

## THE NEED FOR CONTROL OF THE RESIDENTIAL REAL ESTATE MARKET

There are several serious dangers in the present housing market for both the immediate future and the longer period. Prices of houses and costs of building have risen markedly since the war began; the production of many building materials is at a low level, dealers' inventories are short, and large numbers of building craftsmen are <sup>still</sup> in the armed forces or in other jobs; there is a large demand for houses, families have accumulated large savings, and lenders have large amounts of funds available to lend on mortgages. This situation can have serious consequences if the Government does not intervene effectively.

Many people have bought houses during the past two or three years at high prices, and many others, on the strength of increasing market prices, have increased the mortgage debt on houses they already owned (although this development has been concealed to some extent in the over-all figures of mortgage debt outstanding by the fact that many others have been paying off their debt more rapidly than their contracts require); these people have undertaken obligations they may not be able to meet if their incomes decline, and they will bear substantial losses if the prices of houses fall. Many lenders have made mortgage loans on the strength of increasing market prices, and they too stand to lose if borrowers cannot meet their obligations or if mortgages have to be foreclosed.

As things stand now, there is great likelihood that the prices of houses will advance further in the immediate future, and

if this happens, those who buy, borrow, or lend in the coming months will run an even greater risk of later trouble than do those who have already made commitments.

One of the most disturbing features of the present situation is the uncritical faith that is being placed in the proposition that the way to avoid further inflation in residential prices is to build more houses. Divorced from considerations of time and circumstances, this proposition seems deceptively obvious. If we had enough houses, there would be no inflationary threat. But we cannot accept the implication that, if the market is left free now, uncontrolled building in the next year or two will prevent further inflation during that period. The fact is that the number of new houses we can add to the existing supply in the next two years is so small that it will not come close to meeting the demand.

Mr. John B. Blandford, Administrator of the National Housing Agency, testified last week before the Senate Banking and Currency Committee that between October 1, 1945 and December 31, 1946, there will be a demand for 4,660,000 units, and that to meet this demand there will be only 1,420,000 units available. Of the 4,660,000 units needed, 2,900,000 will be required by veterans; of the 1,420,000 units which will be available to meet the need only 475,000 will be provided by newly-built houses, the rest coming from existing vacancies and vacancies created in one way or another during the period. This is surely not the picture of a situation in which new

construction, even in larger volume than we have any reason to hope for, will solve all our immediate problems. The inflationary housing shortage will be with us all of next year, and probably for some time thereafter.

Even the 475,000 new units which are to be available by the end of 1946 will be available only if we have an orderly market. For some time now, publicity has been given to the fact that there will be materials to build between 400,000 and 500,000 units next year. We will build even this insufficient number of houses only if the materials are brought together into complete houses. If builders try to start in the next few months all of the houses for which there seems to be a market on the basis of the small number of vacancies in existing houses, the high prices of existing houses, and the amount of liquid assets which families have indicated they are ready to spend for houses, we may obtain a good deal less than 400,000 houses in 1946. We must not try to start more houses than we have materials to finish, or materials will be tied up in houses that cannot be completed.

If the housing market is left uncontrolled, we shall not only run the risk of starting many houses which cannot be finished, but, perhaps more important, we shall also invite further price and cost inflation. In the absence of controls, the new houses built in coming months will sell, by and large, for the prices that can be obtained for comparable existing houses, and this, practically everywhere, is above the cost of construction at the present time.

Builders can afford to bid up the prices of materials, labor, and land, until their costs are close to market prices. At the present time there are legal ceilings on the prices of building materials, but if the prices of new houses are left free and there are not enough materials to go around, it is very doubtful that these ceilings will hold. It will be truly amazing if suppliers, seeing that demand cannot be satisfied with available supplies, do not ration the supplies they have to those customers who will pay higher prices, and if builders who are anxious to start operating, or to stay in business, do not pay the higher prices, willingly or unwillingly, in order to get their share of the materials available. In any case, whether the price ceilings on building materials hold or not, the prices of new houses will be high because speculative builders, who build most of our houses, will charge what the market will bear whether their suppliers do or not.

It seems to me that we need the kind of Government intervention proposed in Mr. Patman's bill, H.R. 4761. Three elements of that bill, I think, are particularly important: first, control of the prices of houses, both new and old; second, provision for the allocation of building materials if that is necessary or desirable; and third, provision for taking care of veterans. I advocate special help for veterans not in order to establish veterans permanently as a class apart from the rest of the population, but because the veteran has a special housing problem. The rest of the population is crowded, but at least it has had time and opportunity to find some housing; the veteran has not had that opportunity, and he is entitled at least to help of the kind we extended to war-workers while the war was on.

Perhaps a sound case can be made for changing the bill in some of its particulars. It may be that the powers of the Director of Housing Stabilization should be given to an existing agency; that subsidies should be authorized in more general terms, to be used as necessary; or that the Executive branch of Government has all of the powers needed to allocate building materials effectively. These, I think, are minor questions which can be settled fairly quickly if Congress agrees that the important powers in the bill must be granted to an executive agency.

It is most important for the long-run stability of the housing market that we build the largest volume of new housing possible during the next two years, and at the same time prevent further substantial inflation in prices and costs, for if prices and costs continue to rise, we run a serious risk of repeating the experience of 1919-1920 when costs rapidly rose so far that building was stopped before it was well under way. If we let this happen, the housing shortage will be with us for a long time to come.