

Tentative

November 20, 1937.

A MESSAGE ON HOUSING

In my message to the Congress on November 15th I indicated that I would address you shortly in regard to proposals to stimulate housing construction. I do so now.

For the great bulk of our people housing accommodation is one of the most important items in the standard of living. In general, the smaller a family's income the larger the percentage of it that goes for rent. To raise the standard of living, which is our common goal, our people must be provided with more and better housing accommodation. Advances in money wages and salaries cannot be translated into a higher standard of living if they are absorbed in steadily rising rents for the existing inadequate housing accommodations.

From 1930 to 1937, inclusive, our total stock of houses suffered a serious depreciation, while at the same time population increased. The small average annual addition of 180,000 new housing units in this period has not begun to offset demolition and the depreciation of existing homes. It is true that some cities and some regions are better off than the average, but this means that in others the accumulating shortage is even worse. In terms of adequate housing accommodation per family unit we are far less well off than in 1930.

The largest single contribution to a rise in the standard of living lies in reversing this state of affairs.

Building statisticians inform me that in the next five years some 4 million housing units, or an average of 800,000 a year, should be built to make up for the accumulated shortage, to offset demolition, and to meet the normal growth in families. In other words, we could build during the next five years 4 million units, which at an average cost of \$4,500 per unit would amount to an aggregate of \$18 billion, without creating a surplus of housing accommodation, and hence without impairing the value of existing properties.

This potential demand, if released, would give continuous employment to all the workers at present in the building field and to many additional; it would tax the capacity of the materials and equipment producers; it would ensure the continuance of recovery and the maintenance of prosperity for a long period; and it would make possible a marked rise in the standard of living of the American people.

The potential demand will materialize only on one condition. The cost of acquiring a new home must be reduced and the profitability of building for the purpose of renting must be increased. In short, building costs and carrying costs must be lowered; it must become profitable to build. The provision of adequate housing accommodation within the limited means of the bulk of the people has been achieved in other countries. It must be achieved here.

I trust the industry has taken to heart the lesson of recent experience. The sudden downturn in housing construction in April of this year, when a steady rise through the summer had been widely

anticipated, was one of the major factors precipitating the current business recession. In short, houses will not be built if costs are too high relatively to rents, regardless of the upward trend in general business activity. On the other hand, experience indicates that houses will be built if the relationship of costs to rents is favorable, even when business activity is declining. It was building activity that formed the basis of England's recovery and it was increasing building activity that initiated the revival from the business recessions of 1921 and 1924 in this country.

Governmental assistance to municipal housing made available at the last session of the Congress will provide for but a fractional part of the total housing need of those in the lowest income brackets. The major responsibility for housing rests on private capital and private enterprise. The legislative proposals I am suggesting at this time, therefore, are designed to evoke the decentralized and simultaneous activity of hundreds of thousands of private individuals. They depend for their effectiveness on the cooperation of all the elements in the building industry -- on the workers, on the operators and contractors, on the material and equipment producers and dealers, and on the lenders.

For the industry to avail itself of this opportunity and at the same time to discharge its responsibility to the community at large it must, in the characteristically American way, aim at profitable

operations through large volume at low unit costs. The difficulties of the building industry up to now have centered around high unit costs, small volume and low annual returns over a period of years.

Let me make it perfectly clear that I am not expecting any group to make a sacrifice. I am merely asking all groups in the building industry to adopt the industrial formula of large volume at low-unit costs which has worked with such marked success in other industries. We have always regarded mass production at low cost as the key to industrial prosperity and a high standard of living.

To set the stage for a building revival of large dimensions in the coming building season I urge that the Congress adopt at this time measures to facilitate the financing of every type of new dwelling, whether built for ownership or for rent, and ranging from the very smallest of individual properties to the very largest of multiple housing developments. In addition to measures to stimulate the building of new houses, provision should be made for an extensive program of repairs and modernization of existing homes.

The program I suggest, after consultation with men both within and outside the Government, provides mechanisms that will make it practicable for private enterprise to provide housing on a large scale at prices and rents within the reach of the mass of the people.

For low-cost new homes appraised at \$6,000 or less I suggest that the Federal Housing Administrator be empowered to insure loans

up to 90 percent. I also suggest for this type of new building that the present one-half of one percent annual insurance premium on the face value of the mortgage, which amounts to a rate of three-fourths of one percent to the borrower, be reduced to one-fourth of one percent on the outstanding balance. Low-cost homes have proved to be the best risk in the whole housing field.

For new homes costing more than \$6,000 I suggest that the insurance premium be reduced to a maximum of one-half of one percent on the outstanding balance when the ratio of the loan to the property value is 80 percent, with lower rates of premiums for lower ratios.

In order to meet the requirements of that large portion of city dwellers who live in low-rent apartment houses, I suggest that the benefits of insurance be extended to mortgages on apartments up to \$200,000 but not exceeding \$1,000 per room. On the same basis, the insurance privilege should be extended to blanket mortgages up to \$200,000 covering newly constructed groups of houses built to rent.

For large multiple dwelling units with a moderate scale of rentals the character and success of the properties already constructed and in operation make it evident that the limited dividend mechanism is susceptible of much more extensive development. It is in this type of housing that the largest savings in building costs are possible.

The chief retarding element up to now in the limited dividend housing program has been the difficulty of arranging for the large individual mortgages required. To meet this difficulty I urge that the Federal Housing Administration be empowered to organize a national mortgage association, with a capital of \$25 million, subscribed by the Reconstruction Finance Corporation, and with authority to issue up to \$500 million of debentures to the public. This association, together with others that may be organized with private capital, should be authorized to make loans directly to limited dividend companies. Through this channel private funds will be enabled to flow into private construction. Because of the very large individual mortgages necessary in this type of development, financing through national mortgage associations would not compete with banks, building and loan associations, and individuals but would, rather, afford these latter groups a safe outlet for idle funds.

In addition to the measures I have just suggested, the wording of the present statute relating to limited dividend housing developments should be clarified and ambiguities removed.

Finally, I urge that a financial mechanism be provided for a large-scale repair and modernization program. Expenditures for repairs and permanent fixtures are estimated to equal over half the amount expended on new houses in 1937.

In summary, I propose that the Government take the initiative in bringing about a reduction in carrying costs; in bringing about a reduction in the initial down payment for low-cost houses; and in facilitating in various ways the construction of multiple dwelling units to rent. I urge, in particular, that changes be made by statute and administrative regulations that will make it possible for the financing costs on low-cost homes to be reduced by 20 percent which, with a reduction in the down payment, will work out as the equivalent of a reduction in actual construction costs of nearly 10 percent. I want to bring adequate housing within the reach of people who can afford only a few hundred dollars as an initial down payment.

I expect, and I know I speak for the whole community, that all the various factors in the industry will, so far as possible, attempt to match the proposed reduction in carrying costs. I earnestly invite their cooperation.

I most emphatically am not asking any group in the building industry to accept lower annual returns. I am calling for the cooperation of all groups for their mutual advantage. The profits of the building industry and the income of building labor have suffered because of low volume. For example, the average remuneration of building labor in 1936, according to the Department of Commerce, barely exceeded \$1,000 for the year. I am suggesting that all elements in

the industry will profit by an increase in the volume of new building which can be obtained by a reduction in building costs.

Reduction in unit costs should lead not to a decrease but to an increase in the income of building labor. Reduction in the costs of building materials and equipment should add materially to the volume of business and the net profits of the steel, lumber, cement, plumbing and other industries that supply building materials and equipment. Reduction in the costs of financing should supply increased outlets for the idle funds of financial institutions.

I know that each group will be tempted to say to itself, "My prices, or my rate of remuneration, constitute a very small proportion of the total cost of a finished house. A ten percent or a twenty percent reduction in my prices can affect the total costs by very little, but it means a good deal to me." This line of reasoning, if generally adopted, can spell only disaster. There must be no holding back on the part of any group in the expectation that both large volume and high unit costs can be obtained. It was because of such reasoning that the promising building revival last winter and spring was killed off by excessive advances in construction costs. It is because of such reasoning that housing construction is currently running below last year, despite a growing housing shortage and despite higher incomes and advancing rents.

I hope that all the elements in the industry will approach their common problem in an atmosphere of mutual frankness and cooperation,

and I shall do all in my power to create and maintain such an atmosphere. If all make concessions all will benefit and none will lose. On the other hand, any group that by an unyielding attitude creates an atmosphere of discord and suspicion, and makes impossible all around reductions in construction costs, will assume, in the present juncture, a heavy responsibility indeed.