

The VI Has a Housing Affordability Crisis: What Should We Do?

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The cost of housing in the U.S. Virgin Islands is very high, both to construct new dwellings and to rent property. The high cost of housing contributes to social and economic problems-- overcrowding, increased financial stress for households, prevents people from being able to accumulate savings for future investments, high net migration, and difficulties in recruiting and retaining high skilled persons in critical jobs. Lately people have been grouching and complaining more loudly than ever and momentum is gathering for elected senators to consider legislation establishing rent control.

We as a community need to carefully analyze the issue and engage in a broad ranging and well-informed policy discussion on this topic and come to a consensus on a set of reasonable and practical policies, both short-term and long-term, to pursue. To begin we need to review the

empirical evidence of housing costs, understand what the main drivers of high housing costs, and be aware of what are the full set of policy and program options that can be implemented.

The Empirical Evidence of High Housing Costs

The cost of new construction in the US Virgin Islands is much higher than the US mainland and even neighboring Puerto Rico, another insular territory. According to VI Now website, construction cost per square foot ranges from \$275 -\$400 (masonry) in the US Virgin Islands, with St. Croix being on the low end and St. John on the high end, with St. Thomas somewhere in the \$300s. In comparison, construction costs per square depending on finishes ranges from \$100-200 for average finishes for the US mainland, and ranges from \$150-180 in Puerto Rico, according to expat.com.

The average value of a house in St. John as of 2020 statistics was \$1,219,419 (<https://www.globalpropertyguide.com/Caribbean/US-Virgin-Is/Price-History>). The 2020 figure represents a significant jump from the 2015 average of \$643,000 (Source: HUD Comprehensive Housing Analysis, 2019). In February 2021, 86 of 121 homes on St. John are listed north of 1 million. Looking at historical statistics, there is an upward trend, rising from less than \$900,000 in 2003 and peaking at \$2,000,000 in 2007, right before the Great Financial Recession and collapse of the housing bubble. In comparison, St. Thomas rose from an average value of less than \$500,000 in 2003 to an average of \$709,069 in 2020, a more gradual level of appreciation. St. Croix, the largest island district with the most area, 84 square miles, has witnessed the least appreciation in housing values, going from \$450,000 to \$474,853.

The average rent for a 2-bedroom, one bathroom apartment is approximately \$1,292 in 2021 territory with lower averages of 1,060 in St. Croix and higher averages in St. John of \$1,613, according to RentData.org (<https://www.rentdata.org/states/virgin-islands/2021>). However, properties in the more desirable neighborhoods of St. Thomas Peterborg, Mafolie, Misgunst, Lerkenlund, Wintberg, Frenchman's Bay/Bakkero, Anna's Retreat, Nazareth) range from \$1,800-\$10,000 (rental vacancy listings in media) with the average being \$2,400 for the active listings. Recently, on What is Going on in St. Thomas, a Facebook Community Page, a house was listed for \$3,800 per month in Estate Bakkero with a washer-dryer on the porch, utilities not included.

Drivers of High Prices

Much of the sharp rise in rentals was to the significant damage to the housing stock by hurricanes Irma/Maria, the influx of recovery workers with generous housing stipends, and then rise of shared short-term vacation rentals (Airbnb/VBRO/Bonvoy etc.) as the stayover tourist economy recovered and several large hotel properties remain offline five years after the hurricanes. Two major reasons for the high cost of new construction is that virtually all construction materials have to be imported, except for stone aggregate and on the mainland the majority of construction is wood frame and brick and not masonry. Masonry construction recommended to withstand hurricanes is more expensive than wood frame. The disruptions of COVID have caused the price construction materials to spiral.

What Economists Consider Affordable and Unaffordable

A standard financial rule of thumb when seeking a traditional fixed interest rate house mortgage is that the property's price should not exceed 2.5 times yearly income. Thus, if the median household income is \$37,254 (US Census, 2010), then the median or typical resident should only be able to afford a house worth \$93,135. In the case of St. John, the average house price is 32 times the 2010 median income and 25 times the 2020 per capita income (GDP of 4.2 billion,

divided by population of 87,560). Assuming a household with two median income earners, then couple, could house a house worth \$186,270.

Another standard financial rule of thumb is that rental expense should not exceed 30 percent of gross monthly income. So, if the gross median monthly income is \$3,104 ($\$37,254 / 12$), then the average market rent ratio to the median person's gross monthly income in the Virgin Islands is 41 percent for St. Thomas, 52 percent for St. John, and 34 percent for St. Croix. The ratios for the VI meaning that the renter with the median income is overextending themselves in the Territory. To comfortably afford the Estate Bakker house listed on Facebook, a local resident would have to make \$13,571 a month or \$162,857 a year. According to the last income distribution study in the VI done in 2009 by Census Bureau, only 12% of households earned more than \$100,000 at that time. Thirteen years after this study, the bulk of salaries in the territory are still assumed to be in the \$25-90,000 range.

These three measures (construction cost per square foot, residential house price to income ratio, and rent to income) indicate an unaffordability problem in the Territory. Unfortunately, the median household figure from the 2020 Census is not yet available. But even if we assume that median income increased 4 percent between 2010 and 2020, the average increase over the last couple of decennial censuses, the ratios will still be alarming.

What can be done?

The best way to fight housing unaffordability is to increase new housing stock, rehabilitate deteriorated housing stock, and improve access to credit for new building construction and remodeling/rehabilitation. Increasing the supply of housing offered will reduce the price of housing (Law of Supply and Demand). This should be an immediate short-term step to pursue at all cost. Over the medium and long term, the average level of salaries and wages need to rise, so individuals and households can have more effective purchasing power. To increase that average level of salaries is a complex undertaking that would imply reform of educational and training programs so more skilled and productive labor is produced. At the same time the climate for business development has to improve. More profitable businesses have to open despite the small market, many institutional weaknesses and a poorly functioning labor market. A series of reforms and changes would be necessary in educational institutions, labor markets, and business competitiveness and investment.

Below are a few of examples of short to medium term policies and programs that can be pursued while the larger and more complicated long-term reforms in education, labor markets, private business investment that will increase average incomes are ongoing:

- **Promote Community Land Trust and Social Housing:** Community land trusts (CLTs) are agreements between a non-profit and a community. The non-profit, which has community members on the board to ensure that it serves the community's needs—buys lands and leases parcels to individuals or families at an affordable price, separating the cost of the land from the cost of houses. Over time, residents build some equity, but they can't sell the homes they constructed for large profits, ensuring the CLT keeps the homes affordable for future residents. Some 200 CLTs operate in the US and have been proven to help low- and moderate-income families.
- **Promote Community Investment Trusts:** Community Investment Trusts (CITs) are non-profit that organize investments in properties and distribute ownership shares to community members. The typical approach is to purchase foreclosure properties, convert some properties to affordable housing, and rent out properties suitable for commercial use to earn

income.

- **Tenant Opportunity to Own:** Pass legislation that would allow tenants to have the first opportunity to purchase a property they were occupying as tenants.
- **Give incentives to developers to build affordable housing.** Government can offer tax incentives to commercial developers to make mixed housing developments. For example, in a subdivision, have 10 percent of the new housing stock is targeted to low-income and moderate-income households. In the Virgin Islands, large continuous tracts of developable land are not readily available, so incentives should be focused on small duplex/townhouse/condo style/hi-rise developments.
- **Improve and Expand Public Assistance to Housing.** Currently, there are approximately 3000 public housing units and an estimated 15% of the population receives public assistance for housing but yet there is a long waiting list for Section 8 Choice vouchers. The Government is doing a commendable job restoring the public housing properties damaged in the Irma/Maria hurricanes, but much more new stock is needed. Added modern, resilient, and affordable public housing is a vital need. However, the housing authority must be strengthened so that programs are well administered, maintenance kept up, and accelerate the renovation and building of new public housing projects generously funded by the Federal Government.
- **Check Land/Property Speculation:** Have requirements for length of ownership before a property can be flipped and a higher tax rate for properties flipped in a short period.
- **Remove the Probate Court Backlog:** Many multigenerational families in the Territory have valuable properties tied up in probate court. There is a lot of valuable real property that can be divided, rehabilitated, or sold. The average length of time to settle probate matters stretches to two decades.
- **Give Assistance and Incentives to Owners of Historic Buildings in the Town Areas:** The downtown areas of Charlotte Amalie, Christiansted, and Frederiksted have many dilapidated buildings that need to be either demolished or restored. Many of the owners are long-time residents that lack the financial wherewithal to restore and rebuild. Some of the properties are in probate. Design incentive programs and partnerships that would allow locals to revitalize and better utilize already built structures. All these dilapidated, unoccupied structures are dead capital.
- **Develop a master land use plan and revisit zoning:** The Virgin Islands lacks a comprehensive land-use plan that could guide land development and land use for the years to come, considering environmental and climate change risks. A land-use plan is needed to rationalize built public infrastructure, avoid building in flood plains or landslide-prone areas and minimize water runoff and soil erosion and to get away from the outdated 1972 zoning code. Better planning and zoning would check the current helter-skelter development and put policymakers in a better position when negotiating with developers. Revisiting residential lot sizes to permit more dense and vertical construction would be very important. Currently a contract has been let by DPNR to develop a draft. Let us know that the draft is acceptable and the legislature acts on it. In February 2020 a Comprehensive Land and Water Use plan (CLWUP) was presented to the senate by DPNR but no action was taken.

What not to do?

Do not impose rent control. Rent control will only create a shortage of rental units for moderate and low-income long-time locals. Property owners will divert more properties to other uses, those that engage in the rent control program will not maintain their properties, and there will be no

incentive to build new rental stock. Rent control has a poor record in the many locales on the mainland where it has been tried. California and New York states have extensive programs that mandates rent limits over properties built in the late 1990s or earlier but yet these two states still have housing shortages and serious affordability problems. Rent control is a politically popular measure because it can be implemented quickly but it does not solve the problem. Rent control goes against market logic and creates more problems than it solves. Learn from the mistakes of others.

Submitted on Friday, Aug. 12 by Mark Wenner

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