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Missing the Housing Boom

Conventional thinking among local leaders is that because the area didn't "boom" during the last few years, it didn't suffer the economic "bust" to the degree some other areas around the country have felt. Most seem to view this as positive. From a short term perspective that might be true but over the long term the picture is not so rosy. During the early months of the current recession the Pittsburgh area received substantial national publicity for being the economy that did not "bust". But missing from these stories is how the region has lagged so far behind the national economy for two decades. One very important indicator of that slower growth is the number of building permits being issued for single family dwellings.

A robust economy brings with it jobs, people, and of course new families needing homes. Building permits for single family homes is a good measure of economic vibrancy in Allegheny County and the region. Of course, permits are not a perfect indicator of housing starts but they are close enough to be considered a solid indicator of near term construction activity. Bear in mind that homebuilding is driven by four basic factors: net household formation or net in-migration of households, the depletion of existing housing stock through damage or deterioration, speculative construction and availability of mortgage financing.

Our analysis will examine U.S. Census Bureau data covering the period 1990 through 2008, inclusive. For ease of comparison with national and regional performance we have constructed a building permit index for the County, the region and the nation using 1990 as the base year. That is to say 1990 is set to 100 for each area analyzed. Note that in 1990 Allegheny County recorded 1,857 permits, the seven county MSA 4,955 and the nation 793,900.

A comparison of Allegheny County with the nation for the 19 years of available data shows housing permits nationally averaged 45 percent higher than the 1990 level while permits in the County averaged 5 percent fewer. The County reached its two decade peak in 1993, topping out at an index of 117.5 (2,181 permits), 17.5 percent above the 1990 level. Permits in the County never approached the 1993 level again, with the index rising only as high as 103.8 in 2002. Indeed, since 1993, Allegheny County permits managed to surpass the 1990 level only four times and then just barely.

Over the latest housing boom period from 2002 through 2007, permits nationally averaged 77 percent above the 1990 base year level. In Allegheny County, permits during the same period averaged five percent lower than 1990. And even though the County failed to participate in the boom experienced nationally, permits nonetheless fell in 2008 to 30 percent below the 1990 level.

The 2009 year-to-date numbers (through October) show that while Allegheny County did not participate in the “boom”, it is a full participant in the “bust”. Extrapolating the ten months to a full year shows Allegheny County will have issued 1,012 single family permits in 2009—down 21 percent from 2008 and down 45 percent from the 1990 level. Comparatively, the nation is on pace to issue 443,600 single family permits—down 22 percent from 2008 and 44 percent from the 1990 level. Since 2004, the number of single family housing permits has fallen 72 percent across the nation but only 45 percent in Allegheny County although both are down about the same amount relative to 1990. While the recent national decline is much greater, Allegheny County fell from a much lower 2004 near peak level. As a result the national hardship felt by homebuilders has been sharper than in the County. Still a near 50 percent drop in the County is taking a substantial toll on the home construction companies and their employees.

Bear in mind too that many regions of the country, in addition to Allegheny County, also failed to participate in the national boom. This means many areas must have posted even higher than national average gains—gains that were driven by faster economic growth, in-migration and probably significant speculative building.

Another way to compare the national figures with Allegheny County is to examine the number of permits issued per 1,000 people. In 1990, Allegheny County issued 1.4 permits per 1,000 residents while the national number stood at 3.2. By 2000, that number increased very slightly to 1.5 in Allegheny County and jumped to 4.4 nationally. By 2005, the County’s number slipped to 1.3, but nationally it increased further to 5.8. Finally, at the start of the current recession in 2008, the number of building permits per 1,000 persons slipped to 1.1 in Allegheny County and to 1.9 across the nation.

Comparing Allegheny County to other counties in the Pittsburgh MSA is also instructive. Throughout the nearly two decades long period since 1990, homebuilding in several area counties has been far more robust than in Allegheny County as measured by permits per 1,000 residents. Despite accounting for about half the region’s population, Allegheny County issued only 36 percent of the permits over the 1990 to 2008 period. Butler County homebuilding has been remarkably strong with permits running at around 5 per 1,000 residents for most of the period and reaching as high as 8 per 1,000 in 1994. These numbers compare very favorably with national levels. Thus, even though Butler County’s population grew from one-eighth to one-sixth the size of Allegheny County over the period, permit issuance totaled half the number in Allegheny County.

Washington and Westmoreland Counties also posted much stronger permits on a per resident basis than Allegheny County. Washington permits registered some growth over the time frame while Westmoreland permits were generally weaker than the 1990 figure.

Nonetheless Westmoreland permits were roughly half the level of Allegheny County even though the population is only one-fourth as large.

Overall, however, the relative weakness in Allegheny County—along with sluggishness in Beaver County and the small numbers of permits in other counties—combined to keep the MSA performance less than stellar with the average level of activity over the 1990 to 2008 period flat compared to the 1990 pace.

Some of the weakness in Allegheny County permit data undoubtedly reflects the movement of people out of the County to Butler and Washington and, in the early part of the period, to Westmoreland. High taxes in Allegheny County, especially school taxes and the 1993 imposition of the RAD tax, are often credited with the ongoing exodus from Allegheny.

So, again the question: was the region better off not having the construction boom experienced by the nation in recent years? Certainly, the drop in construction related jobs has been less and therefore not as painful as that felt in many parts of the country. But by the same token, the region as a whole and Allegheny County in particular missed a large amount of the construction related wealth that could have been created and the accompanying economic growth that would have in evidence over the last 20 years or so. Sure, there are pockets within the area that have done well but overall the region has fallen behind the nation.

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