

The Ideas Shaping Development in Newton: How Good Are They?

By Peter Bruce

The great economist John Maynard Keynes wrote: *"The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist."*

Newton is attempting to revolutionize its zoning to increase its potential housing stock by 30% or more, even though the population here, and in the state, has been declining for several years.¹ ("Potential" meaning what could be built, not necessarily what will be built.) Given the dramatic scope of these changes and the political power of economic ideas, it is important to assess their validity.

City Council President Susan Albright has been recommending that people read the book, *Fixer Upper* by Jenny Schuetz (or to listen to the *New York Times* podcast interview by Ezra Klein with the author), a book which is apparently highly regarded in development circles. The book's argument is largely based on assumptions from Econ 101, i.e., that given a certain level of demand, increasing housing supply will necessarily drive down prices in well-functioning markets, even in popular, wealthy coastal cities. Conversely, inadequate construction of new housing, often due to zoning restrictions constraining supply, interrupts the process of downward "filtering," preventing middle- and lower-income families from moving into better housing that would otherwise be vacated by wealthier households.²

Luxury developments tend to be built in non-affluent neighborhoods. When asked whether too much luxury housing might displace or make housing too expensive for the less affluent, Ms. Schuetz claims: "What we've seen from some of the recent academic literature is that in neighborhoods where you get big new construction projects, that actually helps keep the rents down."³ She cited no sources for this point. Her book, too, makes this important point, but with little depth, citing two articles.⁴

But she appears to be wrong on this. A meta-study by scholars at the London School of Economics, drawing on roughly 100 previous studies, found that building more densely in wealthy cities generally drove up neighborhood rents.⁵

As for the articles she cited, the more comprehensive one looked at a dozen cities in which buildings in low-income areas were burnt down by fires and replaced with numerous new housing complexes (50+ units each). This led to a drop of 5%-7% in area rents after they opened.⁶ How much good would it do here to reduce rents by 5 to 7%, when they have been going up twice that fast in each of the last two years? Would it be worth so much construction if naturally affordable housing and open and green space had to be sacrificed to build it?

The other study found that increasing housing stock reduced rents in San Francisco. But it ignored that according to opinion polls huge numbers of its residents wanted to leave, and that roughly 60,000 (7%) have moved out since 2019, driving down demand and confounding the author's hypothesis.⁷

A similar lack of evidence-based assumptions undermines *Fixer-Upper's* analysis recommending "missing middle" housing. For instance, the book asserts that 11 condos, selling for \$500,000 each, could be built on each of several one-half acre lots near the Wellesley Hills MBTA station, and that these would be affordable to families making as little as \$93,000 per year.⁸ The assumption that land there would sell for \$1.5 million/acre, however, seriously flaws this proposal. At the time, all available land advertised in Wellesley was selling for at least \$2 million/acre. And the only parcel near the Wellesley Hills MBTA was selling for \$3.3 million/acre.⁹

Likewise, in Newton, for example, 77 Court Street is close to the Commuter Rail. Thirty-six units of housing (27 market-rate, 9 affordable at 80% of AMI) were built in 2017 on land costing roughly \$3 million/acre, even though it was purchased in 2013 and would have cost much more if purchased in 2022 or 2020 when *Fixer Upper*, or its predecessor article, *Zoned Out*, were published.¹⁰ Today, land costs in Newton, especially those for lots close to transit and easily developable, generally range between \$5 million/acre and \$7 million/acre. Land in Wellesley is similarly expensive.¹¹

Today, the smaller (1400-1600 square foot) market-rate condos at 77 Court Street, are valued at ~\$950,000.¹² Following the same parameters as the Schuetz / Brookings model, with more accurate and current land prices (\$5 million/acre), interest rates more than twice as high (7.2%), and construction costs one-third higher than 2019's,¹³ these "\$500,000 condos" would now sell for roughly \$745,000. That's about the same price per square foot as the comparable Court Street condos (\$633/square foot versus \$621/square foot). Condos at \$950,000 and

\$745,000 are affordable to households with incomes of \$252,357 and \$206,865 respectively, not the \$93,000 Brookings foresaw.¹⁴

Newtonville's large new complexes, 28 Austin Street and Trio, also exemplify gentrification that contradicts *Fixer Upper's* argument. Since these developments have been open for years, they serve as critical cases that could show much of Newton its future, especially in zones facilitating such large complexes. Last fall, for instance, median prices for one-bedroom and two-bedroom apartments in Trio and 28 Austin were about \$3200 and \$5100/month, respectively. One-bedrooms were 70% and two-bedrooms almost twice as expensive as our naturally occurring affordable housing.¹⁵

Including charges for parking and utilities, last fall's one-bedroom apartments were affordable to households making about \$140,000/year or roughly the same as Newtonville's median income. But to afford two-bedrooms, households needed more than \$215,000.¹⁶ This gentrifying effect is only modestly offset by the fact that 20% of these units (Trio's combined with 28 Austin's) are affordable by state standards, with another 14 "workforce housing" units at Trio being affordable to households making up to 110% of AMI. On the other hand, Trio's construction entailed the destruction of approximately 20 naturally affordable units, roughly the same number as were newly built.¹⁷

I worry that our planners and most of the City Councilors are leading the city into a whirlpool of overdevelopment and gentrification based on *Fixer-Upper's* faulty ideas.

¹ The *Village Center Rezoning Map 2.0*, 4/24/2023, increased the total number of additional units being zoned for from 3,500 in *Map 1.0* to 10,000 (p.47), thus going beyond the 8,330 required by the state's MBTA Communities' rules. <https://www.newtonma.gov/home/showpublisheddocument/100093/638182856188070000> That's more than 30% of our current housing stock of ~33,000 units. This figure, however, excludes more units to be zoned for in Auburndale, Chestnut Hill, Lower Falls, Upper Falls, Newton Corner, Nonantum, and Thompsonville, which will eventually be added to the total. (*Map 2.0*, p. 45.)

Although Councilor Wright has asked for estimates of these villages' rezoning requirements for months, the Planning and Development Department has not yet provided them. The number of new units zoned for in these villages could add another 6,500+ potential units to the 10,000, and thus exceed half our current housing inventory. Also, few or no units that have been recently built, approved, and are soon likely to be permitted (between 3,000 and 4,000 units), will count towards the 8330- (now 10,000-) unit requirement. It doesn't matter what's on the ground. What matters is zoning for all-residential. Zoning for mixed use, and all housing in those buildings, won't count under the current rules since such zoning has consistently *required* ground-floor commercial use.

On population declines, see <https://worldpopulationreview.com/us-cities/newton-ma-population> and <https://www.macrotrends.net/states/massachusetts/population>

²Jenny Schuetz, *Fixer Upper: How to Repair America's Broken Housing System*. Washington D.C., Brookings Institution Press, 2022, p. 29.

³ *Op Cit.*, “Why is Housing...” transcript, p.18. <https://www.nytimes.com/2022/07/19/opinion/ezra-klein-podcast-jenny-schuetz.html?showTranscript=1>

⁴ *Op Cit.*, Schuetz, *Fixer Upper*, pp. 154,196. The latter page cites Brian Asquith, Evan Mast, Davin Reed, “Supply Shock versus Demand Shock: The Local Effects of New Housing in Low-Income Neighborhoods.” *Upjohn Institute*, Working Paper, 2020; and Kate Pennington, “Does Building New Housing Cause Displacement? The Supply and Demand Effects of Construction in San Francisco.” Working paper, 2020, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3867764.

⁵ Gabriel Ahlfeldt (London School of Economics/Spatial Economics Research Center - SERC) Elisabetta Pietrostefani (LSE) “The Economic Effects of Density: A Synthesis,” SERC Discussion Paper 210, January 2017. Similar conclusions are reached in a recent, cross-city panel study by Christina Stacy, Christopher Davis, Yonah Freemark, Lydia Lo, Graham MacDonald, Vivian Zheng, and Rolf Pendall in *Urban Studies*, March 21, 2023: “Land-Use Reforms and Housing Costs: Does Allowing for Increased Density Lead to Greater Affordability?”

⁶ *Ibid.* Asquith, et al. “Supply Shock...,” pp. 1-5.

⁷ *Op Cit.*, Pennington, “Does Building.” Marisa Kendall, *Bay Area News Group*, “Bay Area Exodus: Residents Still Want Out,” *Mercury News*, 10/7/2022. [https://www.mercurynews.com/2022/10/02/bay-area-exodus-residents-still-want-out-new-poll-finds/City of San Francisco, “San Francisco Population and Migration,” Data Dashboard, shows the city’s population declining from 881,549 in 2019, to 870,393 in 2020, to 808,437 in 2022. https://sf.gov/data/san-francisco-population-and-migration](https://www.mercurynews.com/2022/10/02/bay-area-exodus-residents-still-want-out-new-poll-finds/City%20of%20San%20Francisco,%20%22San%20Francisco%20Population%20and%20Migration,%22%20Data%20Dashboard,%20shows%20the%20city%27s%20population%20declining%20from%20881,549%20in%202019,%20to%20870,393%20in%202020,%20to%20808,437%20in%202022.%22%20https://sf.gov/data/san-francisco-population-and-migration)

⁸ Sarah Crump, Jenny Schuetz, Luc Shuster, Trevor Mattos, “Zoned Out: Why Massachusetts Needs to Legalize Apartments Near Transit,” *Brookings Institute/Boston Indicators*, 10/21/2020, p. 45.

⁹*Ibid.* p. 42. (See Attachment 2.)

¹⁰ Land acquisition costs were \$2,272,350, while “Rough Grading/Site Preparation” for two previously separate lots cost \$1,188,831, totaling \$3,461,181. *SEB Court Street, LLC, 75-77 and 83 Court Street, Newton MA*, “Schedule of... Total Chapter 40B Costs for the period from May 21, 2014, to February 23, 2018,” p.3. Divided by 1.2 acres, the cost was \$2.9 million/acre. This acreage is specified in Robert Engler’s “83 Court Street” application to “Local Initiative Program for Special Permits,” *Massachusetts Department of Housing and Community Development*, 11/4/2013. p.11.

¹¹ Of “land for sale” advertised on *Homes.com* on and around June 1, 2023, four of the six lots in Newton were selling for between \$5 million/acre and \$13.5 million/acre. https://www.homes.com/newton-ma/land-for-sale/?gclid=Cj0KCQjwmtGjBhDhARIsAEqfDEdh8zbBM1b7fo2op1WmgwbQVxVSCO3FZ6Apsxl_cyLj88nCBu-CNPkaAm64EALw_wcB&gclid=aw.ds The two selling for \$2.18 million/acre (608 Beacon Street) and \$2.7 million/acre (45-51 Oak Avenue) feature large amounts of sloping land that would require costly “rough grading,” for building anew with a larger footprint. The Oak Avenue lot also features several large old buildings that would likely have to be demolished for a large new development. The only lot listed in Wellesley on this website also had land valued at \$5.5 million/acre. So, it seems reasonable to assume that \$5 million/acre is about the cheapest land price available, for land near transit, apart from land that would need much costly reconstruction.

¹² For a sample of how much the smaller, market-rate condos (2-bedrooms with less than 1600 square feet) at 77 Court St. would sell for today, *Redfin.com*, lists prices for three of them at \$938,575 (#203), \$966,216 (#107), and \$970,753 (#209). The six market-rate three-bedroom apartments it lists would sell for between \$1,000,000 and \$1,400,000. They range from 2200 to 2500 square feet.
<https://www.google.com/search?client=firefox-b-l-d&q=redfin+77+Court+St+newton+ma#ip=1>

¹³ Residential building costs have increased ~40% nationally since 2019 and “Zoned Out’s” pre-pandemic data. Locally they appear to have gone up 4% in 2020, 14% in 2021, 11% in 2022, and are expected to go up about 4-6% this year, for a total rise of **roughly** 32% over the last 3.5 years.
(For national figures, see Ed Zarenski, *Construction Analytics*, 5/19/2023
<https://edzarenski.com/2022/12/20/construction-inflation-2023/> For the Boston region, see Catherine Carlock and Andrew Brinker, “The Cost of Building in Boston Keeps Going Up,” *The Boston Globe*, 11/1/2022.
<https://www.bostonglobe.com/2022/11/01/business/cost-building-boston-keeps-going-up-that-makes-everything-else-more-expensive-too/>

¹⁴ The condos proposed in “Zoned Out” would be 1200 square feet each (p. 42). Comparing accurate, current land prices, construction costs, and interest rates with those “Zoned Out” originally assumed reveals how much those condos would cost today. The model’s price per acre of \$1,518,300 (p.42) divided by 22 units (11 units on two half-acre lots) equals \$69,014/unit. Assuming \$5 million/acre today, the per unit price for 22 units would be \$227,273, or \$158,259 more than in the original model condo. Assuming construction costs have increased by 32% since 2019 adds \$72 per square foot to its \$225/square foot estimate (p.42) i.e., \$86,400 for each 1200 square foot unit. Combined with the revised land costs, the model “\$500,000” condo now costs \$744,659.
To determine the minimum incomes needed to afford comparable condos at 77 Court Street and for the Brookings model condos, I used a mortgage calculator and entered: the cost of a \$950,000 condo; a 15% downpayment (\$142,500; 15% was “Zoned Out’s” standard); the current, local 7.2% interest rate; \$9,994 for property taxes (@\$10.52/\$1,000); \$190 for HOA (condo) fees (same as the “Zoned Out” figure); a monthly debt of \$1,000/month (which is what we pay for our gas, electric, water, sewer, phone, and internet in a comparably-sized condo); all this for a 30 year mortgage, plus \$800 annually for home insurance, (which is also what we pay). The debt/income ratio seems irrelevant to the calculation and can be left blank or have an arbitrary value. Attached is a screenshot (457) of this calculation, indicating a minimum household income of \$252,357 would be needed to afford such a condo. Screenshot 458 shows that \$206,865 is needed to afford the revised “\$500,000” model condo, using the same methodology. Here’s a link to the mortgage calculator. <https://mortgage-calculator.net/how-much-do-i-need-to-make-to-buy-a-900k-house.php>

¹⁵ See *Attachment 5, Rents in Newtonville*. Those rents are from Fall 2022. Today’s rents at Trio are higher for the one-bedrooms and about the same for two-beds.

<https://www.zillow.com/apartments/newton-ma/trio-newton/96JbPs/> I didn’t see any for rent at 28 Austin.

¹⁶ Renting a one-bedroom apartment for \$3230, plus \$100 for utilities and a \$200 parking fee, costs \$3530 month and \$42,360/year. Using the government standard that a household should not pay more than 30% of its income for housing to be affordable. This requires an income of \$141,200. Likewise, renting a median-priced two-bedroom costs \$5,115, plus \$300 for utilities and parking per month comes to an annual cost of \$64,980 – affordable for an income of at least \$216,000.

Median income in Newtonville (ZIP 02460) is ~\$140,000 according to the latest U.S. Census figures.
<https://www.incomebyzipcode.com/massachusetts/02460>

¹⁷ In the Orr Block building and on Washington Terrace.