

PROSPECTS FOR HOUSING

10/5/45
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Present situation in housing

1. The housing we now have is being used as fully as possible. Vacant houses and apartments amount to less than one per cent of all units in practically all the places that have been surveyed recently. The desirable ratio is about five per cent.
2. During the war we have built about 2,750,000 permanent units, but the number of families has increased by about 4,850,000. Migration of population to war centers has created serious housing shortages in those places, and practically all of the housing built during the war has been built in war activity areas. Throughout the country, however, families have undoubled and sought larger quarters as their incomes increased, so that now, there are shortages in areas which had very little or no war business.
3. Prices of houses have risen substantially since 1940 -- on the average, probably between 40 and 60 per cent, but in some areas average increases have been much greater. In some places the prices of the lower-priced houses have increased by 100 or 150 per cent. The Office of Price Administration recently found that, over the country, houses which had been rented and were sold for owner-occupancy sold for 145 times the monthly rent, and in one region for 195 times; in some cities the ratio was even higher. The ratio which is usually considered normal is 100 to 1. Residential real estate appraisers, in a recent survey, estimated that houses are selling for 20 per cent above reproduction cost.
4. Rents have been kept from rising and are now probably less than 5 per cent above their 1940 level. Because of the rise in prices of houses, however, many houses which were rented have been sold for owner-occupancy. In 1944 O.P.A. issued 165,000 "certificates of eviction" which must be obtained by landlords who wish to sell rented houses to persons other than the tenants; during the first eight months of 1945, 150,000 certificates of eviction were issued.
5. People are now in a position to bid for housing. Incomes have been high during the war and will probably continue relatively high for some time for a substantial number of families. Families have larger holdings of liquid assets now than ever before, though there are a great many families who have no or very small holdings. Many families have also reduced their indebtedness; consumer debt is down 4.5 billion dollars since 1941, and at least two billion dollars of mortgage debt has been retired. Other families have gone into debt to the extent of about 1.5 billion dollars for the building of private war housing.

6. All indications are that a very substantial number of families are now in the market for houses -- both new and old -- and there can be no doubt that the number of would-be buyers of houses next spring will be far in excess of our capacity to build new houses. It seems now that the largest number of houses we shall be able to build in 1946, with the best luck, is 500,000, while the smallest number of people we can expect to be looking for houses is 1,000,000 or 1,500,000.

Government participation in housing

1. During the war, the Government exercised several controls over housing and residential building.

- a. The Office of Price Administration controlled rents. This control is still in force and O.P.A. has authority to continue it in force until June 30, 1946. O.P.A. does not have any authority to control the price at which houses are sold.
- b. The War Production Board, through Limitation Order L-41, controlled the building which might be done and channeled materials to jobs which were approved. Under this control, the National Housing Agency established residential building programs for each locality, specified the kinds of houses that might be built, and established maximum prices and rents which could be charged.

L-41 has now been rescinded, effective October 15, so that the Federal Government now has no control over the amount of building which will be started, the type of building which will be undertaken, where the building will be done, or the prices which will be charged.

When L-41 was rescinded, Mr. Snyder announced a six-point program "to speed expansion of the construction industry", but nothing seems to have been done about it, except that the O.P.A. has speeded up its program of tightening its controls over the prices of building materials.

- c. The Office of Price Administration controlled the prices which might be charged for building materials and for the services rendered in contract construction. These controls were not outstandingly successful during the war, but O.P.A. has tightened the controls and strengthened their administration, so as to control inflation when building starts again.
- d. The War Manpower Commission diverted labor to essential jobs during the war. This control has been eliminated.

- e. The War Labor Board regulated wage rate increases, and this control has also been eliminated. There is, however, an informal agreement between the building trades unions and the Office of War Mobilization and Reconversion that wage-rate increases will not be demanded. I do not know of any disputes over wages in the building trades.
2. For the near future the Government has three controls of housing and residential building:
 - a. Rent control, exercised by O.P.A.
 - b. Control of the prices of building materials, also exercised by O.P.A.
 - c. Control of the accumulation of inventories, exercised by W.P.B. This control will probably not be used effectively, and W.P.B. is to wind up its affairs very soon.
3. There have been indications that an attempt will be made in Congress to have O.P.A.'s authority to regulate rents removed before next June. If this should be successful, the results will be serious.
4. Mr. Bowles, Administrator of O.P.A., has spoken a good deal recently about the need for control of the prices of houses, both new and old, and has said that O.P.A. will urge Congress to pass a bill giving O.P.A. this authority.

Remarks

There are very serious dangers in the housing market today. The demand for houses is so far in excess of the number which we can reasonably expect to build soon, that prices of houses are likely to rise further. In this situation, builders bidding for scarce materials will put very strong pressure on price ceilings, and black market operations, at very high prices, are likely. (I have heard that truckloads of brick are now being hi-jacked.) If price controls are broken, building costs can easily increase so rapidly and so far as to stop building completely.

If rent controls are removed, this situation will be made very much worse, since families who are content to remain where they are at present rents will come into the market if rents are increased 30 or 50 per cent.

The danger of inflated prices to mortgage borrowers and lenders is also serious. Many of those who have bought and borrowed during the last three years will probably bear losses when the market for houses is more nearly satisfied, and if prices continue to rise, those who buy in the near future will lose money or have their mortgages foreclosed. Lenders who have sanctioned high appraisals are likely to suffer losses too.

It seems essential that Government should do what it can to prevent prices and costs from rising further and to protect buyers and

borrowers, many of whom will be veterans. The first step would seem to be to make sure that the controls which still exist, namely, rent control and control of building material prices, should be continued and strengthened. Since it is probably impossible for the Government to obtain again the power to control the amount and kinds of building, and the prices charged, by reviving L-41, it seems desirable that the Government obtain as much control as possible over the prices of houses. Mr. Bowles' proposed bill would do this, and though it would probably be difficult to administer, it would be better to have the power than to have no power whatever. If direct price control cannot be obtained, the next best thing might be some power which would bring prices under the scrutiny of the Federal Housing Administration, even if it were required only that the seller must show the buyer an appraisal certified by F.H.A. as "reasonable long-time value". Lenders might also be required to file such an F.H.A. appraisal with each mortgage note for the scrutiny of the examiners.

The removal of L-41 has left us with only very weak brakes on a very dangerously inflationary situation. The fact that, without L-41 or a control like it, no measure so far thought of is easy to administer or likely to be completely successful makes it very possible that the Government will do nothing, and that is probably the worst it could do.

R.Wood
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