housing problems resulting from the disaster. For the Census to measure housing needs caused by Omar, all of the households enumerated prior to the Typhoon would have to be reenumerated, which is not within the scope of the project.
2. Impacts of Typhoon Omar: Do you expect this change in your household to last less than 12 months? ____yes ____no
If yes, what change do you expect?
Household members will return to own home occupied before typhoon ____
Household members ____ will purchase own home ____
Household members will rent own home ____
Household members will move in with other friends/relatives ____
Other ____
3. In 1990, 2,468 occupied housing units had no telephone, or nearly 8 percent of all occupied housing units. Unfortunately, census data are not tabulated by material of structure. It is certainly possible that many substandard units were without telephones prior to the disaster, and thus would not be available to participate in the survey. If we have time, we could request special tabulations from the Census Bureau to determine the possible number of substandard dwellings that lacked telephones during the 1990 census.
4. This questionnaire is impossibly long and complicated. Telephone surveys should be no more than 20 minutes, preferably under 10 minutes. The draft analysis plan does not address this issue at all, or estimate how long the average person will have to spend on the telephone. Nonresponse could be very high because of respondent fatigue. Has this point been discussed at any any prior meetings? It should be.

There are many questions of doubtful value, particularly those on the condition of the housing stock. For instance, the question on village of residence is probably not necessary because the sample size is much too small to be statistically reliable on a village level. Consider using census data for most of the analysis, and stick with only a few major ones for this project. Or, another alternative would be to ask the Department of Labor to attach a supplemental questionnaire on the housing stock during their quarterly household survey (not a phone survey). Every effort should be made to shorten this questionnaire!!

MEMORANDUM

GUAM COMPREHENSIVE HOUSING STUDY

DATE: April 30, 1993

To: Project Steering Committee

GEDA: Charles Crisostomo
James Kirkemo
Lester Carlson
GHC: Peter J. Leon Guerrero
Edward Camacho
BOP: Michael Cruz
TPC: Marcel Camacho

FROM: Daniel W. Forster, AICP, Project Manager 

Subject: Policy Options Memo Report for Reducing the Barriers to
Obtaining Adequate Housing

DISCUSSION

The following Memo Report on Policy Options has been prepared (principally by The Urban Institute, although they have not reviewed the current draft) as a means of focusing on a strategy for reducing barriers to obtaining adequate and more efficiently produced housing. This report should be considered as an extension of the reports previously submitted, which are the Housing Development Cost Analysis, Current Development and Construction Practices, and Barriers to the Efficient Supply of Housing.

At the most general level, the problems facing residents of Guam involve availability, adequacy, and affordability. That is, people desire more housing, better housing, and/or lower-cost housing than what is available. Reasons for these problems owe to housing market barriers on both the demand and supply sides.

Demand-side barriers are a combination of:

Increased demand in housing resulting from cyclical and rapid economic expansion;
Sub-sector demand characteristics of migrants coming to Guam;
Inadequate personal financial resources to rent or purchase adequate housing.

Supply-Side Barriers include:

Inadequate mechanism(s) for channeling resources into appropriate kinds of housing;
Compliance and delay costs in zoning/permitting processes;
Limited private sector land holdings;
Gaps in housing finance system;
Materials supply restrictions/distortions;
Labor supply restrictions/distortions;
Entrepreneurial supply restrictions/distortions;
Constraints on technology advances;
Institutional Capacity.

Contained in this memo report is a discussion of 11 Option Areas intended to deal with reducing barriers to obtaining adequate housing, these include:

- 1. Stabilizing Housing Demand**
- 2. Accommodating Sub-sector Demand Changes**
- 3. Mobilizing Resources for Low- and Moderate-Income Housing**
- 4. Land Reallocation**
- 5. Streamline the Permitting Processes**
- 6. Modification of Development Standards**
- 7. Housing Finance**
- 8. Minimizing Materials Supply Restrictions/Distortions**
- 9. Minimizing Labor Supply Restrictions/Distortions**
- 10. Minimizing Entrepreneurial Supply Restrictions/Distortions**
- 11. Enhancing Construction Technology**

This material is being sent to the Steering Committee for your review, comment and eventual discussion leading ultimately to a selection of housing policy direction.

Option Area 1

Stabilizing Housing Demand--Options

A principal contributor to Guam's housing problems is economic instability particularly owing to the Territory's dependence on the visitor industry. Options range from accommodating housing to economic ups and downs to making housing a stabilizing force.

Accommodations Cyclical Demand--This approach would attempt not to dampen or offset economic and housing fluctuations, but to ensure that all segments of the housing sector benefit from economic upturns. The "linkage" approach is an example of such an approach. During periods of rapid economic growth, demand tends to grow disproportionately for upscale housing. By inducing developers to provide low- and moderate-cost housing along with market housing, economic boom is used as a vehicle for increasing the supply of housing for lows and moderate-income segments of the population as well.

Among the disadvantages of this approach is its high production cost. Attempting to build housing units for low- and moderate-income families concurrently with high overall housing demand means that land, materials, entrepreneurial, financial, and other housing inputs frequently will be selling at a premium. In addition to inflating the cost of providing low- and moderate-cost housing, this approach tends to heighten rather than dampen the business cycle, adding to overall housing demand at times of already excessive demand and declining along with declines in overall demand.

Countering Cyclical Demand--A countercyclical approach would involve increasing the production of low- and moderate-cost housing whenever overall housing demand ebbs. Principal advantages of this approach are two fold: First, during downturns in the economy generally and in the market demand for housing in particular, resources are likely to be freed-up for production of low- and moderate-cost housing, and often at reduced cost. Second, employment of resources for production of low- and moderate-cost housing at such times can help stabilize the economy, damping the general downturn in demand.

A disadvantage is that government revenue typically declines during economic slowdowns/downturns, thereby making it difficult to increase outlays for housing programs at those times. It may also be difficult politically to defer low- and moderate-cost housing programs until after a housing boom abates.

Option Area 2

Accommodating Subsector Demand Changes--Options

Accommodating Housing Demand by Micronesian Immigrants--Although Citizens of the Federated States of Micronesia ("Micronesians") constitute a relatively small proportion of Guam's total population, their impact on Guam's housing market is sizeable because their housing demand is concentrated among low-income renters. For example, the median income for adult Micronesian residents on Guam in 1990 was less than one-half the median for all adult residents. Moreover, Micronesian households, especially those of recent immigrants, tend to be unstable and transitional, further contributing to the demands placed upon Guam's low-income housing stock. And, finally, immigration of Micronesians to Guam has been increasing at an almost exponential rate since implementation of the Compact of Free Association in 1986.

Targeting Programs to Micronesians would seem to have greatest merit if housing demands of Micronesian immigrants differ notably from demands by low- and moderate-income households generally. Because Micronesian immigrants tend to congregate together, e.g., in the Micronesian Hotel, and to be exceptionally transient, one might conclude that housing supply programs ought to be targeted to meet their specific housing needs. But also at issue is whether housing programs ought to encourage Micronesian immigrants to remain separate from or to become integrated with other residents of Guam, given that only about one in ten adult Guamanian household heads who was born in Micronesia has become a U.S. citizen.

One option, therefore, is to design a program or programs to supply housing specifically for Micronesian immigrants. While few advantages are likely to result from such an approach, important disadvantages exist. For example, it is likely to be politically sensitive to earmark housing subsidies for a subset of Guam's households the overwhelming majority of whom are not citizen, especially when the needs of Guam's citizens are perceived to be no less serious. Moreover, because Micronesian immigrant households generally evolve into more stable, conventional households, it can be argued that the preferred option may be to develop programs which address the need for lower-income housing generally, rather than to focus on transitional housing needs of Micronesian immigrants in particular. Political sensitivities may be lessened if funding for a housing program targeted for Micronesians is additional federal money coming through the Compact Impact program.

Accommodating Housing Demand by the Military--Military personnel and their dependents currently account for considerably larger segment of Guam's housing demand than do Micronesian immigrants (19 percent vs. 2 percent in 1990). But whereas the problem posed by Micronesian immigrants is their rapid increase, problems posed by the military owe primarily to the variability and uncertainty contributed to housing demand. While the majority of military personnel and their dependents are accommodated in government-owned housing units, short-run increases in demand spill over to the civilian market. In July 1992, for example, an estimated 400 Navy personnel were "living in the economy."

As is the case for Micronesian immigrants, it may be asked whether military personnel and their dependents constitute a sufficiently large and distinct housing demand to warrant housing supply programs tailored specifically to their needs. Indeed, their housing needs are similar to those of Micronesians in that they tend to be concentrated geographically, to be disproportionately rental, and to exhibit affordability problems, although housing affordability appears to be a less serious problem for Military personnel and their dependents, on average, than it is for Micronesian immigrants.

Consequently, the options for addressing the instability and uncertainty of housing demand associated with military personnel and their dependents are essentially the same as those for addressing the housing needs for Micronesians, namely, targeting programs to meet the specific needs of military personnel and their dependents versus developing programs designed to address the needs for low- and moderate-cost housing generally. The respective advantages and disadvantages of those options are also similar for Micronesian and military households.

Designing a program or programs to supply housing specifically for military personnel and their dependents has few apparent advantages, but notable disadvantages. For example, it is likely to be politically difficult to justify earmarking housing subsidies for a subset of Guam's households especially when the needs of Guam's residents are considered no less serious. Moreover, because the military attempts to supply sufficient housing to meet its own needs in the long run (e.g. total persons living in military group quarters increased from 2,494 in 1980 to 6,086 in 1990, and over 300 additional Navy single-family units are currently scheduled for construction), the preferred option may be to develop programs which address the need for an increased supply of lower-income housing generally, rather than to focus on relatively short-run housing needs of military personnel and their dependents in particular.

The military contributes uncertainty to Guam's overall housing demand far greater than its share of demand would seem to warrant. Potential personnel transfers to Guam from Subic Bay Rollback is only the most recent source of such uncertainty. Reported Navy estimates that a total of 2,576 persons will be added to the island's housing demand have been received with widespread skepticism by housing market participants on Guam, thereby further destabilizing an already volatile market. The clear implication is that improved communication, consultation, and communication are needed among the U.S. military, Guam government officials, and interested private sector parties. While developing better relationships among those sectors will entail time and effort, the payoffs are likely to be far greater than are the costs.

Accommodating Housing Demand by H-2 Workers--H-2 workers seem to constitute a source of demand for low-income housing distinguishably different from that of Micronesians, the Military, or other population subgroups on Guam. Because they are only temporarily on Guam, without their families, and earning between \$15,000 and \$20,000 per year, H-2 workers typically live in group quarters or other housing units which would not appear to be competed for directly by other residents of Guam. However, H-2 workers' housing demand is similar to that for those military personnel who also live in group quarters. And, like the military, employers of H-2 workers typically provide housing, often at the construction site, with any demand in excess of available quarters resulting in H-2 workers "living in the economy."

Available options appear to be three-fold: First, firms could be required to provide suitable housing, perhaps at the job site, for any H-2 worker they may employ. A principal advantage of this approach would be to minimize program outlays by the Government, shifting the cost of housing to the employers and/or to H-2 workers themselves. Disadvantages would include the added compliance costs to employers and enforcement costs to the Government of Guam.

Second, new programs could be established or funds from existing programs set aside to assist in the provision of housing for H-2 workers. The principal advantage of this approach would be to enable targeting assistance more effectively to meet the specific needs of H-2 workers. Such a program would likely be subject to the same disadvantage as programs to assist Micronesians to and military, namely, the political difficulty of justifying housing subsidies earmarked for a subset of Guam's households who are not citizens, especially when the needs of Guam's citizens are considered at least as serious.

Third, the existing approach could be continued whereby the private sector is relied upon to determine how housing needs of H-2 workers are to be met. While having the obvious advantage of necessitating no change in existing programs, failure to explicitly address the housing needs of H-2 workers through public policy would mean continued concern that those needs are not being satisfactorily met within the private sector.

Option Area 3

Mobilizing Resources for Low- and Moderate-Income Housing--Options

Scale economies, builder preferences, historical accident, and myriad other factors contribute to the private sector's apparent tendency to respond more quickly and more fully to increased demand for up-scale housing than to demand for lower- or moderately- priced housing. Several approaches have been used by state and local governments throughout the country to channel increased resources to the production of privately produced low- and moderate-cost housing, albeit with varying degrees of success.

Demand Subsidies-- As a practical matter, low- and moderate-cost housing programs usually combine demand-side and supply-side components, e.g., subsidized at less-than-market rents/prices. However, some programs are purely demand-side and others purely supply-side. Rent subsidies are the most common form of the former, particularly in assisting very low-income households which are predominantly renters. Indeed, GHURA currently subsidizes rent payments by low-income families on some 1,423 privately owned housing units.

An important advantage of demand-side subsidies is the supposed efficiency from reliance on the private housing market to meet the increased effective demand for low- and moderate-cost housing. Another ostensible advantage is that subsidies are provided directly to qualifying households and, therefore, can be made as deep or as broad as desired to targeted households.

Effectiveness of demand-side subsidies is critically dependent on the private sector's supply response. It is argued, for example, that impediments to increased production of low- and moderate-cost housing may be sufficiently great to result in demand subsidies being passed along to housing providers without notable benefit to the targeted subsidy recipients, i.e., the subsidies serving only to bid up existing rent levels, thereby constituting a windfall gain to landlords.

Public Housing--The most direct approach by which government can increase supply of low- and moderate-cost housing is by providing such housing itself. Indeed, the Government of Guam currently owns and manages nearly 1,000 rental housing units, almost exclusively reserved for use by low- and moderate-income households. Therefore, GHURA, GHC and possibly, other government agencies have the option of providing even larger numbers of public housing units.

An extensive literature exists detailing the pros and cons of public housing, and the horror stories are well known. Public housing is variously characterized as being built in the wrong locations, in the wrong configuration, and at excessive cost. Moreover, public housing projects are frequently thought to be poorly managed; to contribute to drug, crime, delinquency, and other social problems; and to unfairly benefit only a select few of the target population. Set against all the perceived problems attending the provision of public housing is the reality that it may be the only viable alternative for meeting the housing needs of very low-income households.

Housing Trust Funds--States or localities earmark a pool of money, either from appropriations or from dedicated revenues (e.g., from transfer taxes, hotel or motel taxes, loan repayments from government programs, funds from bond issuances, interest from state escrow accounts), to finance, construct, acquire, or rehabilitate housing for low- and moderate-income households. Although funds are funneled through a public entity, funds are typically allocated by special boards or nonprofit corporations comprised of public, private, nonprofit, and consumer interests.

Guam's Community Affordable Housing Action Trust (CAHAT) program involves such an approach. Loans are made to low- and moderate-income households to purchase, construct, or renovate owner-occupied homes, or to cover downpayments. The revolving loan fund was established with money borrowed through issuance of general obligation bonds. Unlike most housing trust funds, however, CAHAT is administered by the Guam Housing Corporation (GHC) rather than by a special board or nonprofit corporation.

Housing Trust Funds have the advantages, first, of providing a generally secure funding source, insulated from uncertainties of the political process and, second, of typically providing a process for allocating funds by a broad spectrum of interested parties. By the same token, insulation from the political process is not necessarily an unmixed blessing, having the disadvantage that revenues earmarked for the housing fund are unlikely to be commensurate with the need for low- and moderate-cost housing.

Regulation--Land use regulations provide carrots, sticks, or a combination of both to support provision of low- and moderate-cost housing. Whereas conventional housing programs provide tax breaks or other financial inducements to the private sector to preserve or increase the supply of low- and moderate-cost housing, the regulatory approach imposes restrictions on land market activity within the private sector which effectively require private sector investors to bear the costs of producing or preserving low- and moderate-cost housing for lower-income households. Five types of

regulatory programs have been identified.¹

Linkages require private developers either to construct or to provide financial assistance for the construction of "affordable" housing as a condition of permit approval. Linkage requirements usually apply to developers of commercial space. In Boston, for example, developers are required to pay into a housing trust fund; in San Francisco, developers have the option of either building low-income housing themselves or providing gap financing to other housing developments.²

Inclusionary Zoning regulations may either mandate that a given percentage of units in a development must be reserved for low- and moderate-income families or provide incentives for low-income production. For example, Lee County, Florida, offers "density bonuses" to developers, permitting them to exceed density limits by up to 100 percent in constructing residential housing, depending upon the degree to which they meet several criteria, including the set-aside of 50 percent or more of the units for low-income families. Princeton, New Jersey, permits developers to build in two high-density zoned districts, provided they include a specified percentage of affordable units, i.e., for households with up to 50 percent of the area's median income; developers of all residential projects in other zones districts are required to pay a per-unit development fee to support the administrative costs of the affordability program. Boston, Massachusetts, requires all developers to fulfill an affordable housing obligation, either by creating affordable housing for low- and moderate-income households or by donating to the Neighborhood Housing Trust.

Housing Preservation Programs are designed to prevent the demolition or conversion of the existing low-income stock. For example, New York and San Francisco have imposed moratoria on the conversion of single-room-occupancy hotel units.

¹ Edward G. Goetz, "Promoting Low Income Housing Through Innovations in Land Use Regulations," Journal of Urban Affairs, Volume 13, No. 3 (1991), pp. 337-350.

² Under the proposed new zoning plan for Guam, criteria for issuance of major development permits include the requirement that: "if the development contains more than twenty-five (25) housing units, at least twenty-five (25) percent of those units will be affordable housing." Land Development Law of the United States Territory of Guam, WB Flores & Associates, Agana, Guam, (7/24/92), p. 129.

One-for-One Replacement Regulations permit housing units to be demolished or converted to other uses, provided they are replaced. Some replacement regulations apply to publicly sponsored redevelopment, others to private projects.³

Rent Control regulations are designed to hold down the price of housing rather than to increase its supply by limiting rent levels, rent increases, and evictions. Adjustments are usually permitted to maintain an acceptable rate of return for the landlord and to permit costs to be covered on newly constructed units.

Chief advantages of the regulatory approach include: (1) Costs to government are minimized because "market" units are expected to generate some or all of the revenue which make possible provision of "affordable" units. (2) Desired dispersion of low- and moderate-cost units among market units is presumably achieved.

Major disadvantages of the regulatory approach are three-fold: (1) Production of low- and moderate-cost housing is subject to vagaries of the overall housing market. (2) Based upon Hawaii's experience, without substantial government subsidies, "market" units must be priced so high to generate revenue needed to provide requisite "affordable" units that potential buyers are squeezed out of the former and into the latter units, thereby frustrating the program's objectives. (3) Several local regulatory programs have been struck by the courts and still unclear are the full implications of a recent U.S. Supreme Court ruling that conditions placed on development approvals not directly related to the objectives of the regulations or to problems created by the development may result in a taking of property for which the landowner must be compensated by government.

Public-Private Partnerships--An entirely new set of relationships is established between the government and profit and/or nonprofit organizations, creating a "partnership" arrangement designed to coordinate and sustain private investment in low- and moderate-cost income for lower-income households. Some partnerships are project-based, disappearing after project completion, while others are program-based, maintaining more formal, permanent relationships. "Bridgewalk" is the result of a project-based public-private partnership between the City of Boulder, Colorado, and the Wonderland Hill Development Company. The private developer was responsible

³ Under the proposed new zoning plan for Guam, developers would have to meet all major rather than minor development permit requirements if they "cause the demolition without replacement of more than ten (10) units of affordable housing as defined by the Territorial Land Use Commission." Land Development Law of the United States Territory of Guam, WB Flores & Associates, Agana, Guam, (7/24/92), p. 112

for constructing the project's 124 units, and the City's Housing Authority for their management. In addition to making equal equity contributions, each partner agreed to jointly fund a rent subsidy for 25 units.

Exemplifying the program-based type is New York City Partnership, Inc., comprised of business, corporate, and civic representatives. The Partnership established the Housing Partnership's Development Corporation (HPDC) to construct 5,000 new homes affordable for purchase by moderate-income families. HPDC encourages developers to build such houses by assembling the City's vacant land parcels and absorbing many predevelopment costs. The Partnership serves as a conduit for city, state, and Federal funds used to subsidize construction interest expenses and debt service expenses of eventual purchasers. The Partnerships also assists developers in obtaining tax-exempt and conventional financing commitments on behalf of home buyers.

Public-private partnerships have two distinct advantages: (1) By including participants from throughout the housing sector, a coordinated housing development plan can be more readily effected than can private, nonprofit, and government entities acting independently. (2) Mobilization of financial and other resources is maximized, in part because of the broad range of funding sources available to public-private partnerships, in part because of the broad range of funding sources available to public-private partnerships, in part because of their broad scope of activities, and in part because of their opportunities for realizing scale economics in fund raising. A disadvantage of public-private partnerships is in reconciling disparate goals and objectives of participants.

Non-Profit Organizations (NPOs)--NPOs have been the primary source of low- and moderate-income housing production in many localities throughout the U.S. in recent years. Any attempt to characterize NPOs is dicey at best because they differ so greatly from another in size, structure, types of activities, territory served, and so forth.⁴ Although NPOs are by definition non-governmental, many of them perform in quasi-governmental capacities, and many receive governmental support of NPOs ought to be included among viable options considered to further the objective of increased supply of affordable housing for low- and moderate-income families on Guam.

⁴ The Urban Institute recently completed a major study of NPOs resulting in a report entitled: "The Non-Profit Housing Sector: A Capacity Assessment," (December 1992).

NPOs, especially neighborhood NPOs, have two major advantages over alternative methods for undertaking development of affordable housing: First, they are typically able to mobilize financial resources for the construction and rehabilitation of low- and moderate-income housing which would usually be unavailable either to for-profit or to governmental entities; those sources frequently include tax subsidies, philanthropic foundations, corporate funds, and private donations--both in-kind and in cash. Second, NPOs frequently are able to identify specific neighborhood housing needs and to mobilize community support for programs to address those needs.

A disadvantage associated with reliance on NPOs for the provision of affordable housing is their unevenness. How and why NPOs come into existence is not well understood, with affordable housing needs in some localities served effectively by NPOs while other localities are served less well and some not at all by NPOs. In addition, NPOs are often criticized for providing housing inefficiently vis-a-vis private developers.

Option Area 4

Land Reallocation--Options⁵

The perceived shortage of low- and moderate-cost housing on Guam is largely attributable to inordinately high land prices which makes construction of higher valued residential units more attractive to developers than is construction of low- and moderate-cost housing. High land prices, in turn, are seen as owing in large part to the limited supply of land available for private residential construction on Guam. The fact that so much undeveloped land is publicly owned presents an opportunity as well as an obstacle. The opportunity is that the mechanism created to make public land available for residential use could be used to achieve such public objectives as effecting the desired location, density, type, and resident mix in the housing units produced. Aside from building public housing units on public land, only three approaches are available for allocating an increased supply of land to residential use: make individual land parcels available to individual households to build upon, make tracts of land available to private (either profit or nonprofit) developers, and contribute public land as the government's equity share in joint public-private development projects.

Allocation of Individual Parcels--This is essentially the approach represented by Guam's "Land for the Landless" program. Quarter acre lots are sold to individual households for the purpose of constructing owner-occupied housing units. In addition to adding to the total supply of land available for residential use on Guam, the Land for the Landless program attempts to channel that land into low- and moderate-cost housing, first, by restricting participation to low- and moderate-income households and, second, by selling the lots at below-market prices.

A presumed advantage of this approach is that the government can target the low- and moderate-income segments of the population it desires to assist. Non-targeted households are also likely to benefit from reduced land price appreciation resulting from an increased overall supply of land available for residential construction. The approach has several disadvantages--administrative and political, as well as economic. It is likely to be far more difficult to transfer title to individual lots than to transfer title to a tract, especially when lots are targeted to low- or moderate-income households which may require additional assistance, e.g., in obtaining construction financing. It is also likely to be difficult to coordinate the construction of housing units on the

⁵ The recent activation of the Chamorro Land Trust Act can be expected to have an impact on current Government of Guam land that can be made available for housing programs.

individually transferred land parcels without an elaborate system of regulations governing layout, design, and construction. *Also difficult to build housing that meets code.*

Because price is set below market, the number of qualified applicants (however determined) is likely to far exceed the number of available land parcels. Hence, available parcels must be rationed by a method other than price, e.g., by queuing or by lot. Depending on the size of the implicit subsidy (i.e., the difference between the sale and market prices), incentive exists for violation of either the letter or the spirit of the program by individuals who would be excluded by the rationing criteria. High administrative costs are likely, for example, to ensure that a parcel recipient both qualifies for the program and also ultimately receives its benefits.

*Probably
illegal
action
not
allowed*

It can be readily shown that in-kind subsidies, including below-market land transfers, provide fewer benefits per dollar cost to the government than would equivalent dollar value cash subsidies. Far more efficient would be an auction in which public land parcels are sold to the highest bidders, and the cash proceeds given directly to the targeted households. First, the land would then be allocated to its highest and best use according to market dictates. Second, the program's cash beneficiaries would be at least as well off as it they had received the below-market land parcel because they are free to purchase whatever housing they deem best suited to their needs, including the auctioned-off land. Third, whereas only a few lucky recipients of below-market land parcels receive large subsidies, cash proceeds from a competitive auction could be distributed among a larger number of target households or, perhaps, used to subsidize the direct production of affordable housing.

Allocation of Tracts to Developers--This approach has been widely used throughout the U.S., and has been extensively discussed on Guam--among the populace alike. As with allocation of individual parcels, allocation of government-owned tracts of land to private use typically serves not only to increase the overall supply of developable land, but to target that land disproportionately toward the production of low- and moderate-cost housing as well. Although virtually unlimited provisions can be (and have been) included in agreements transferring tracts of government land to private developers, most tend to involve one or more public agreements transferring tracts of government land to private developers, most tend to involve one or more public subsidies (e.g., sale at below-market price, provision of infrastructure, or assistance accessing financing) in exchange for which the developer is obligated to make available a specified number of housing units for low- and/or moderate-income families.

Advantages of this approach include minimal administrative costs for the government, and an opportunity for rational and balanced development within the tract. A disadvantage is that the government must relinquish some of its control, relying upon the organization awarded the contract to develop the tract effectively, efficiently, and equitably.

Option Area 5

Streamline the Permitting Processes--Options

Central to government's role as enabler of private housing markets are regulatory processes by which property rights are defined and enforced. The development approval process, including zoning and permitting, may either, may either prohibit or mandate actions by developers (e.g., forbid demolition of affordable housing units or require that newly constructed unit be set aside for use by low-income families), thereby imposing costs on developers. However, learning about and following regulatory procedures entail costs over and above any changes in the planned development project; they also add to development costs and thereby reduce housing affordability. For Guam, as for most jurisdictions, these costs appear to be substantial.

Options include shifting a greater share of costs to the government, e.g., by employing more and/or better trained personnel in the permit offices, by developing a more efficient process for issuing permits, or by utilizing a combination thereof. Indeed, several efforts have been or are being implemented on Guam. For example, the proposed performance-based zoning law is expected to reduce permitting costs, particularly by reducing the need for zoning variances.

Despite use of the Development Review Committee, the Case Planner, and other innovative techniques, Guam's development approval process continues to be viewed by many as needlessly complex, capricious, and time-consuming--all of which result in higher development costs than need be. The implication is that the permitting processes could be substantially simplified and shortened without unduly increasing risks to the public. For example, the case planner's role could be expanded to that of "expediter," an individual who would walk applications through the entire permitting process.

"Streamlining," while conceptually appealing, must be attempted with caution, i.e., will full recognition that desires by developers and builders to minimize regulatory compliance and delay costs must be balanced against obligations of regulators to minimize risks to public health, safety, and welfare. By implication, the appropriate tradeoffs will differ from one situation to the next. For example, if the need for additional affordable, low-income, housing is viewed as exceeding needs for other types of development, society might rationally be willing to bear somewhat higher costs to obtain that housing, including by giving less-detailed scrutiny to the proposed development project during the permitting process.

"One-stop" permitting is an example of a technique to save time and money in the developmental approval process. Although created as a way of overriding overly restrictive local zoning ordinances for the construction of low- and moderate-income housing Massachusetts' system of "comprehensive permits" also serves to reduce the compliance costs for developers. Legislation permits developers of such housing to obtain all necessary approvals in "one stop." Examples of other streamlining measures include, for example, provision of clearer and more complete advance information about development requirements and procedures, use of preapplication conferences, simplified reporting forms, and contracting out for specific review functions.

No single change in the development approval process is likely to be telling. Taken together, however, several separate changes may have a nontrivial impact on the time, effort, and cost needed to complete the process. Indeed, if unnecessary and redundant requirements are identified and eliminated, compliance costs may be reduced without adversely affecting regulatory objectives of protecting the general welfare. The difficulty, obviously, is in determining which permitting requirements are in fact "unnecessary" or "redundant."

Option Area 6

Modification of Development Standards--Options

Local regulations on development are instituted to protect the health, safety, and welfare of the individual and the community. These standards are typically enacted through building (or other) codes, zoning ordinances, and subdivision regulations. While the health, safety, and welfare concerns must not be compromised there are a range of options that any community must review when attempting to provide for greater efficiency in the supply of housing.

Increasing density allows greater land utilization and more efficient provision of infrastructure both of which lowers development costs. Allowing greater flexibility in height, lot sizes and lot coverage, and set back regulations provides for more efficient land utilization. Increased density can, however, lead to increased noise, congestion, and loss of privacy unless properly designed.

Modifying standards for street-widths, cul-de-sac widths, curb and gutter requirements, sidewalk standards, stormwater management requirements, parking standards, and right-of-way widths, can all lead to more efficiently produced housing. There is at times a trade-off between site amenities as with sidewalks on both sides of a street to perhaps only a sidewalk on one side or none at all. The various trade-offs involved must be measured by the amenities foregone (that do not impair health, safety, and welfare) and the degree of housing affordability that is attained.

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Option Area 7

Housing Finance--Options

Ostensibly, ample sources of finance are available to prospective home-buyers in Guam. They include eight private lending institutions--six banks and two savings and loans--the Government of Guam, the Federal government, and self-financing. The major problems are not with number of sources of financing, therefore, but with the cost of that financing.

The most obvious reason for Guam's high housing finance costs is well known--the shortage of mortgage insurance and guarantees, particularly because of the absence of private mortgage insurance (PMI). The absence of PMI companies of Guam is generally attributed to Guam's small housing market. It may be worthwhile, however, to explore with PMIs on the mainland possible remedies, e.g., a joint private-public mortgage insurance venture.

Mortgage loan insurance is available from FHA and mortgage loan guarantees are available from the Veterans' Administration; however, program limits on participation in those programs preclude most prospective homebuyers from accessing them. Moreover, obtaining FHA's loan insurance approval entail substantial delay because application records must be sent off island. This implies that one or more of Guam's private lending institutions ought to apply for participation in HUD's Direct Endorsement program whereby a qualifying lender is authorized to approve FHA-insured loans. (Application is made to the HUD regional office in Honolulu.)

Because of restricted use of mortgage insurance, lenders' opportunities for participation in the secondary mortgage market are also restricted, limited only to resale of FHA-insured and VA-guaranteed mortgages to Fannie Mae. [Fannie Mae's potential low-income mortgage initiatives for Guam?]

GHC's new mortgage insurance program ought to fill a substantial part of the gap which owes to absence of private mortgage insurance. In addition to enabling borrowers to obtain mortgage loans for more than 80 percent of house value, access to Government of Guam insurance ought to enable lenders to sell insured loans on the secondary mortgage market, thereby increasing Guam's supply of loanable funds.

An alternative to GHC's operating a mortgage insurance program independently might be to explore the possibility of entering into a risk-sharing agreement with a private mortgage insurance company. The States of Massachusetts and Rhode Island have such agreements, for example. The advantage is in bringing the expertise of a PMI

to the program. (If this option is selected, MGIC or PMI would probably be the most appropriate firms to contact. MGIC currently does business in Hawaii, although it does not maintain an office there, and San Francisco-based PMI appears to be contemplating entering the Hawaii market. PMI's Director of Research and Development, David Stallings, intimated that his firm might be interested in exploring such an agreement with the Government of Guam.)

Findings from the Household Survey tend to confirm casual observation that public awareness of mortgage financing alternatives could be increased substantially. Greater awareness of Federal insurance and guarantees would probably be helpful. Efforts to publicize more widely that housing finance is available directly from the Farmers' Home Administration, from the Veterans Administration, from HUD, and from the Government of Guam, as well as from private lenders, would seem especially fruitful.

Option Area 8

Minimizing Materials Supply Restrictions/Distortions--Options

Restrictions or distortions involving the supply of construction materials can have a sizeable effect on the supply of low- and moderate-cost housing because materials constitute one-half or more of total residential construction costs on Guam. Because all materials other than cement are imported, the market structure of the transportation system as well as of production and distribution systems can greatly influence the supply of housing generally, and the income housing in particular.

Among the more viable policy options is encouragement of competition. Efforts to increase competition among industries involved in supplying construction materials can contribute to increasing the supply and/or reducing the cost of housing in several ways: First, the greater the competition, the greater the impetus to develop and adopt cost-minimizing production techniques. Second, the greater the competition, the less the opportunity for collusion among producers to realize higher profits by pushing up prices. Third, the greater the competition, the more responsive producers are likely to be to changes in housing demand. While housing production clearly responded to Guam's increased overall housing demand in recent years, this response seems to have been spotty, with construction increasing most dramatically to increased demand for upscale housing.

One option for increasing supply is for government to enter the market as a materials producer or provider. While government provision of a good or service can be an effective inducement to increased private sector efficiency and/or reduced private sector costs (e.g., government-provided insurance), bureaucratic inefficiency more frequently results in wasted resources without inducing improved private sector performance.

An alternative option is to facilitate effective competition among private providers of construction materials. On the one hand, public policy may serve to reduce anti-competitive behavior, e.g., Government of Guam's law suit against Sea-Land Service, Inc., to eliminate perceived price-fixing within the ocean transport industry. On the other hand, government action can actively encourage competitive behavior, such as by including small business set-asides in housing production programs. Among the difficulties of pursuing a competition enhancement policy in the construction materials industry is in trading-off benefits from increased competition among more materials providers against benefits from scale economies realizable by fewer providers.

The Government of Guam has other options available for influencing the cost of construction materials if it chooses to pursue them. For example, building codes requirements often mandate or imply use of some materials or preclude use of others, thereby influencing construction costs. For another, the gross receipts tax can adversely influence construction costs, especially when pyramided.

Option Area 9

Minimizing Labor Supply Restrictions/Distortions--Options

That both labor and materials supply have been highly responsive to the increased demand for housing on Guam is attested to by the housing stock having increased in nearly direct proportion to the population increase during the decade of the 1980s. As with materials, however, labor supply appears to have been far from perfectly elastic.⁶ As domestic construction labor resources were exhausted, additional supplies had to be imported at currently an estimated \$8 to \$10 per hour for construction labor (mostly with H-2 visas) from China, Korea, or the Philippines. Moreover, the dollar wage rate paid H-2 workers substantially understates their actual costs, especially due to resources expended in recruiting and arranging for their use as well as in delay before they arrive on island and begin work.

One option for increasing Guam's labor supply and, thereby, for reducing construction costs is to encourage development of Guam's domestic construction labor supply. Such encouragement can take a variety of forms including, for example, subsidization of construction short courses by Guam's educational institutions, or requiring provision of job training by participants in government housing programs. By having a larger and better trained domestic supply of construction labor, building costs ought to be reduced; however, experiences with CETA and other government job-training programs have not been encouraging. Program drop-out rates have tended to be high, as have costs per person completing a job-training program and subsequently obtaining employment.

Guam has had a history of a chronic lack of construction laborers. This situation is in part due to a relatively small local construction industry that is confronted with massive and cyclical build-ups by the military, expansion of the visitor industry economy or rebuilding after a typhoon. Historically, efforts to encourage and train

⁶"Elasticity" refers to the responsiveness of supply (or demand). "Price elasticity" refers to the percentage change in quantity resulting from a given percentage change in price. Elasticity is conventionally broken down into three categories--elastic, inelastic, and unit elastic. If the demand for construction labor results in an increase in the wage rate of, say, 10 percent and the quantity of available labor increases by more than 10 percent, the supply of construction labor is considered responsive, or "elastic." If the quantity of available labor increases by less than 10 percent, the supply is considered unresponsive, or "inelastic." If the increase in labor availability is precisely proportionate to the increase in the wage rate, i.e., 10 percent, then labor supply is considered "unit elastic."

local talent to enter the construction industry have not resulted in significant or lasting achievements. Other employment opportunities have been opted for rather than pursuing a profession in the construction trades.

Another option is to increase availability and/or to reduce the cost of imported construction labor. Most effective would appear to be efforts to reduce the delay (from 6 to 12 months) required to complete the TLUC process before H-2 workers can be requested and the period (some 3 months) typically elapsing between the date H-2 workers are requested and the date they begin work. While construction cost savings are likely to be substantial from shortening the time required for developers/builders to access H-2 workers, costs associated with making the necessary statute changes may also be substantial.

Option Area 10

Minimizing Entrepreneurial Supply Restrictions/Distortions--Options

Just as limited domestic supplies of labor and materials have been augmented with imports so, too, has the domestic supply of entrepreneurial resources been augmented from off-island. Barriers to entry have apparently not been great, particularly among larger-scale, tract developers, given the many developers from Japan, Korea, Taiwan, Australia, and mainland U.S. who have entered the Guam housing market in recent years. Hence, little need would appear to exist for policies or programs to enhance the supply of such entrepreneurial skills.

More restricted seem to be the supplies of smaller-scale developers/builders and of individual home-builders. Because fewer opportunities for scale economies exist than for tract developers, the benefits from migrating to Guam may be less for smaller-scale developers (particularly of upscale housing).

As with construction labor, policy options for increasing the supply of small-scale developers/builders include either increasing the domestic supply or facilitating their importation. Given the island's small housing market, demand cyclicity, and low profit margins for low- and moderate-cost housing, it is not likely that large numbers of builder/developers can be readily enticed to immigrate. And given the substantial segment of the low- and moderate-cost housing stock which is built by individuals, a more fruitful approach would seem to be efforts to encourage development of small-scale builder entrepreneurial skills domestically. Programs could range, for example, from dissemination of materials telling how to go about building one's own home, to including a technical assistance component in housing subsidy programs, to offering voc/tech course in housing entrepreneurship.

An alternative to encouraging creation of new builder entrepreneurs is to encourage larger-scale developers to undertake smaller-scale, including scattered-site, development. This can be done with either sticks or with carrots, e.g., by regulations which link tract developments with, say, scattered-site construction of low- and moderate-cost units for qualified individuals. Alternatively, by providing sufficiently deep subsidies for construction of individual units profit margins may be made sufficiently great to induce developers/builders to shift away from large-scale tract development of upscale housing.

If the private sector is to bear major responsibility for meeting needs for low- and moderate-cost housing on Guam, an adequate supply of entrepreneurial resources is no less important than are adequate supplies of land, labor, and materials; indeed,

entrepreneurship may be even more critical. In addition to helping meet the housing needs of low- and moderate-income families, efforts to broaden housing production to include smaller-scale and more widely dispersed development can help stabilize and strengthen Guam's overall economy.

How best to encourage development of housing sector entrepreneurship is problematic, largely because so many factors are thought to enter the decision-making calculus. In some cases, individuals undoubtedly refrain from undertaking to build a house, either for their own use or to sell to others, because they simply lack the requisite know-how. In other cases, reticence owes to unwillingness to bear the expected risk, whether actual or perceived. Still other potential builder/developers fail to proceed because of imperfections in the financial or other housing sub-markets. The implication is that the most effective means of encouraging greater entrepreneurial activity in the production of low- and moderate-cost housing may be in reducing other obstacles to housing development.

Option Area 11

Enhancing Construction Technology--Options

Building codes can be scrutinized to determine whether any are unnecessarily impeding the use of cost-saving technologies. However, tradition and concern with typhoons undoubtedly constitute the most significant obstacles to implementation of new construction technologies on Guam. As long as concrete blocks and poured concrete continue to be the construction materials of choice for most residential construction on Guam, cost-saving construction innovations may be limited.

A bevy of alternative construction technologies, generally embodied within new construction materials, appear promising--lighter weight, better insulated, more easily assembled, and so forth. The critical test is how well they will withstand typhoons, however, and to this end, additional steps could be usefully taken to evaluate durability as well as costs of houses constructed with the more promising technologies. A useful first step has already been taken in the form of the Guam Housing Symposium held last year and is scheduled to be held again this June.

Advantages from programs to hasten the use of new residential construction technologies are difficult to assess. They may be realized only in the distant future, for example. Moreover, the cost-reducing effect of new technology is frequently difficult to discern because new technology typically involves changes in the nature of the housing produced as well as in its cost.

Everything has a cost, including programs to foster development and use of new technology. Moreover, governments have a notably poor record in betting on new technologies. Therefore, the preferred option would seem to be to ensure that existing public policy and programs do not pose unnecessary obstacles to adoption of new technologies in the private sector's production of housing, with overt programs limited to providing tests of new building materials and construction techniques, and facilitating the dissemination of information about new technologies.