

Research Department
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Housing Options

The housing market remained quite active this spring. Private housing starts fluctuated from month to month, but for the second quarter, they averaged a 1.9-million annual rate—about 5 percent higher than in both of the two preceding quarters, and in line with the more optimistic forecasts for 1977 as a whole.

In spite of all the hoopla surrounding the single-family housing market, the big news may be the surprising show of strength by the multi-family sector. Single-family starts rose 25 percent between the first half of 1976 and the first half of 1977, but multi-family starts jumped 47 percent over the same time-span. The multi-family sector still has a long way to go to reach earlier peaks, but further strength seems assured for a number of reasons, both demographic and non-demographic. The latter factors include the sharp rise in price of single-family housing, the short supply of multi-family units because of the unusually steep recession decline, and the growing attractiveness of concentrated urban living.

High-cost housing

Despite the record pace of single-family housing activity, measured by a 1.37-million annual rate of starts in the January-June period, housing prices have continued to

rise sharply. This spring, the median price of new single-family housing approached \$49,000, not only because of the continued inflation of building costs, but also because of the consumer's demand for larger and more attractive housing. Nearly one-half of all new houses today have central air-conditioning, while 58 percent have at least one fireplace and 70 percent have at least two bathrooms. Builders find the option-loaded house, like the option-loaded auto, more profitable than the no-frills variety. For that matter, they feel compelled to concentrate on the high-income market because of a shortage of good building sites, which has been aggravated in some areas by environmental and anti-growth restrictions—for example, the 25-percent reduction in San Diego's effective land supply because of sewer moratoriums.

The speculative element in California's housing boom has drawn headlines because of the fear it might lead to a bursting bubble. By some estimates, roughly 7 to 10 percent of that state's 220,000 housing permits last year passed through speculators' hands. But the practice now seems to be under control. Mortgage-lending institutions are charging higher rates on loans to home buyers identified as non-occupants, and builders are establishing limits on sales to non-

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occupants or are holding homes off the market until they are actually completed.

Whatever the factors involved, the price of new single-family housing has risen out of the reach of many potential home-buyers. Of course, many households with relatively low incomes are able to purchase such housing because they already have a home to sell at inflation-boosted prices. With the median price of once-occupied housing now exceeding \$40,000, sellers frequently are able to trade up using the equity in their present homes. But many others have ignored this option and have simply tried to upgrade their present dwellings. Thus, additions and alterations now represent over 20 percent of residential-construction spending—about double the 1970 proportion. Meanwhile, many potential first-home buyers, lacking any such equity cushion, have perforce turned to the rental market for shelter.

Recovery in multi's

In view of the high price of new single-family housing, the wonder is that apartment building is not much stronger than it actually is. New multi-unit starts reached a 458,000 annual rate in the first half of this year—47 percent higher than

the comparable year-ago figure, yet still less than half the 1972 peak. Still, a continued strong recovery is likely because apartment vacancy rates averaged 5.1 percent early this year, the lowest level of this decade. Moreover, nearly 90 percent of new rental units are now occupied within three months of completion, compared with no better than a 65-percent three-month occupancy rate during the recession period several years ago.

Strength in multi-unit housing also seems likely because of recent strong increases in rents—up 5.8 percent over a year ago. Evidently, many investors believe that the present range of rents will provide an attractive rate of return on new apartment building. Ever-rising commuting costs also make in-town apartment living an increasingly attractive proposition.

Recovery in the cities

Housing policy meanwhile has shifted toward the upgrading of the urban housing stock, and this means both more construction and more refurbishing of in-town housing—apartments and single-family housing alike. One new approach involves “initiating strategies to attract private capital,” according to a member of the Federal Home Loan Bank Board. Congress is considering legislation that would involve risk-sharing programs, but it recognizes that private builders and financiers place their resources

into those areas which promise the highest return, and that mortgage lenders cannot undertake extraordinary risks because of their fiduciary responsibility to their shareholders and depositors. But within those limitations, government planners hope that private industry will pinpoint areas that will benefit from underwriting and subsidies, so that public resources can be directed toward locations where upgrading will have synergistic results.

Restoration efforts have been underway in some cities for years, but the momentum now seems to be picking up. Savings-and-loan associations have formed companies dedicated to the rehabilitation of neighborhoods, and the National Association of Home Builders has started an educational program to publicize remodeling procedures. Also, industrial realtors have joined together in consortia in certain cities to market industrial-park properties, in an attempt to stimulate core-city business and employment. These efforts are directed largely to the upgrading of the present housing stock, but they seem likely also to generate some demand for new construction, which for reasons of population density would be largely multi-unit construction.

People and housing

Yet above all, demographic factors seem to indicate a continued recovery in multi-unit housing, to

match the present strength in single-family housing. There is room for more single-family activity because the postwar "baby boomers" are now between 27 and 32 years of age, in the stage of the economic life-cycle when home purchase is normally considered. However, other factors would seem to favor more multi-unit construction. The average family size has continued to decline with the fall in the birth rate, while the number of "singles" has continued to increase, rising from 19 percent to 23 percent of the number of households between 1970 and 1976.

Small families and single individuals nowadays can go either way in a buy-vs.-rent decision. Mortgage lenders recently have liberalized their lending terms for single persons under a clause which defines them as "nonhistorical" buyers. Indeed, based on income and credit history, they may be better credit risks than married persons because they have fewer fixed demands on their paychecks. However, as a group, they do not have the same attachment to place as married persons with children. Consequently, they might find cliff-dwelling more appropriate to their needs, especially if the urban environment improves.

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
 (Dollar amounts in millions)

Selected Assets and Liabilities Large Commercial Banks	Amount Outstanding 7/13/77	Change from 7/6/77	Change from year ago	
			Dollar	Percent
Loans (gross, adjusted) and investments*	98,863	+ 207	+ 9,770	+ 10.97
Loans (gross, adjusted)—total	75,834	- 32	+ 8,764	+ 13.07
Security loans	2,110	- 379	+ 685	+ 48.07
Commercial and industrial	23,656	+ 29	+ 1,698	+ 7.73
Real estate	24,379	+ 178	+ 4,031	+ 19.81
Consumer instalment	13,058	+ 60	+ 1,818	+ 16.17
U.S. Treasury securities	8,847	- 281	- 826	- 8.54
Other securities	14,182	+ 520	+ 1,832	+ 14.83
Deposits (less cash items)—total*	98,053	+ 165	+ 7,804	+ 8.65
Demand deposits (adjusted)	28,688	+ 717	+ 2,805	+ 10.84
U.S. Government deposits	344	- 181	+ 88	+ 34.38
Time deposits—total*	67,165	+ 73	+ 4,458	+ 7.11
States and political subdivisions	5,662	- 41	- 497	- 8.07
Savings deposits	31,913	0	+ 5,493	+ 20.79
Other time deposits‡	27,476	+ 165	+ 16	+ 0.06
Large negotiable CD's	10,301	- 82	- 2,112	- 17.01

Weekly Averages of Daily Figures	Week ended 7/13/77	Week ended 7/6/77	Comparable year-ago period
Member Bank Reserve Position			
Excess Reserves (+)/Deficiency (-)	+ 23	+ 32	+ 46
Borrowings	3	1	3
Net free(+)/Net borrowed (-)	+ 20	+ 31	+ 43
Federal Funds—Seven Large Banks			
Interbank Federal fund transactions			
Net purchases (+)/Net sales (-)	+ 897	- 725	+ 845
Transactions with U.S. security dealers			
Net loans (+)/Net borrowings (-)	+ 345	+ 19	+ 679

*Includes items not shown separately. ‡Individuals, partnerships and corporations.

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