

(J. M. Dwyer)

Notes for May 22, 1936
Maryland Bankers' Association
Atlantic City, N. J.

Speech by Dwyer on Housing

I am only too well aware that a substitute is the kind of thing you have been repeatedly warned to beware of and to refuse to accept. You would prefer, I know, to have the genuine article in the person of Governor Szymczak, who does a much better job of this sort of thing than I do.

His inability to be here today leaves me somewhat in the position of the little girl who had taunted another little girl with the reminder that she was an adopted child. This is an old story, and for all I know the two little girls may be grandmothers by this time. At any rate, when the

story was young the little adopted girl said rather perkily:

"What if I am an adopted child? My mother and father picked me out, but yours had to take you just the way you came!"

Since you cannot have the speaker you picked out for this morning, I shall ask you, as one Marylander to others, to relax yourselves into a tolerant, even an indulgent, mood, and take me just the way I come. For myself, I am grateful for the accidental circumstance that brings me here. Until a few years ago it was a more or less regular thing for me to be in Atlantic City at the annual convention of this Association, and I am glad to be back with you again.

Nor is it a new experience for me to talk with Maryland bankers, and more especially with Baltimore bankers, about matters having to do with their business,

and more especially about matters having to do with new business. In fact, I did that with a fairly representative part of the membership of this Association over a period of expansion in Baltimore banking and finance which those who survived are not likely to forget.

Some of you gentlemen with whom I was associated in the development of the guaranteed-mortgage business during that period will recall that in the year 1920, when bond prices were making history on the downswing and the banking business was pretty low too, I made bold to forecast an early revival of the long-arrested real-estate and construction business, and argued from our war-time suspension of building activity that this impending revival would be of huge proportions and would result in an unprecedented demand for mortgage financing.

Well, as some of you ask yourselves these days where new business and new earnings for banks are to come from, I wonder if you have had put before you yet by your economic or statistical advisers the fact that six and a half years of depression have left us with a much greater arrears of housing than we accumulated during the war-time period? And I wonder if they have put before you the further fact that, besides making up whatever part of this deficit we can, we have also to provide housing for the boys and girls who were born during that war-time period and who are now coming of age, marrying, having babies, and increasing the census figures by nearly half ~~a million~~ families a year?

That is where some of the new business and new earnings for banks are to come from; that is where new

orders for lumber, brick, cement, paint, steel, aluminum, copper, lime, gypsum, stone, sand, and gravel are to come from; that is where employment is to come from for men who work in the fabrication, manufacture, and transportation of building materials and equipment; that is where relief from relief is to come from, where additional revenue for federal, state, and local governments is to come from, where a balanced budget is to come from.

In short, there is a bigger housing market backed up here in the United States than most of us have yet begun to realize—a far bigger housing market than we had during the 1920's or at any other time in the country's history.

I was very much puzzled a few weeks ago, when some of my friends in the National Association of Real

Estate Boards made the curious assertion before a Senate Committee to the effect that there is no urgent need for new housing in the United States. They said that the "nation-wide vacancy" in our 15 million urban dwelling units is "about 3 per cent" and that this vacancy shows that an acute shortage of housing does not exist.

Why, as long ago as last summer, I received from these same gentlemen a report summarizing the results of a survey made by the Real Estate Boards in 251 cities. Only 2 per cent of these cities, according to that survey made nearly a year ago, had a surplus of single-family dwellings, and only 6 per cent had a surplus of apartments. In contrast to this, the report stated that 69 per cent of the cities were "already showing a shortage" of single-family dwellings and 29 per cent a shortage of apartments. And, far from

that shortage having diminished since the survey was made, there has not been enough new housing built during the past year to take care of more than a small part of the normal year-to-year increase in the number of families.

My purpose in referring to the recent testimony of my real estate friends is not to chide them on their misinterpretation of their own statistics, but merely to caution you against falling into their error of assuming that a housing shortage is not a housing shortage simply because figures can be adduced to show that there is a so-called nation-wide vacancy of about 3 per cent.

Whatever may be the condition in any given community, or neighborhood, or mortgage portfolio, there

is unquestionably a nation-wide shortage if there is a shortage of single-family dwellings in 69 per cent of our cities and a shortage of apartments in 29 per cent. And I do not need to tell you that a marginal surplus of 3 per cent for the country as a whole does not begin to take account of the number of properties that are in deplorably bad condition and unfit for human habitation.

Let me illustrate the matter in local terms, without assuming a knowledge of precise local conditions that I do not now possess. It does not contribute anything to the solution of the housing problem of a stevedore at Locust Point or Canton that houses are available, let us say, in Guilford or Homeland. Nor would the availability of houses in Highlandtown or

Halethorpe have the slightest influence in meeting the demand of families that have decided to buy or build, when they buy or build, in the Green Spring Valley or the Worthington Valley or the Delaney Valley. The availability of choice sites and cheap lumber in the hills of Garrett have no interest whatever to the newly married truck farmer in Queen Annes or Talbot, or to the young fisherman who has taken a wife in Somerset or Worcester.

If we are to grasp the magnitude of housing operations that lie ahead of us in the United States over the next 5 or 10 years, it is necessary for us to remind ourselves of the elementary fact that this is a big and growing country; it covers a lot of territory

and it has a lot of people in it. It does not take long for a deficit in residential construction to run into large figures. A downward trend of residential construction began in this country in 1928 and continued at a steadily accelerating pace until 1934; In 1933 it reached the lowest level since ~~that which prevailed~~ at the end of the World War; for the three years 1932, 1933, and 1934, it represented only about 10 per cent of the average of 1926; It began to rise in 1934, and during the past year has steadily increased, but it is even now going on only at the rate of about 20 per cent of the pre-depression figure;

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What is the result in terms of present and prospective housing requirements?

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↙ a variety of computations have been made and published, some of them placing the estimated requirements over the next decade up to 14 or 15 million units.

If we put aside what appear to be the more extreme estimates, and take ~~instead~~ those which ~~appear to~~ have the virtue of moderation, we find that even if we assume a surplus of 700,000 dwelling units to have existed at the end of 1929, we now have a deficit of not less than 2 million units resulting from the discrepancy between the small number of ^{housing} replacements ~~and additions~~ during the depression ^{and} ~~in~~

relation to an average yearly increase of some 475,000 to 500,000 in the number of families;

↖ If we project the requirements over the next 10 years, say to the end of 1945 or the middle of 1946,

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the total provision of new housing called for, in order to take up the accumulated deficit, meet the net increase in number of families, and replace, say, but 75,000 houses a year that may certainly expect to burn down, or be torn down, or be otherwise withdrawn from use, we shall have to average approximately ^{750,000}~~760,000~~ new dwelling units per year, or a total for the 10 years of more than 7 1/2 million.

Now this is a large order even when you take into

~~consideration the fact that it includes all kinds of housing, urban and rural, from the most modest to the most pretentious. We might in fact add an additional million to the 10 year estimate without straining the probabilities for the figures that I have given does not take into account such factors as the abandonment of a substantial number of houses~~

750,000

that inevitably occurs when communities suffer a net loss in population, nor do the figures take into account the general trend toward earlier marriages that has been proceeding for several decades. Furthermore, the figures do not assume, what might well be assumed in a country that is becoming housing-conscious, a more rapid demolition of unfit housing than has ordinarily taken place in the past. If we confine ourselves simply to a moderate estimate of the requirements for urban housing alone, we find that even here the demand over the next 10 years will be for 4 million or more new houses and apartments.

~~It is easily to be seen, therefore, that there is ample justification for the statement made a couple of weeks ago by the President in his message to the Convention.~~

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~~of the American Institute of Architects at Williamsburg,
Virginia, that here in the field of housing there is a
business opportunity of the first magnitude and that it
constitutes the next great field of American industrial
development and expansion.~~

What this means in the way of further industrial recovery and employment can be judged from the British experience of recent years. The relative prosperity that Great Britain has enjoyed during a corresponding period of depression in this country has been attributed in the main to the country's extensive program of small-house construction.

During the past 5 years the number of houses built in England and Wales totaled 1,179,294. The number built in the United States during the same period is

estimated at about 700,000. Had we built at the British

rate in proportion to our larger population we should produce 3,500,000 houses during the next 5 years at 5 times as many ~~have produced during the same 5 years 5 times as many~~ many houses as we actually produced during the past 5 years - ~~houses as we actually produced, or 5,500,000.~~

~~Now we might ask, in conclusion, where~~ ^{are} the funds

~~are~~ to come from to finance the home-building that will

be required for these three-quarters of a million or more

houses that we shall need to build each year on the average

over the next 10 years.?

The answer is that the funds are to come in the

main from the banks, unless the banks are to relinquish

to other agencies a large proportion of the savings now

held by the banks. It would appear that at the present

time the national banks, the State member banks of the

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Federal Reserve System, and the non-member insured banks have the authority, under existing law, to make real-estate loans up to a total of approximately \$9,100,000,000. Their outstanding loans on real estate are approximately \$3,300,000,000. Thus there is legally available from this source an additional \$5,800,000,000.

In addition it is estimated that life insurance companies and mutual savings banks hold something like 4 billion dollars in cash or United States Government securities over and above the proportion of their total assets held in these forms from 1925 to 1931. From this it may be estimated that, if the portfolios of these institutions were to return to more normal distributions, they would be able to absorb with their present resources,

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given appropriate conditions, something like \$2,900,000,000 of non-farm mortgages. An additional \$100,000,000 may be estimated to be currently available in the idle funds of building and loan associations. This might be increased to some \$400,000,000 if the potential borrowing power of these associations were availed of through membership in the Federal Home Loan Bank System.

~~The conclusion seems to be clear enough, then, that the new-business operations of the banks in the years immediately ahead of us lie chiefly in the field of housing, not only in the making of real-estate loans, but in the commercial opportunities that will become available as this great potential market develops for themselves and for their commercial borrowers, in fact, all the different~~

kinds of lending institutions which do the financing arising from this kind of industrial activity, and all the different kinds of enterprise which go to make up the housing industry, would seem to have ahead of them over the next 5 or 10 years far more business from this source than they have ever handled during any comparable period in the past.

Furthermore, as to the mortgage financing that will be involved in these operations, our lending institutions have now available to them the additional facilities and safeguards that were not available in the past--most notably those provided by the Federal Home Loan Bank Act, the National Housing Act, and the Banking Act of 1935.

I would not urge you to explore the possibilities of this approaching housing market if your judgment dictates

a different course. I would simply point out to you that building is again by way of becoming the Number One big business in the United States, that none other of comparable magnitude is in prospect as a field of new business for banks, and that it bids fair to be with us for a long time if we deal with it prudently and with a decent regard to our past mistakes.

I thank you.