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OFFICE OF WAR INFORMATION
NATIONAL HOUSING AGENCY

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Local and regional surveys by both private and governmental organizations reveal a dangerous four-year increase in urban real estate prices with indications that the upward trend is continuing in 1945, the National Housing Agency reported today.

Price increases for existing residential property from 1940 to late 1944 vary from as little as five to 10 percent in a few communities to 75 to 100 percent in crowded war industry centers, the NHA review of the situation disclosed.

The two most complete studies available — based on "opinion surveys" only — show a 28 percent increase in Washington, D. C., and a 59 percent increase in Los Angeles County. The Washington figures are based on data as of April, 1944, while the Los Angeles figures are as of October, 1944.

"As would be expected in view of the essentially local character of the housing market, the reported price increases show an unusually wide range, reflecting the placement of war orders, the extent of in-migration, local housing shortages and other factors incident upon the operation of our war economy," the NHA reported.

For these and other reasons, it was pointed out, it is difficult to arrive at a precise statistical measure of overall price trends. But from a study of a mass of local data, the following general conclusions were reached:

1. The West and South generally show larger price rises than the East or North-Central area.

2. Increases for property in the lower price brackets have been greater than for higher priced property.

3. Although the intensity of price increases varies, the existence of such increases is fairly wide-spread.

4. There are indications that the upward movement was unabated in 1944 and some reports express the opinion that it is likely to continue in 1945.

These findings were based on analysis of private surveys and field reports from regional managers of the Home Owners' Loan Corporation, state and district directors of the Federal Housing Administration, Federal Home Loan Bank presidents, Federal Home Loan Bank Administration supervisory reports and regional representatives of the National Housing Agency.

One of the most significant reports was based on the actual sales during 1944 of about 5,000 properties on which the HOLC held mortgages and which showed sales prices during 1944 were on the average 36.9 percent greater than the original HOLC valuations made in the period 1933-1936.

The Washington, D. C. survey was undertaken by the NHA in placing into practice a method for measuring real estate price rises which it is hoped will prove effective in any given community.

This survey was based on a carefully selected sample of typical medium and upper priced one to four family dwellings ranging in price in 1940 from $5,000 to $16,000. The information reflected opinions of selected real estate brokers. The average increase was 27 percent from 1940 to April, 1944, and 16 percent from 1940 to April 1, 1943.

Surveys in Los Angeles County were made by the Residential Research Committee in May and October of 1944, with the aid of FHA officials. They showed an average price increase in single family dwellings of 59 percent from 1940 to October, 1944, and 56 percent from 1940 to May, 1944.

These results were based on sales prices and opinions or estimates of sales prices for a selected number of typical properties located in various parts of the county. Actual sales prices were used for 1940, and the opinions of brokers and others were used for the current estimates of sales prices for the same properties. The properties covered by the surveys sold for $3,000 to $12,000 in 1940.

The regular surveys of the National Association of Real Estate Boards were also taken into consideration in studying the general picture.

The latest semi-annual survey of the Association, based on the opinions of a large number of local boards, showed that in 84 percent of the cities reporting, sales prices were higher in September, 1944, than in September, 1943. The median rise for these cities was 12½ percent. In 15 percent of the cities reporting, prices were reported as being the same as in September, 1943, and in only one percent of the cities were prices reported as being lower.

A similar semi-annual survey for July, 1943, showed that in 87 percent of the cities reporting, sales prices were higher than in July, 1942, the median rise for these cities being 12 percent. In 11 percent of the cities reporting, prices were the same and in two percent of the cities prices were lower.

Regarding the HOLC analysis of sales, the NHA reported:

"The use of original HOLC valuations (made during the 1933-36 period) and sales prices as an index of computing inflationary trends has the advantage of reflecting the average types of home property. It includes poor types of properties, many middle classes of properties, and a relative proportion of the better types. Furthermore, it reflects sales in all sections of the United States, in small towns as well as in cities. No allowance was made for depreciation, and properties on which improvements had been made by the HOLC were excluded from the analysis.

"It is estimated that the average house involved in the HOLC sales survey was about 22 years old."

The following states were among those found to have a higher percentage of sales prices over loan valuation than the national average of 36.9 percent -- ranging from 45 to 65 percent: Washington, Oregon, California, Mississippi, Florida and Texas.

Among the states falling below the national average were: Maine, West Virginia, New Jersey, North Dakota and South Dakota.

A comparison of the sales during the second half of 1944 with those for the first half shows also that the trend was upward in 164 localities, while it was downward in only 25. In eight states, however, the situation was relatively stationary.

"The National Housing Agency," according to Administrator John B. Blandford, Jr., "has been increasingly concerned about the inflationary trend in real estate prices. This is particularly true with reference to the inter-relationship between mortgage lending practices and rising property prices as well as over the tenant evictions resulting from the sale of houses to prospective owner-occupants, which have greatly added to the problems of war housing. The various units of the NHA are taking what remedial measures they can within their existing powers to cope with the situation.

"There is, however, a limit to the controls which can be exercised through lending, since many buyers are able to make substantial cash down payments.

"The large amount of permanent war housing which has been constructed for both rental and sale has had considerable effect in limiting the inflationary trend in real estate. As manpower and materials become available for housing to relieve congestion -- in addition to that programmed for migrating war workers -- it is hoped that it will take part of the edge off of the inflationary movement."

Both the Federal Home Loan Bank Administration and the Federal Housing Administration -- the two units of the NHA most directly concerned with the problem -- long ago recognized the dangers of inflationary tendencies in the real estate market and developed programs to combat them.

Beginning in August, 1941, the Federal Housing Administration issued a series of instructions to its underwriting staff to the effect that temporary or unstabilized cost increases "cannot be reflected in long-term, insured mortgages" under Title II (of the National Housing Act). Later, clear recording methods were supplied for the determination of long-term use values as distinguished from market prices.

The FHA has also engaged in a substantial publicity campaign directed toward both mortgage lenders and home purchasers, in which the dangers of the present market are strongly emphasized.

The FHLBA's supervisory activities have been directed toward inducing members of the Federal Home Loan Bank System to (a) require that qualified appraisers shall submit appraisals on "long-term stabilized value for long-term mortgage lending purposes" or (b) to establish and follow a lending policy in the institution of reducing the percentage of loan to current appraisal, in proportion to the rise in local real estate prices.

Further, the Federal Public Housing Authority, another NHA unit, has adopted a policy in the disposition of permanent war housing under which no advantage shall be taken of scarcity in the market to obtain inflated prices for the housing offered for sale.

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Appendix 1

Technical Problems Under the Resale Capital Gains Penalty Tax

I. Basic problems of definition

A. Relationship to purpose of tax

The definition of gains subject to the proposed tax would depend in the first instance upon the primary purposes of the tax. To the extent the chief purposes are (a) to prevent the inflationary spiralling of capital values, arising from short-term transactions in general and induced by the differentially favorable treatment of capital gains in particular, (b) to protect returning servicemen and the public in general from inflated values and post-war collapse when the bottom drops out of the boom, the tax would presumably be directed toward gains from trading in corporate equities, farm lands, and urban real estate. To the extent the tax had as its objective taking the profits out of war and removing inequities of the existing tax structure which are made more glaring under war conditions, it might be desirable to extend the penalty tax over a wider range of markets. It is probably also true that direct anti-inflation controls would be considerably strengthened if the tax applied more widely to assets other than stocks and real estate.

B. Definition of speculative profits vs. capital gains under Section 117

While the proposed tax would presumably be comparable to Section 117, in that both would tend to differentiate in favor of investment as compared with speculation, they would have fundamentally different purposes. Section 117 is presumably designed to allow differentially favorable treatment on long-term investment gains in order to prevent the unduly harsh impact of graduated rates on long-term income realized within the taxable year, which would result in hardship to the taxpayer or constitute a barrier to the normal processes of exchange and disposition of assets. For obvious reasons, the definition of capital gains under the present law, coupled with a special additional holding-period category, is not necessarily well adapted for purposes of a wartime speculative capital gains tax. Such a definition may be too broad in certain respects and too narrow in others, in relation to the objectives of the proposed tax.

The basic problem of definition is to specify the kind of gains which should be included in the base subject to the penalty tax on wartime speculative profits. One alternative is to apply such a tax to particular types of property such as stocks and real estate. Another basic alternative is to tax gains from transactions in all kinds of property where the purpose would appear to be speculative, as indicated by the period held.

It should be noted that under Section 117 a major problem is how to check the conversion of ordinary income into capital gains. Under the proposed penalty tax the reverse problem would arise, namely, how to prevent the transformation of speculative gains into ordinary income, and incidently how to avoid the hardship where ordinary legitimate income might be caught in the meshes of the penalty tax.

The following paragraphs are intended to discuss briefly a number of specific points raised in connection with the determination of the taxable base under the proposed speculative gains tax.

C. Status of dealers

An important problem in defining gains subject to the penalty tax is how to treat dealers and traders. This raises the following questions: (1) How should dealers and traders be defined? (2) What hardship and economic disturbances would result if a tax applied to the profits of dealers? (3) If dealers were exempted, to what extent would their speculative activities continue to puff the market? (4) If dealers were exempted, how serious would be the problem of preventing individuals from acquiring the tax status of dealers?

The answers to the above questions may indicate very difficult dilemmas in framing the proposed speculative gains tax. In a rising market dealers exempt from the speculative gains tax would occupy a strategic position to reap gains subject only to ordinary income tax rates and pass on inflated values to other investors. The dealer loophole would be especially dangerous if it were easy, as it appears it would be, for individuals to meet the requirements for dealer status. Nevertheless, where legitimate dealers perform important economic functions, it would be unfair and economically disturbing to penalize such individuals or firms with a 90-percent rate. While the burden of proof may well be placed on dealers to prove they were entitled to special exemption, careful consideration would need to be given this problem in each of the capital markets affected.

The dealer problem would be more difficult as regards the application of the penalty tax to some markets than to others; the economic functions of dealers vary in importance in different markets and the possibilities of dealer adjustment by going entirely on a commission basis probably vary from one field to another. One phase of this problem would be raised in connection with investment companies, which would find it virtually impossible to continue normal operations if subject to the penalty tax.

D. Treatment of bonds

A considerable amount of speculation has occurred and is occurring in the market for low-grade bonds. Such securities are in a position to reflect inflation and improved earnings. It might be desirable to apply the penalty tax to the appreciation of such securities both to control inflation and to absorb war profits. However, it might be unduly severe to apply a 90-percent rate to realized decreases in bond discounts.

E. Property used in a trade or business

Under present law real property and property subject to depreciation, used in a trade or business, are not defined as capital assets for purposes of capital gains treatment. However, under conditions defined in Section 117(j) gains from the sale of such property held for more than six months may be treated as capital gains. If such gains were taxed at 90 percent, economic friction and hardship would result in many instances. Nevertheless, if it were deemed desirable to prevent inflation and profiteering in transactions in such assets a serious loophole would result if individuals and business firms were exempted with respect to such dealings.

F. Exchanges of assets of like kind involving boot

Consideration should be given to the possibilities of loopholes under the proposed 90-percent tax in the case of exchanges of assets of like kind. It is a principle of existing law that in such exchanges gain is recognized only to the extent of the cash boot, the date and value basis of the asset received being the same as those of the asset exchanged. If similar treatment were accorded exchanges of assets of like kind under the 90-percent tax, a considerable amount of speculation could go on with the tax being avoided or substantially reduced.

G. Automobiles, jewelry and other valuables

If inflationary pressures become very strong, special attention might need to be given to the market for used automobiles and other kinds of scarce valuable property. In this connection it might be helpful to subject gains from the sale of such property to the penalty tax.

H. Loss offsets

A basic problem of definition is how to define net gains after loss offsets. While it would be consistent with the prohibitory purpose of the tax not to recognize losses, such treatment might seem unduly severe. Alternative methods of allowing loss offsets are discussed in a section below.

II. Problems connected with classification of assets according to date of acquisition and sale

A. Problems of enforcement

The holding period is a feature of capital gains treatment under present law and the proposed tax would not raise problems different in kind from those which are now being satisfactorily handled. However, the proposed 90-percent rate would place a very great premium on evasion and avoidance devices. Where date of purchase or sale is so important such devices would include post-dating or ante-dating transactions. This problem would probably not be serious as regards transactions through registered brokers and dealers. It would not be serious where real estate transfers are properly recorded. It is possible that the proposed tax would result in more unrecorded transfers or improper recording.

B. Problems of integration of the special gains tax with regular income and capital gains tax

Since the proposed tax would operate side by side with the regular income and capital gains tax some method of integration would be necessary to avoid rates in excess of 100 percent. Such integration could be effected by making the speculative gains tax an additional alternative tax, the applicable tax being whichever was higher. Another method would be to include the speculative gains in regular income or capital gains as under present law and credit the regular income or capital gains tax attributable to such a gain against the speculative gains tax. The effect of such a credit device would be that the taxpayer would pay the regular tax or the speculative tax, whichever was higher. The integration could be simplified under the crediting method if the credit were determined and applied on the basis of the aggregate speculative gains rather than on the basis of each separate category depending upon the date of acquisition and sale. Integration of the proposed tax and regular income and excess-profits taxes would present special problems in the case of corporations.

C. Loss offsets

If the speculative gains tax were applied only to net gains after loss offsets problems would arise in connection with the method of allowing loss offsets. Alternative methods would be to (a) allow all losses on assets acquired within the effective period to be offset indiscriminately against gains, (b) allow losses to be offset only against gains on assets held for the same period, (c) allow losses to be allowed against gains with the same or longer holding period, and (d) provide that losses be offset first against the longest term gains.

III. Problems involved in allowing exemptions

A. Possible purposes and types of exemptions

Exemptions from the speculative gains tax may be desirable in order to (a) prevent or minimize its interference with reconversion, (b) assist returning servicemen and possibly war workers in making post-war economic adjustments, (c) provide positive incentives or prevent decentives, (d) simplify administration, or (e) make the tax more equitable.

Various methods of providing exemptions for such purposes may be considered. Among the possibilities are the following:

1. Exemption of persons
2. Exemptions of types of assets
3. Exemptions according to intent or purpose of transaction
4. Exemptions of small transactions or profits
5. Exemption of a margin of gain as a percentage of cost
6. Exemptions to prevent hardship
7. Personal exemptions

B. Exemption of certain sellers or buyers

To prevent the tax from interfering with reconversion and post-war economic adjustments it may be suggested that gains be exempted where the buyer is a serviceman or a new business. Such exemptions would constitute a difficult if not insuperable problem. The exemption of sales to a privileged group of buyers would create a wide open loophole since such buyers could be used as intermediaries to obtain the exemption. It would be difficult to attempt to make the exemption contingent upon the buyer holding the asset for use or investment for some substantial period of time. The resulting uncertainty for the seller or illiquidity imposed on the buyer would be a serious deterrent to the purchases which the exemption was designed to encourage. Such exemption would also entail problems in connection with (a) the treatment of transactions involving exempt co-buyers and (b) the definition or identification of a serviceman or a new business. The reporting of exempt sales separately from taxable sales would complicate compliance and administration. It should also be noted that such an exemption even if workable would not meet the whole problem of interference with reconversion, which would necessarily include acquisitions by old but expanding businesses, corporate stock acquisitions for control, and other normal rearrangements of asset holdings.

The exemption of servicemen or new business as sellers of assets would be even less effective in facilitating reconversion and would give such individuals or firms a preferred position as regards speculation or the disposal of surplus property. It would create an obvious loophole through which speculation could be carried on free of tax by a large number of individuals and firms.

C. Exemption of new securities or new construction

If it were attempted to exempt new securities or new construction a number of serious considerations would be raised. (1) Would the exemption of new assets militate against normal disposition and most economic use of old assets? (2) What difficulties would be encountered in defining new securities as opposed to refunding issues, conversions, or securities issued to acquire existing assets? (3) What method or formula should be used to define or determine quantitatively new construction where capital improvements were made on old properties?

D. Exemption of small transactions or gains

While the exemption of small transactions or gains would automatically reduce the administrative problem it would weaken the scope and efficacy of the anti-speculative tax. An important question would be how large such an exemption should be to achieve its purpose and how large it safely could be without unduly opening the door to small speculators. The amount of such an exemption should perhaps be larger for one type of trensaction or gain than for another. The activity of a mass of individually small investors may constitute the heart of the problem in certain markets, such as the stock market. A further consideration is that to the extent the proposed tax is designed to protect small investors from a collapse of inflated values the exemption of small transactions or gains might tend to conflict with such purpose.

E. Exemption of surplus Government property

If it were desired to exempt surplus Government property as a means of facilitating its disposition a number of considerations would be raised.

(1) Would such exemption unduly discriminate against transfers of other property or new construction? (2) How many transfers would it be necessary to exempt in order to facilitate normal and efficient distribution of surplus property? (3) What administrative difficulties would be involved in checking transfers at second and third hand?

F. Exemptions based on intent or purpose

It would appear to be highly difficult, if not impossible, to administer an exemption for individual cases based on the intent or purpose of acquisition or sale.

G. Prevention of hardship

Exemptions may be necessary or desirable to prevent hardship in certain instances. For example, an individual buys a farm in January, puts in a crop, and then is compelled to sell out in the fall because of ill health. The apparent gain representing the value of the unharvested crop probably should not be subjected to the 90-percent rate. A hardship problem may also arise in connection with the disposition of assets subject to indebtedness. Special treatment may also be desirable to prevent hardship where assets were acquired by gift or inheritance after the effective date or in cases of involuntary conversion. Exemptions of this type would require detailed consideration and some serious administrative problems may be involved.

H. Personal exemptions

Consideration may need to be given to possible provisions for filing requirements and personal exemptions vis-a-vis the special speculative gains tax.

Appendix 2

Some Alternatives to the Resale Capital Gains Penalty Tax Proposed by Chairman Eccles

A substantial upward adjustment of the tax on capital gains within the framework of the present law can be accomplished by (a) extending the holding period for purposes of determining short and long-term gains; (b) increasing the proportion of long-term gains to be taken into account in computing net income; and (c) increasing the ceiling rate on long-term gains.

If for example, present law is amended to provide an increase in the present 6 months' holding period to 2 years the marginal rates applicable to capital gains on assets held over 6 months but not over 2 years would be increased as follows:

Comparison of marginal normal tax and surtax rates applicable to capital gains of individuals from assets held over 6 months but not over 2 years under present law with those under alternate proposal to extend the short-term holding period from 6 months to 2 years

Ordinary surtax net income	Present law	Proposal
$ 1	11.5	23
2,000	12.5	25
4,000	14.5	29
6,000	16.5	33
8,000	18.5	37
10,000	20.5	41
12,000	23	46
14,000	25	50
16,000	25	53
18,000	25	56
20,000	25	59
22,000	25	62
26,000	25	65
32,000	25	68
38,000	25	72
44,000	25	75
50,000	25	78
60,000	25	81
70,000	25	84
80,000	25	87
90,000	25	90
100,000	25	91
150,000	25	93
200,000	25	94

If alternatively no change were made in the holding period but instead the percent taken into account were raised from 50 percent to 75 percent, and an increase in the ceiling rate on long-term gains from 25 percent to 50 percent were enacted the marginal rates applicable to capital gains on assets held over 6 months would be as follows:

Comparison of marginal normal tax and surtax rates applicable to capital gains of individuals on assets held over 6 months under present law with those under alternate proposal to increase the percent taken into account from 50 percent to 75 percent and to increase the ceiling rate on long-term capital gains to 50 percent

Ordinary surtax net income	Present law	Proposal
$ 1	11.5	17.25
2,000	12.5	18.75
4,000	14.5	21.75
6,000	16.5	24.75
8,000	18.5	27.75
10,000	20.5	30.75
12,000	23	34.50
14,000	25	37.50
16,000	25	39.75
18,000	25	42.00
20,000	25	44.25
22,000	25	46.50
26,000	25	48.75
32,000	25	50
38,000	25	50
44,000	25	50
50,000	25	50
60,000	25	50
70,000	25	50
80,000	25	50
90,000	25	50
100,000	25	50
150,000	25	50
200,000	25	50

In 1942, over two-thirds of the short-term gains were realized in net income classes under $25,000. The long-term gains were less concentrated, about half being realized in net income classes under $25,000 and the balance in higher income classes.

The distribution of net short-term capital gains and net long-term capital gains for 1942 by net income classes is shown in the following table.

Net short-term and statutory net long-term capital gains of individuals and taxable fiduciaries by net income classes, 1942 [1]

(Net income classes and amounts in thousands of dollars)

Net income classes	Net short-term capital gain [2]	Net long-term capital gain	Net short-term capital gain [2]	Net long-term capital gain
	Amounts		Percent of total	
Under 5	14,762	87,858	31.7	26.5
5 " 25	18,815	84,815	40.3	25.6
25 " 50	5,443	32,861	11.7	9.9
50 " 100	3,576	29,959	7.7	9.0
100 " 1,000	3,967	70,783	8.5	21.4
1,000 and over	66	25,180	.1	7.6
All returns with net income	46,630	331,454	100.0	100.0

[1] All returns with capital transactions.

[2] After deducting net short-term capital loss of preceding taxable year.