

**FACULTY ENHANCEMENT OPPORTUNITY (FEO) APPLICATION****DUE FEBRUARY 26, 2009**

Name (last, first): Denslow, David

UF ID: \_\_\_\_\_

Type of Appointment (check):  tenured  tenure-track  
 clinical  other ( \_\_\_\_\_ )

Date of Appointment to UF Faculty (month/year): August 1970

Date Tenure Awarded, if applicable, (month/year): July 1975

College: Warrington College of Business

Department: Economics

Total Central FEO Funds Requested: \_\_\_\_\_

Total College/Department Funds to be Provided: \_\_\_\_\_

Any Other Funds to be Applied, if applicable: \_\_\_\_\_

GRAND TOTAL FOR FEO: \_\_\_\_\_

**ABSTRACT:** (Provide **one** paragraph describing your proposed FEO project in a way that can be understood by colleagues outside your discipline, alumni, and educated members of the general public.

I propose to study the historic housing boom and bust that initiated the collapse of the financial sector and was most dramatic in southern California, Nevada, Arizona, and, of course, Florida. The boom was nourished at first by the early wave of retiring baby boomers and by low interest rates. The low interest rates stemmed partly from monetary policy but even more from a flood of global savings into the U.S., channeled into the housing market by Fannie Mae, Freddie Mac, and the shadow banking system's subprime mortgage derivatives. Unlike in the 1980s housing boom, when housing supply rose along with demand, keeping inflation-adjusted prices low, in the 2000s growth restrictions and scarcity of road investment at first limited the supply, sending prices soaring. After lags of two to four years, however, permits were granted for and construction begun on large-scale projects, both vertical (up to fifty stories of condos) and sprawling. Completed after the boom was over, these large projects added to the housing glut, and thus to plunging prices, subprime defaults, and the banking collapse.

**Please submit a two page *curriculum vitae* / resume with your application.**

**GOALS FOR FEO:**

(List 3 to 5 succinct goals)

1. Collect, preserve and organize data for use by scholars (including myself).
2. Write first and then second drafts of an article about the timing of changes in house prices across municipalities (Florida) and metropolitan statistical areas (nation).
3. Write first and then second drafts of an article with Stan Smith about the timing and small-scale geography (census tracts) of population change during the housing boom. Eventual goal is publication in a professional journal.
4. Write first draft of an article with Jim Dewey about the contribution to the housing boom of retiree migration from cities with high house prices and cold winters to warm destinations. The model to be estimated will include relations among migration, apartment rents, house prices, and wages across metropolitan areas. Eventual goal is publication in a professional journal.
5. Present results to professional conferences, university seminars, legislators, alumni, and other groups.

**FEO PLAN/ACTIVITIES/SCHEDULES:**

(Describe in the space allotted on pp. 2-3 of this form; plan cannot exceed one calendar year.)

The first task will be to begin collecting and organizing data. I plan to hire a student with good data management and organization skills to work on this full time during the summer. Much of the data from national sources is readily accessible and relatively easy to put in useful form (in my case, Stata files). An additional and more demanding task will be to organize data from state sources, mostly Florida, and format it so that it will be easy to use both by me and by other scholars. Why is this important? The worldwide depression of the 1930s has been studied intensely from then until now. The housing bubble of the current decade will not (we hope) be as destructive of human wellbeing, at least not proportionally. But it is a transformational event that will be analyzed both now and for years to come. Florida, in some respects, is the epicenter of this event. (Nobel Prize winner Paul Krugman, for example, recently referred to Spain as "the Florida of Europe" as a way of saying it experienced the largest and most dramatic housing bubble on that continent.)

There are a number of detailed data sets relevant to the housing boom with which I am familiar because of years studying the state's economy. These include property appraiser data with millions of observations of real estate values annually, surveys of apartment rents, and wages by county. These data are in non-standard formats. My goal is to place them in the Stata format used by most economists, carefully document them, and make them available through the National Bureau of Economic Research for public use. (The NBER serves as a repository for economists of various types of data.)

The first paper I plan to draft starting now and through summer 2009 will explore the pattern of house price increases and construction during the boom years at the municipal level in Florida, using data from property appraisers. We know from other work that across municipalities the variance of house price increases was large in the first years of the boom (2001-2002), much smaller in the middle years (2003-2004), and then large again in the last two years (2005-2006). What I think is that in the first two years

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**FEO PLAN/ACTIVITIES/SCHEDULES: (Continued: page 2 of 2)**

house prices rose most in affluent high-amenity communities, driven up by a combination of supply restrictions, high wealth disparities, low interest rates, earlier housing booms in high-tech parts of the country, and the beginnings of baby boomer retirement. In the middle years, that process continued and was joined by a wave of rising prices at the lower end of the market fed by the proliferation of exotic mortgages. In the final two years, the boom became a pure bubble driven by flipping and speculation, with the result that the spatial pattern of price increases during the early years was amplified, somewhat randomly. [I plan to start this paper first because it links to a paper being completed by Jim Dewey and Larry Kenny on the effect of the housing boom on municipal finances.]

The second paper, which I plan to start in May 2009, will be with Stan Smith. Stan has a deadline for revising a book on population projections. For that book he wants to add a chapter on sub-county projections. That ties closely with my belief that the timing of the location of residential construction during the boom years was linked closely to the economics of redevelopment and permitting lags related to multifamily structures and to developments of regional impact. The delays resulting from these sources matter because they caused lenders to underestimate the elasticity of supply of housing (that is, the sensitivity of construction to house prices), using short-run responses to estimate long-run flexibility. Miami-Dade and Broward, for example, were thought to be built out. Only later did financial intermediaries become sufficiently aware of the third dimension, vertical. At the same time, the spread of exotic mortgages made large-scale low-cost developments in locations distant from employment centers profitable, at least for a time. Because of permitting lags, many of these were completed just as prices started to fall.

The third paper, which I plan to start in fall 2009, will be a study of the national housing boom in the context of a spatial equilibrium model of wages, amenities, and rents across U.S. cities. The particular model, known as the Roback model, is one that I stress in my honors urban economics course. It serves as the basis for the change in methodology for distributing K-12 funds that Jim and I recommended (in a report of about 150 pages) to the Florida legislature and which was adopted. A few years ago we completed a draft of this paper but have been too busy teaching and meeting deadlines on other projects to finish it. Our task will be to update the paper to include the housing boom years.

Presentations to professional conferences are planned for late fall 2009 and spring 2010. They include the Southern Economic Association, the Allied Social Science Meetings, and the Southern Regional Science Association. We will also seek invitations to present them at other universities.

**OUTCOMES OF FEO:** (Remember that you will be asked to submit a report of your accomplishments at the conclusion of the FEO. Please prepare this section with that report in mind.)

**A. List specific outcomes of this FEO related to your own professional growth and development.**

The housing bubble and the related financial developments arguably form the major macroeconomic event of the past fifty years. As luck would have it, one of the focal points of this event is Florida, as state which i have studied for several decades, while teaching macroeconomics and, more recently, urban economics. Consequently, it makes sense for me to devote the next ten years or so to writing papers about the housing boom. I can bring to that effort my knowledge of Florida, of macroeconomics, and of urban economics. I have taught either every or nearly every semester, including summers, for the past 25 years. Starting the summer of 2009, I will stop teaching summers in order to devote them full time to studying and writing about this episode. After, say, five years, I plan to stop teaching (i.e., retire) in order to devote full time to this research for, if lucky, the next five years.

**B. List specific benefits of this FEO to your department, college and/or the university overall.**

1. The housing boom may be the major macroeconomic event of the past fifty years. Studying it would enhance the large principles of macroeconomics course I teach.
2. Housing is a major component of urban economics. Studying the boom would improve my teaching of honors urban economics.
3. Being actively engaged in this research will develop skills useful as I interact with graduate students and colleagues doing their research.
4. If I am successful in obtaining good publications from this research, that will add a bit to the department's reputation. If it turns out to be particularly insightful, it could wind up adding to the reputation of the university as well.
5. I am often asked to give talks to alumni, business groups, and legislators about the economy of Florida. The topic I propose to study relates well to those talks.

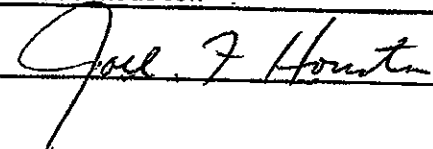
**CHECK ONE:** I agree (✓) or I do not agree ( ) that my proposal (WITHOUT budget information), if successful, can be shared with others applying for FEOs.

DENSLOW

**CENTRALLY-FUNDED FEO APPROVAL FORM**


**1. CHAIR, DEPARTMENT OR COLLEGE SABBATICAL COMMITTEE OR EQUIVALENT:**

TYPED NAME: Joel Houston

SIGNATURE: 

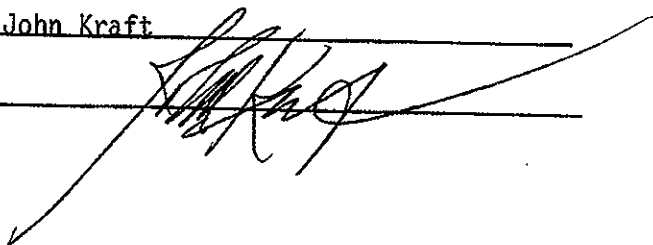
**2. DEPARTMENT CHAIR:**

TYPED NAME: JONATHAN HAMILTON

SIGNATURE: 

**3. DEAN:**

TYPED NAME: John Kraft

SIGNATURE: 

Denslow FEO CV emphasizing portions relevant to FEO proposal : David Denslow, Jr.

Economics Ph. D. Yale University 1974.

University of Florida: Assistant (1970), Associate (1975), Full (1985), Distinguished Service Professor (1992-present) of Economics.

Department of Economics: Acting Chair (1980-81), Chair (1987-89).

My 20-year association with the Bureau of Economic and Business Research (BEBR) has given me familiarity with data sources essential for the proposed project: Interim Director (1989-1990), Research Economist (1990-1993, 2005-present), Director of Policy Studies Program (1993-2005).

Extensive service on state and local boards has informed me about topics relevant to the proposed project: Chair, Florida Governor's Council of Economic Advisers (1987-90); Member Governor's Council of Economic Advisers (2000-07); informal economic adviser to Buddy MacKay; Member, State of Florida Transportation Transition Task Force (1991); Member, Site Selection Task Force, Tampa Electric (1989-90); Member, State of Florida, Governor's Task Force on Urban Growth Patterns (1988-89); Advisor, Florida Tax and Budget Reform Commission (1991); Member, Alachua County Economic Development Task Force (1985-88); Member, Alachua County Poverty Area Improvement Task Force, (1991-93); Member, Alachua County Economic Element Committee (1989); Member, City of Gainesville Fire and Policy Pension Board (2007- )

Over the past three decades I have given hundreds of presentations about the global and national economies, the economy of the State of Florida, and economic conditions in many local areas. These presentations--to groups ranging from the Council of 100 to legislative committees to boards of directors to UF alumni organizations to local service clubs-- have prodded me to think about issues relevant to the proposed project and to discuss them with several hundred business people and policy makers.

Among my refereed publications, at least three are relevant to the proposal.

(1) One contains a model that is mathematically similar to determine models of the timing of redevelopment at higher density: "Optimal Replacement of Capital Goods in Early New England and British Textile Firms: A Comment," (with David Schulze), *Journal of Political Economy*, May/June 1974, pp. 631-637.

(2) The second illustrates an early industry in spatial variations in wages and housing prices: "Compensating Differentials in Teachers' Salaries (with Lawrence Kenny), *Journal of Urban Economics*, Vol 7, 1980, pp. 198-207. This was based on a larger study for the U.S. Department of Education.

(3) The third indicates an early interest in migration: "Migration and Intervening Opportunities," (with Peter Eaton), *Southern Economic Journal*, October 1984, pp. 369-397.

Several of my many *Economic Leaflets* for the Bureau have been on topics related to the this proposal: Highways and Economic Development in Florida (1991), Migration's Boost to Work-Force Quality (1991), Geographic Variation in Wages in Florida (1991),

Real Value of Florida Farm land 1980-1990 (1992), Concurrency Has Not Harmed the Economy (1992), Why Was Florida's 1988-92 Construction Decline Double the Nation's? (1993), Fed Policy Spurred Floridians to Refinance Home Mortgages (1994).

I co-edited and authored or co-authored many of the chapters in *The Economy of Florida*, Board of Regents, 1990, 404 pages.

I co-edited and authored or co-authored most of *Tough Choices: Shaping Florida's Future*, October 2005, 453 pages. My opening chapter in this volume explained how Florida's prosperity at the time was hollow, arising primarily from a housing bubble. It projected that the bubble would burst with severe consequences for state and local budgets. As it was being written, this volume benefited from several presentations to and extensive comments from members of the Board of Directors of the Collins Institute, which included many well-known state leaders. That process deepened my understanding of Florida's economics and politics.

Many of the studies I have participated in for the State of Florida have helped prepare me for this project. Since 1995 I have been responsible for or involved in the construction of the Florida Price Level Index for each of the 67 counties, used for allocation K-12 school funds among the districts. This has involved calculating house price indexes using tax appraisal data for millions of properties, apartment rent indexes based on survey and web data from thousands of apartment complexes, and wage indexes constructed from the Occupational Employment Survey.

On several occasions I have led or participated in studies that served as a basis for revising the methodology of the Florida Price Level Index. The most recent study recommended replacing a retail index with an index based largely on wages, a recommendation the Legislature adopted. In the ensuing lawsuit, we faced an expert team headed by a Princeton economist, past editor of the *American Economic Review*. Funded with several times the amount paid us for the original study, he reported exactly replicating our empirical results, which were based on massive statistical calculations (and for which my colleague Jim Dewey should receive the most credit). The case was dismissed.

We have also undertaken analyses of highway, truck, rail and intermodal transportation; property taxes, including simulating the effects of various proposals on housing markets; and K-12 education.

My primary teaching responsibilities are introductory macroeconomics and honors urban economics. In the past I have taught labor economics, graduate macroeconomics, and graduate econometrics. All of these subjects relate directly or indirectly to this proposal.

Over the years I have provided service to the university, most of it, however, having little bearing on the topic at hand. A slight exception is that I provided statistical analyses for the President's Task Force on Athletics, the Senate Ad Hoc Committee on Faculty Compensation (which I also chaired), the Fringe Benefits Committee, and the Future of the Library Task Force. I have also served on over sixty Ph.D. committees, many of them on relevant topics, including chairing 16 of them.