

# SCHWARTZ *Report*

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## A SUPPLY-SIDERS' LAMENT

**C**all me an inveterate supply-sider. I certainly have come down on that end of the curve in many an issue of this report. You would have to go back ten years or more to find a market year with less activity than the one that just passed. It seems like 2023 was a perfect storm year. The market, locally and throughout much of the country, was buffeted by the rising tide of mortgage interest rate hikes fueled by sudden spirals of inflation, which some still call "transitory", and by supply chains, still not fully recovered from the pandemic. All in all, it combined in a confluence of events, root causes, and happenstance to really gum up the market.

The lament we heard consistently was "can't find what I want." Regardless of whether it was a ready-to-move-up would-be seller willing to give up a three percent interest rate or a buyer who though not deterred by today's six percent rate, still "can't find what I want." So to my simple supply-sider's brain, I'd say the real sand in the gears of today's housing machinery is lack of suitable inventory in virtually every price range. Every market is pyramided with the majority of buyers concentrated at the lower and mid-levels of the pyramid, which is where the shortage of affordable housing is most keenly felt. It is those folks who when they can move up to a more spacious and expensive home become the purchasers for the sellers at the upper ranges, thus freeing them to go on their way.

Therefore, you might infer that there is some correlation between the numbers of homes available for sale and the level of market activity. For example, compare the Multiple Listing Service (MLS) inventory levels in New Castle, Kent, Cecil, and Southern Chester Counties\* as they stood at the end of 2023 with where they were in 2013. They are between 58 and 80 percent below those of ten years ago. It was that inventory which fueled the fantastic recovery after the Great Recession. True, some of that buildup was caused by foreclosures, short sales, price deflation, etc. brought on by the mortgage melt down of 2008. That was a once in a generation event which we hope will not be repeated anytime soon. However, the supplier who is usually relied upon to fill in critical inventory gaps year in and year out - the new home builder - has been conspicuously absent or underperforming from 2008 to the present.



National Association of Home Builders (NAHB) Chief Economist Robert Dietz has forecast a four percent gain in single family housing starts in 2024. The National Association of REALTORS® (NAR®) Chief Economist is cheering him on stating that: "Another thirty percent rise in home construction can easily be absorbed in the marketplace." Here locally, the Maryland Association of REALTORS®, in its 2024 housing forecast, notes that Maryland faces a 150,000 housing unit shortage. So there is plenty of room if suitable products can be brought to market.

Two of the biggest hurdles to a massive infusion of new construction into most any marketplace are land costs and land use regulations. Land costs can be mitigated or at least spread out by allowing higher density of construction per parcel. Sounds simple doesn't it? Not so fast! Density of construction is usually governed by land use regulations most commonly expressed in zoning codes.

As Jesse Williams writes in a recent Rismedia.com posting, "For better or worse, real estate is local. Driven by county and city-level land use laws, individual neighborhoods and towns can offer vastly different opportunities and challenges for housing." Researchers at Cornell University have launched a project to create a centralized site to "digitize, demystify, and democratize U.S. Zoning codes," he writes. Thus far, they have mapped some 2,000 zoning districts. That's the good news. The bad news is that they have another 30,000 zoning authorities across the country to tackle. That's an average of more than ten per county. As Sara Bornin, the Cornell professor who is spearheading the project, notes: "Eventually this could include everything from property taxes to inland wetlands regulations, and other critical housing-related regulations that are also mostly set at the local level [and] difficult to access." She goes on to pose the question: "How is anybody supposed to understand zoning, how is anyone supposed to influence it when you don't even know what your town code says?" Add to this the propensity for local governments to impose "impact fees" on new building to make up for improving or upgrading under-performing infrastructure. Politics plays a large part in this charade. The U.S. Chamber of Commerce notes that: "Legislators have strong electoral incentives to attract voters by shifting costs for public-facing benefits onto developers and private

property owners [which allows] many residents to enjoy the benefits of public improvements without paying for them.”

Not since baby boomers began coming along has the country faced such a housing crunch. What is needed is a phenomenon of the likes of William Levitt, the former Navy Seabee and mass housing pioneer of the 1950s, to break through the inertia. He was the Henry Ford of assembly line housing production. His company, Levitt & Sons, built its first Levittown on 20 square miles of land near Hempstead, Long Island and there were many more to follow.

Levittowns became an easy target for social critics as objects of “functional monotony,” but they catered to a crying need for affordable housing. The overwhelming popularity of Levitt’s creations, as James Dobson notes in his nostalgic look back at the 1950s, “spawned a thousand copy cats and sent millions of cramped urban dwellers rushing head long to the new American suburbs.”

Today such mass housing ideas fly in the face of our restrictive modernity and Levitt’s communities did have their problems, not the least of which were their restrictive covenants which we decry and which are illegal today. But the innovative nature of the construction, such as spray painting and a 27 step building process that could deliver a house in less than six weeks, deserve to be recognized for the spirit of innovation they displayed.

It’s easy to shun the “functional monotony” of a Levittown today. Recall if you will the line from The Monkees’ song “Pleasant Valley Sunday”: “Rows of houses that are all the same and no one seems to care...” Having said that, I and a lot of hopeful first time home buyers would like to quickly add we sure could use some Levitt-like innovation today to help the supply side along.

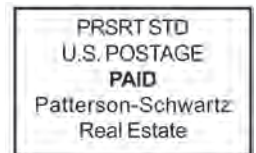
\*Sussex County Delaware MLS statistics were not available in the same format in 2013.



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