HOUSING COSTS AND INFLATION

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HOUSING COSTS AND INFLATION

FRIDAY, JULY 14, 1978

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C

The committee met at 10:10 a.m., pursuant to other business, in room 6202, Dirksen Senate Office Building, Hon. Edmund S. Muskie (chairman of the committee) presiding.

Present: Senators Muskie, Chiles, Bellmon, and Domenici.

Staff members present: John T McEvoy, staff director; Karen H. Williams, chief counsel; Van Doorn Ooms, chief economist. Rodger O. Schlickeisen, director, Commerce and Community Development; and W Donald Campbell, senior analyst for Housing and Community Development.

For the minority: Robert S. Boyd, staff director; Charles D. McQuillen, counsel; and Carol Cox, senior analyst for Education, Employment, and Social Services.

Chairman MUSKIE. The committee will be in order.

Before we proceed, our distinguished friend and colleague from Texas would like to have the privilege of introducing a constituent. I have agreed to give him that very unusual privilege provided he limits himself to 1 hour. [Laughter.]

INTRODUCTION OF HERMAN J. SMITH BY SENATOR BENTSEN

Senator BENTSEN. I thank you very much. With your crowded schedule I do appreciate your giving me an opportunity to introduce this very distinguished and very old friend of mine, Herman Smith. He is the vice president of the National Association of Home Builders. He is uniquely qualified to testify before you.

He has built some 10,000 single-family dwellings and multiple-family dwellings in the Southwest. In addition, he has been very much involved in national issues on housing in the last 10 years.

He was chairman of the Governor's commission in Texas for homebuilding. He understands some of our problems, because he was the mayor of a town in Texas for a period of time, a substantial city and a growing city in Texas.

He is a man of integrity, and he is a man of ability. He is the man who has the practical experience in housing to understand the concerns, and his responsibility as mayor of a city—I don't know of any office that is any closer to the people than that one. So he understands the concerns on housing.

I appreciate the opportunity to introduce him to you.

OPENING STATEMENT OF CHAIRMAN MUSKIE

Chairman MUSKIE. Thank you very much, Senator Bentsen.

To put this hearing in context, I have a brief opening statement.

Today, we will consider the factors that have caused the costs of housing to rise so rapidly in recent years. On June 7, the report of the HUD Task Force on Housing Costs was released.[1] That report—its findings and recommendations—will provide a focus for our hearing this morning.

I am grateful to Senator Chiles who suggested this hearing as a useful contribution to the Budget Committee's understanding of inflation and possible steps to control it.

We are pleased to welcome this morning Under Secretary Jay Janis of the Department of Housing and Urban Development; Mr. Herman J. Smith, who is vice-president and secretary of the National Association of Home Builders; and city councilor Mary C. Neuhauser of Iowa City, Iowa. Each of these witnesses is very well qualified to help this committee better understand the forces driving up housing prices.

FACTORS AFFECTING HOUSING INFLATION

The problems of inflation are demanding increased attention from the Senate Budget Committee and others responsible for shaping the Federal Government's economic policies. Housing related costs are a leading component of consumer prices, accounting for 43.9 percent of the total Consumer Price Index. Therefore, an inquiry into the rising costs of housing will be very valuable to the Budget Committee as we prepare to reexamine the economic prospects for fiscal year 1979 in the Second Budget Resolution.

The diversity of factors driving up the cost of housing makes this a particularly instructive case, although not all the inflationary forces in the housing industry are typical of other sectors. We would like to pursue this morning those findings and recommendations of the HUD task force that relate to the costs of producing and operating a house. We will be particularly concerned with the costs of acquiring and developing land, the costs of other raw materials, and the costs of labor. These have all been affected by public policy. The committee is particularly interested in focusing upon those factors where Federal action has tended to increase housing costs and where other Federal action might be taken to moderate housing cost increases.

This is quite an agenda and we probably will not be able to cover it all as thoroughly as we would like.

Before we hear from the witnesses, I will yield to Senator Chiles and then to Senator Bellmon.

OPENING STATEMENT OF SENATOR CHILES

Senator CHILES. I am particularly pleased that the Budget Committee is holding this hearing to investigate the rapid increases in housing costs and the appropriate Federal role in reducing them. Now that we have made the restraint of inflation our top economic priority, we have to explore the complex relationships which drive up prices in specific problem areas.

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[1] See p. 79.

HOUSING—A LEADING AREA OF INFLATION

Housing is certainly a leading area of inflation. While the overall Consumer Price Index increased by 8 percent from 1972 to 1976, the median sales price of a new home increased by 12.5 percent. The average American spends about 30 percent of his after tax income for housing, more than any other item of expenditure.

For first-time buyers of new homes, housing costs over 40 percent of disposable income. While Americans are clearly willing to devote a large share of their income to housing, cost increases are obviously a major part of overall inflation. What I find especially disturbing is that for the person who does not want to spend that much, low-cost housing is just not available.

FEDERAL POLICIES AFFECTING HOUSING COSTS

The Budget Committee has played a leading role in the housing cost area. Last year, at my request, the Congressional Budget Office published a study of housing costs,[1] which demonstrated that Federal policies which presently focus on mortgage markets, are inadequate to deal with housing costs. While financing costs accounted for 18 percent of the average sales price increase from 1970 to 1974, land costs contributed 23 percent of the increase, and materials 25 percent. We therefore have to examine how various Federal policies are affecting the costs of land and building materials in addition to how fiscal and monetary policy are affecting interest rates. Since those costs are affected by several Federal agencies acting under the oversight of different congressional committees, the Budget Committee has a unique role in seeing whether the combined effect of these different policies is to create a national economic problem.

In the year since the last Budget Committee hearing on housing costs, the Department of Housing and Urban Development appointed a nationwide task force including many experts and interested groups. The final report and recommendations of that task force have just been published,[2] and we will be focusing on those recommendations today.

While I may not agree with all the specific recommendations, I think that in general the task force took a comprehensive and innovative approach, and I hope it will be a springboard for rapid congressional and administrative action.

UNNECESSARY DELAYS DRIVE UP FINANCING COSTS

In the financing area, the task force found many areas of unnecessary administrative delay and overlap by HUD, the FHA, the VA and the Farmer's Home Administration. Unnecessary delays in Federal processing of permits and financing approvals drive up the cost to the builder of financing construction and that is passed on to consumers. I hope to hear in Under Secretary Janis' testimony today how many of these streamlining measures the administration will be able to put into effect.

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[1] "Homeownership: The Changing Relationship of Costs and Incomes, and Possible Federal Roles," Congressional Budget Office, January 1977.
[2] See p. 79.

The cost increases associated with land supply and site development requirements are one of the most interesting problem areas. The growing number of environmental reviews by local, State, and Federal agencies have added delays and uncertainties to the acquisition of land for housing. Developers tell us that they build a cushion for uncertainty into the price they charge for lots, since they know they will have to absorb some cost due to delays or to land which they will buy and then not be able to develop. The task force found that a developer may have to get clearances from two or three Federal agencies for a single project, and recommended that Federal agencies be required to have a uniform set of environmental standards and accept each other's reviews.

We also have the situation where State or local governments may have environmental reviews that are at least as stringent as Federal requirements, but the Federal agencies require their own review instead of accepting the State or local reviews. This kind of situation drives up costs without adding anything to our actual protection of the environment. I hope we will be able to have a good back and forth among all our witnesses on this issue. We will particularly want to know where we may need legislation that crosses the jurisdiction of particular agencies and committees to consolidate environmental reviews.

In addition to environmental reviews, the task force found that local governments have been driving up housing costs by limiting the supply of land, by large-lot zoning and by placing excessive requirements for site development such as sidewalks, extra wide zoning and dedication of land for schools and parks. The availability of water and sewer facilities is one of the major factors in determining the availability of developable land. The Federal Government has been playing a leading role in this area and I am sure we will want to explore how the EPA programs and Corps of Engineers requirements affect those costs.

FEDERAL GUIDELINES FOR ZONING AND SITE DEVELOPMENT STANDARDS

The task force recommended that the Federal Government begin to get involved with zoning and site development standards, which have traditionally been a local responsibility, because local actions are causing a national economic problem. They suggest having HUD publish Federal guidelines for maximum site development standards and model zoning codes, with regional councils responsible for adapting these guidelines to local conditions and certifying to HUD that local governments are complying with those regional guidelines.

They even suggest witholding Federal funds if compliance does not occur. I know we will want to look at these issues very carefully before getting the Federal Government into any new kind of regulatory role, even where the objective is to reduce local regulation. We will want to be hearing from all of our witnesses how effective an educational kind of Federal role can be and how long it would take. We would want to know whether there should be a legitimate role for State laws to establish criteria for land zoning. All of these are very difficult questions which we will want to explore so that if we set up a new system it will be able to get enough public acceptance to work.

Mr. Chairman, I am pleased to join you in welcoming all our panelists and I look forward to a useful discussion of these issues. I hope that if we can come away with some clear signals for action, we can use this as the first step in a new Budget Committee initiative to reduce inflation by changing Federal policies that increase the underlying costs of goods and services. It seems to me that too often we come in too late and try to control prices, but those controls fail because the actual costs to society keep going up.

Mr. Chairman, I want to join with you in saying how pleased I am in welcoming all our panelists. I look forward to a useful discussion on these matters.

Chairman MUSKIE. Thank you.

OPENING STATEMENT OF SENATOR BELLMON

Senator BELLMON. I have an opening statement, too.

Mr. Chairman, I am pleased to join you in welcoming Under Secretary Janis, Mr. Smith, and Ms. Neuhauser. I am sure this panel will contribute greatly to our understanding of the role that various governmental policies and actions play in increasing the costs of housing.

HOUSING COSTS OUTSTRIP AFFORDABILITY

The recently released report of the HUD Task Force on Housing Costs [1] confirms two suspicions that most of us have long held: First, that the costs associated with purchasing and maintaining a home have far outstripped the abilities of many Americans to pay. From 1972 to 1976 the median family income rose at an annual rate of 7 percent. Meanwhile, however, median sales prices of new single-family houses grew an average of some 12.5 percent per year, and homeowner costs increased over 8 percent per year.

COST INCREASES DUE TO GOVERNMENT REGULATIONS

Second, the report indicates that many of these increases are due to Government policies and regulations. On the Federal and State levels, there are environmental regulations, noise assessment guidelines, coastal zone management programs, safety and health regulations, and minimum property standards. On the local level, there are zoning ordinances, building codes, fees, and impact taxes, land development requirements, and permit regulations.

All of these things affect costs and thus deserve our closest scrutiny. Some of them can and should be revised to relieve upward pressure on housing costs. Hopefully, our discussion today will enlighten us as to what actions might be taken by the Federal Government to best accomplish this goal without encroaching upon the rightful jurisdiction of State and local authorities.

I must say, I am pleased at this effort of Government to examine the effects of its own practices. All too often, it seems that our energies are channeled toward creating new programs rather than revising old ones, and I welcome this opportunity to establish what could be an overdue precedent.

Chairman MUSKIE. Thank you.

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[1] See p. 79.

OPENING STATEMENT OF SENATOR DOMENICI

Senator DOMENICI. I, too, will be very brief.

I have no prepared statement, but I want to compliment Senator Chiles for suggesting the hearings, and I want to thank the chairman for calling them.

I would like to share just a few things with the witnesses, and the members of the committee.

NEW MEXICO BUILDING CODE REQUIREMENTS

I was in New Mexico for about 8 days. Three things were presented to me, quite by accident, that are very relevant to this hearing. A group of citizens met with me. They were interested in building clusters of houses for the handicapped, eight houses per cluster, in five different communities, through a nonprofit corporation.

First of all, they had been working on the project for 18 months and still had no approval. The first thing they had to do, required by law, was provide an in-depth soil stability study. It only cost $5,200. They are quite sure that the USGS could have given a blanket report, but in that part of New Mexico there are no soil problems.

But that checklist said an in-depth soil study is necessary before you can even start: $5,200.

I went up the road to another little community, a rural community. This is not a HUD project, it is a Farmer's Home Administration project. It is way out in the country. There is not a sidewalk in existence. Nobody builds them.

The requirement at the top of the list states that a completed lot requires curbs, gutters, sidewalks, and includes specifications for sidewalks, $1,000 per lot. It is $1,000 per lot for the poor people that are self-help building homes.

I went up the road a little farther, and a group was meeting, talking about a cluster of 60 or 70 homes, very spread out in a rural area. Their first requirement was that they had to go through one of the Federal agencies and build a sewer and water facility. The Federal Government will not accept anything else. You cannot go with another facility, even if they are accepted and can do the job.

They didn't even have an estimate of what that would cost. But it will probably be more than the sidewalks that I just spoke of.

I am quite sure, from looking at the in-depth report, that I am talking about just a few of the governmental restrictions or limitations, and I am sure they are imposed by cities, counties, and everyone.

It appears to me that just because we find a problem one place in the country, the bureaucracy has a tendency to make it a condition everywhere.

I am sure that this came about because some housing project that HUD built sank into the ground. As a result, soil studies are at the top of the list, anywhere you build them. It has to be a recognized engineer, and with core holes drilled.

I am sure that the Farmers Home Administration has a good idea in having sidewalk regulations. But it appears to me that $1,000 a home for anything but the most recent self-help houses, and the cost of water and sewer facilities, is silly. They cannot use noncity services.

I like those examples, because they came to me on my last trip to my State. I am sure they merely scratch the surface. Whether we do anything about them is another thing.

Thank you.

Chairman MUSKIE. You are certain that these examples are purely coincidental?

Senator DOMENICI. They were really accidental, except for the clusters for handicapped people. They had made a specific request to show me the problems they were having.

The others, I didn't really plan to visit. It just happened that way, much as the same came to your mind when you were running, Mr. Chairman, and brought up Maine's problems in public works all the time.

Chairman MUSKIE. You are running this year?

Senator DOMENICI. I guess I am.

Chairman MUSKIE. That is one of the purposes of election campaigns, to find out what is going on at the grassroots.

Senator DOMENICI. I don't want to leave the impression that I didn't know that all the time. [Laughter.]

Chairman MUSKIE. I have a written statement from Senator Sasser who is unable to be here this morning because of other business that he would like to have inserted into the record.

Without objection, it is so ordered.

PREPARED STATEMENT OF SENATOR SASSER

I would like to join my colleagues in welcoming our witnesses this morning for this very important discussion of housing cost increases. And I wish to recognize you, Mr. Chairman, and Senator Chiles, for focusing our attention on this critical matter.

HUD TASK FORCE REPORT CRITICAL OF PRESENT POLICY

Mr. Chairman, the basis for this hearing is the final report released last month by the task force on housing costs. The report represents a highly successful effort to make a comprehensive study of this complex subject.

As the report suggests, we have not yet come to grips with the impact of national monetary policy on housing problems.

Moreover, the report underlines the failure of the Government to understand fully the consequences of Federal tax policies in the housing area. I think this is of particular concern, considering that Federal tax expenditures in this area are more than double the amount directly budgeted for housing problems.

Finally, the Government clearly has fallen short in its efforts to combat rising housing costs. Indeed, the report documents several ways in which the Government exacerbates the problem.

HOUSING COSTS OUT OF SIGHT

Mr. Chairman, it is fitting that we address this issue as we face what may well be another onslaught of higher prices and rising interest rates. This is the prediction of some economists. The problems identified by this report will surely intensify under such conditions.

Already housing costs are out of reason and out of sight for many Americans. We cannot prevent a crisis in escalating housing costs. The crisis is here. Our concern is to prevent the situation from becoming intolerable.

We must be especially mindful of the consequences which rising housing costs have for the least advantaged groups in our society—the poor, the elderly, and young men and women requiring their own housing for the first time.

A recent congressional budget office report on housing indicated that homeownership rates are slowing, although Americans are continuing to buy homes in greater numbers than ever before. The report also indicated that homeowners and renters alike are spending a greater proportion of their incomes for housing costs. Undoubtedly, those groups who have traditionally had trouble owning a home will suffer the most from this trend.

Chairman MUSKIE. Mr. Secretary, we are delighted to welcome you this morning. We appreciate your availability

We invite you to proceed with your testimony.

STATEMENT OF JAY JANIS, UNDER SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT; ACCOMPANIED BY LAWRENCE SIMONS, ASSISTANT SECRETARY FOR HOUSING AND FHA COMMISSIONER

Mr. JANIS. Thank you, Mr. Chairman and members.

Accompanying me today is Lawrence Simons, Assistant Secretary for Housing and FHA Commissioner.

You have had an opportunity to look over my statement, so I would prefer, with your permission, to summarize rather than to read the the entire document.[1]

HOUSING COSTS DEFINED

In dealing with the question, it is important, I believe, to define at the outset what we mean by housing costs.

First of all, there is the sale price of a new house. Then there is the cost of a new home. There is a difference, an obvious difference. In some places, cost does not relate to price.

Then there is the sale price of an existing home as opposed to a new home. And then there are the operating costs of the new and existing homes.

There we are talking about principal, interest, insurance, taxes, and so on.

So any useful conversation on the subject has to distinguish between these various items. For the most part, I will be talking about the cost of a new home. That is what I would prefer to focus on for my opening remarks.

MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES INCREASING

There is a debate taking place as to whether or not there is a problem. I think the arguments are somewhat specious on the side of those who have said that there is not a problem. Those arguments stem from the fact that the high costs of housing are masked by the fact that sales are so good.

Of course, people are buying houses because there is no better investment that most American families can make than a home, and that is because of inflation, and the opportunity for equity accumulation.

But if you look at the latest figures—and I could not put these into the testimony because they were not available—the latest figures for the month of May, new one-family homes sold during that month, May 1978, the median was $55,800. That is a jump of $2,800 over the April figure of $53,000. That is a 5.1-percent jump in 1 month, from April to May.

This is the highest increase, the greatest increase, ever reported in 1 month since anybody has been collecting the data.

[1] See Mr. Janis' full prepared statement beginning at p. 13.

In Western States, the increase was even bigger. It amounted to 9.5.-percent increase in 1 month.

These are brand new figures just released by the Census Bureau.

RELATIONSHIP OF HOUSING COSTS TO INFLATION

The argument about the relationship of housing costs to inflation in general is best described by a chart in my testimony [1] where I compare the median price of a new home with median family income.

What you can see is that if you go back over time, over the last 20 years, then clearly at some time in the past, back in the 1950's, there was a time when the ratio of median family income to median prices was similar to what it was in 1974 and 1975.

But clearly, what has happened since 1972 that ratio shows sizable increases over the last several years, so that prices are getting away now from median family incomes.

More important is that the trend is up all the time. Whether you compare housing price to the CPI, or whether you compare it to the wholesale price or median family income, it still shows the same: Housing costs are outstripping whatever the indictors are.

I would like to enter some other data into the record that supports this.

SEVERE TREND OF INFLATION-PLUS

It appears to me, gentlemen, that we are dealing with something greater than inflation. We are dealing with inflation-plus.

It is clear that we have waste and inefficiencies in housing costs, and we have severe trend problems. If not inflation—if inflation is not the only answer, then what is it? What has changed over time?

I would submit to you that it is harder to build a house today than ever before, that is, the simple process from design, buying a piece of land, and making an application, to the time that you complete that project. It has increased dramatically, and the steps that you have to take have become much more difficult.

CONSTRUCTION OF SINGLE-FAMILY HOMES TAKING LONGER

The Rutger's study on housing costs, just on construction costs alone, versus time, shows that in 1970 you could build an average single-family house in 5 months, from application to completion. In 1975, says the Rutger's study, it took 13 months. From 5 months to 13 months.

This was my own experience as to time. It just completely changed over the period from 1970 to 1975. The process is more difficult. The environmental approvals and the zoning are much more difficult because of the pressures of no growth at the local level, the need to meet a whole new host of local, State, and Federal requirements, shortages in materials that did not exist before, except perhaps as in war times, and labor problems.

All of these translate themselves into a great amount of time, and time equals dollars.

Chairman MUSKIE. Are these national averages, the 5 months and the 13 months?

Mr. JANIS. Yes.

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[1] See p. 14.

It was in Monday's Wall Street Journal, the lead article on housing costs.[1]

I found the same thing true in my own business in terms of the fact that in the fifties, I used to be able to cycle a typical 12-unit development in 9 weeks, 45 working days. I had a schedule, and I had an operation.

This was large-scale production, and it looked much like the Ford Motor Co.'s assembly line. I think Mr. Smith is familiar with that kind of building.

But when I was a builder, that is the kind of operation we had. We had an operation going every day for 45 days, and from start to finish, that is how long it would take.

By the 1970's, early 1970's, I threw that schedule away, and instead of 9 weeks, 5 days per week, I was going 6 months in my particular area. That is my own personal experience on time.

So those Rutgers' figures mean a great deal to me. From my own experience I believe they are true. Of course, what this means is not only increases in interest costs, but increases in overhead, and it requires higher profits on the part of the builder. It raises prices, and what this does is hurt people.

What Secretary Harris has done is to focus on the people, on the delivery of our programs as far as helping people. I am afraid that this problem really relates to the fact that people are affected.

Young home buyers, young marrieds, the elderly, handicapped, minorities, those who need it the most, are hurt the most.

TRADITIONAL VIEW OF HOUSING COSTS

The traditional view of housing costs is that you would take the various elements that go into housing and look at it, take the cost of the land, and that is raw land plus the development cost of that land, and that runs about 25 percent of the sale price. Then you take——

Chairman MUSKIE. Is that a higher percentage?

Mr. JANIS. Yes, I was going to give you a comparison. The cost of the land runs about 25 percent today. The cost of construction, that is, labor and materials, runs 47 percent. The cost of financing runs 11 percent. The cost of financing includes usually the construction loan interest; any permanent loan points you have to pay: and closing costs; and overhead and profit, which runs at about 7 percent today.

TODAY'S BREAKDOWN VERSUS 1949 COSTS

If you compare today's breakdown versus 1949, you find that land and financing have increased the most, because land in 1949 was only 11 percent of the total cost, and financing, which is now 11 percent, was 5 percent. So those are your two main items of increase.

The construction costs, what builders like to refer to as the "hard costs," the brick and mortar, went from 47—went down to 47 percent from 69 percent.

So your ticket items clearly are land and financing. Who is to blame?

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[1] See p. 75.

In my judgment, there is no single culprit. I don't think you can point the finger totally at the government, local, State, and Federal, even though there are excessive environmental restrictions.

There are excessive fees being charged. There is restrictive and exclusionary practices. There are necessary building standards and site development standards that are required. There are building codes that are overly restrictive.

Nor do I think you can point the finger at labor in terms of restrictive working practices, despite some very good union leadership that I think is trying to get rid of the problem.

Nor can you point the finger at manufacturers in terms of prices of refrigerators or stoves; nor lenders, in terms of increased financing costs, or in terms of builders who in some cases want higher profits.

The biggest culprit of all, I think, in my judgment—and it is a hard one to call—are requirements that exist at the State and local levels. But this traditional view of housing costs, where you take the land and the hard costs, and the financing and the profits and the overhead, is a useful way to look at housing costs.

But I think the new view is to try and identify some issues that sort of crosscut those.

THREE COST FACTORS THREATEN DECENT HOUSING

I would like to submit to you, Mr. Chairman and members of the committee, that there are three costs that we have not particularly looked at before that cross over all of these categories.

The first is the cost of regulation. The second is the cost of cyclicality. And the third is the cost of what I call indifference.

I would submit to you that that is the greatest triple threat to the achievement of the American dream of a decent home.

Let me explain.

REGULATION

With regard to the cost of regulation, this is what I have heard from builders. This is from a builder's point of view.

Here is the way they look at the regulations. Here is what any builder has to go through. I will read you a list of the kinds of regulations that are involved.

As you know, there are environmental regulations, air, water, and general impact on traffic, and this exists both at the State, local, and Federal levels. There are the Davis-Bacon wage requirements in certain cases. There is affirmative action and equal opportunity relative to fair housing, to contract compliance, and to title VI of the 1964 act.

There is the A–95 intergovernmental coordination requirement. There are requirements with regard to the handicapped. There are regulations at certain local levels that deal with consumer protection. There are inflation impact statements that are required. There are new energy standards. There is flood protection and drainage requirements. There are seismic requirements, noise abatement, fire regulations.

There are garbage collection regulations that affect the width of the street and turnaround. The motel and hotel reservation commission gets into the act in certain States with regard to approval. There are OSHA requirements.

There are tree ordinances at local levels. Many of these things did not exist 10 years ago.

I think if you scratch a builder hard enough on the back, you will find that these are what his problems are, and this is what is making the builder tear his hair out.

CYCLICALITY

With regard to cyclicality, as you know, we have had seven major cycles in mortgage financing since 1949. We are in one now in terms of high interest rates. It has not yet affected production, but at previous cycles, production has been affected.

It is predicted that this will affect production going into the beginning of next year.

In any event, the effect of this cyclicality is that it leads to a great deal of instability in the industry, not only among builders, but suppliers, manufacturers, and others who provide the products.

Plant capacity, as a result, has waste, inefficiencies, and underutilization. Plants cannot gear up not knowing when they will hit the next cycle. That causes tremendous price problems.

Builder bankruptcy is a result of these cycles—the 1974 cycle was the worst. That was a depression in the building industry, rather than a recession. Those kinds of bankruptcies cause builders to tack on higher profits in good times to make up for the bad ones.

Labor union restraints—the constraints that labor unions put on in terms of work rules, in large measure, stem from this instability, because they do not know from one year to the next that they will have a guaranteed job.

INDIFFERENCE

Let me turn to the cost of indifference. I would contend that there are not a lot of counterpressures in terms of the various actors in the process who raise costs for one reason or another. There is no incentive to keep costs down in many cases.

The problem is, in my judgment, that nobody really cares enough about the issue, or has cared in the past: Not the manufacturer who raises his cost, whether or not there is inflation or recession or whatever: or the builder who raises his profits; or the labor union which puts on restrictions.

There is no pressure on the lender who charges additional points, nor on the lawyer who charges fees in connection with title search; nor is there any real pressure on local governments in terms of environmental impact statements, excessive fees, adopting restrictive codes, practicing exclusionary zoning; no pressures on State governments in terms of unnecessary environmental restrictions or failure to exert pressures on the cities.

There has been no one in the Federal Government who has cared very much and given much more than lipservice to the entire question of housing costs. Many of the regulations are necessary and useful. Congress has passed them for good reason. No one here is arguing with them.

BALANCE BETWEEN ENVIRONMENTAL PROTECTION AND HOUSING NEEDED

That is what makes the problem so difficult. Environmental-type restrictions are necessary, but the object is to find a balance between necessary environmental protection on the one hand, and the need for Amercans to have shelter.

With regard to what we have done at HUD, while we have tried to develop a sensitivity to the problem in the past year, we have tried to give some national publicity to the problem. We have tried to get our own house in order, to achieve coordinantion between agencies.

Those are the things we are beginning to work on. I must say, it is fairly minor, even if we were to be 100 percent successful in what I just said. It would have a minor impact on housing costs in general. I wish that were not the case, but the question of leverage is crucial.

We have a task force of outside people who have recently reported. Many recommendations were good. We cannot accept all of them.

We also have a working group now. Bill White heads that group. On August 25, the working group will give the Secretary a specific report on all 150 recommendations and which we can do and which we cannot do.

LAND USE COST-BENEFIT STUDIES AGREED ON

The Secretary did announce on June 7 several specific actions, including the fact that we would support the Uniform Building Code. We agreed to make an agreement for 300,000 grants for code studies, and a $500,000 study, cost-benefit, on the question of land use and environmental regulations on the one hand, and the impact of monetary and tax policies on the other.

Those cost-benefit studies are being drawn up. We will call a conference with State and local officials on land questions, land use questions, and development standards.

USE OF COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS

Finally, we are making clear that community development block grant funds can be used for advance purchase of subsidized housing sites, and for laying down the infrastructure.

Mr. Chairman and members of the committee, I commend you for holding this hearing, and for your interest in the subject, particularly Senator Chiles whose idea it was, and you Senator Muskie for calling these hearings. Because what you are doing is focusing national attention on this. That is a starting point.

Thank you. I would be happy to answer any questions you have.

Chairman MUSKIE. Thank you. We will hear from the other witnesses before we get to questioning.

PREPARED STATEMENT OF UNDER SECRETARY JAY JANIS, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HOUSING COSTS

Thank you, Mr. Chairman. I appreciate the opportunity to address the Committee on the very important issue of housing costs.

I don't think it is necessary to remind anyone in this room that the cost of housing—the escalating cost of buying and maintaining a home—is a topic of

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more than passing interest to most Americans. As a matter of fact, there has been considerable debate in the press recently about how deep the crisis in housing costs really runs, or for that matter, whether or not there really is a crisis in the cost of housing. In my view, the argument is specious. What is clearly significant about the current situation are the following two points: First, there is considerable waste and inefficiency in the cost of housing right now as the result of unnecessary requirements and constraints in the process of housing construction and marketing; and second, if present trends continue, more and more families will be priced out of the market as the costs of housing continue to outstrip family income.

Clearly, home owners realize the increasingly large bite that rising fuel and electricity costs and increasing maintenance costs are taking from their paychecks.

Potential home buyers are well aware that the high cost of developed land, the high cost of home construction, high closing costs, and high interest rates are making the prospect of home ownership more difficult with each passing day.

In turn, home builders have encountered the squeeze of higher prices for building materials, for labor, for interest on construction loans, and the time-consuming, frustrating, costly delays and demands by government at all levels which eat up profits, stretch out construction time, and create risks which more and more businessmen are finding unacceptable.

RATIO OF NEW HOME SALES PRICES TO INCOME

As government officials, elected or appointed, we are mindful of the need to carry out that bold promise of the 1949 Housing Act to provide a decent home in a suitable living environment. It will become harder and harder to meet the promise of the 1949 Act if present trends in housing costs continue. The following table showing the ratio of median home sales prices and family income for the period 1949–1976 indicates, since 1972, a trend of increased relative housing costs. While some observers may rightly point out that the ratio of new sales price to income is presently at the level which prevailed in 1955, and therefore there is no "crisis," what concerns me is the trend. The curve is on the up, and if the trend continues, the ratio will be greater than the 1955 ratio and higher than at any time. While the increase in the median sales price of existing homes has not been as dramatic, the trend is still upward.

RATIO OF MEDIAN HOME SALES PRICES AND FAMILY INCOME, 1949–76

Year	Median family income	Median new sales price [1]	Ratio of new sales price to income	Median existing sales price	Ratio of existing sales price to income
1949	$3,107	$8,800	2.8		
1950	3,319	NA	NA		
1951	3,709	NA	NA		
1952	3,890	NA	NA		
1953	4,233	NA	NA		
1954	4,173	12,300	2.9		
1955	4,421	13,700	3.1		
1956	4,783	14,300	3.0		
1957	4,971	NA	NA		
1958	5,087	NA	NA		
1959	5,417	15,200	2.8		
1960	5,620	NA	NA		
1961	5,737	NA	NA		
1962	5,956	NA	NA		
1963	6,249	18,000	2.9		
1964	6,569	18,900	2.9		
1965	6,957	20,000	2.9		
1966	7,532	21,400	2.8		
1967	7,933	22,700	2.9		
1968	8,633	24,700	2.9	$20,100	2.3
1969	9,433	25,600	2.7	21,800	2.3
1970	9,867	23,400	2.4	23,000	2.3
1971	10,285	25,200	2.5	24,800	2.4
1972	11,116	27,600	2.5	26,700	2.4
1973	12,051	32,500	2.7	28,900	2.4
1974	12,902	35,900	2.8	32,000	2.5
1975	13,719	39,300	2.9	35,300	2.6
1976	14,958	44,200	3.2	38,100	2.5
1977	NA	48,200	NA	42,900	NA

[1] 1949 price from vol. IV, "Residential Financing", 1950 Census of Housing, and 1959 price estimated from data in volumes II and V, 1960 Census of Housing, U.S. Department of Commerce, Bureau of the Census; 1954, 1955, and 1956 are for the first 6 mos of each year, from Bulletin 1231, "New Housing and Its Materials, 1940 and 1956", U.S. Department of Labor, Bureau of Labor Statistics; 1963 through 1977 from Construction Report C25, "New One-Family Houses Sold and for Sale", U.S. Department of Commerce, Bureau of the Census and U.S. Department of Housing and Urban Development, Office of Policy Development and Research.

NA = Not available.

PROBLEM OF HOUSING COST, A RECENT DEVELOPMENT

The cost of housing has not been a serious problem for most American families until fairly recently. Until 1972, family income generally kept pace with housing prices and the overall costs of home ownership and rents.

Median family income increased at an annual rate of 6.60 percent compounded between 1963 and 1972, while the median sales price of a new single-family home grew at an annual rate of only 4.23 percent. Home ownership costs rose by 5.17 percent annually during the same period.

But from 1972 to 1976, the picture changed radically, housing costs increased dramatically, outpacing family income for the first time, so that if present trends continue, it will be likely that more and more families will be priced out of the housing market.

From 1972 to 1976:

Residential construction costs increased at an annual rate of 8 percent (including both inflation and quality increases);

The cost of improved building lots increased almost 13 percent per year (including both inflation and quality increases);

Median sales prices climbed at an average annual rate of 12.49 percent on new single-family homes, and 9.30 percent on existing homes;

Home owner costs—property taxes, insurance, maintenance, repairs, fuel and utilities—rose at an average annual rate of 8.15 percent; and

Higher mortgage interest rates, when applied to higher sales prices, increased the typical loan payment for a median price home by 80 percent over that four-year period, an annual increase of 15.9 percent compounded.

The median price for a single-family home increased from $27,600 in 1972 to $44,200 in 1976 to $48,800 in 1977, and is still climbing.

But most important during this same period, median family income rose at an annual rate of 7.05 percent, lagging well behind housing inflation. The CPI increased at an annual rate of 8 percent during this time period.

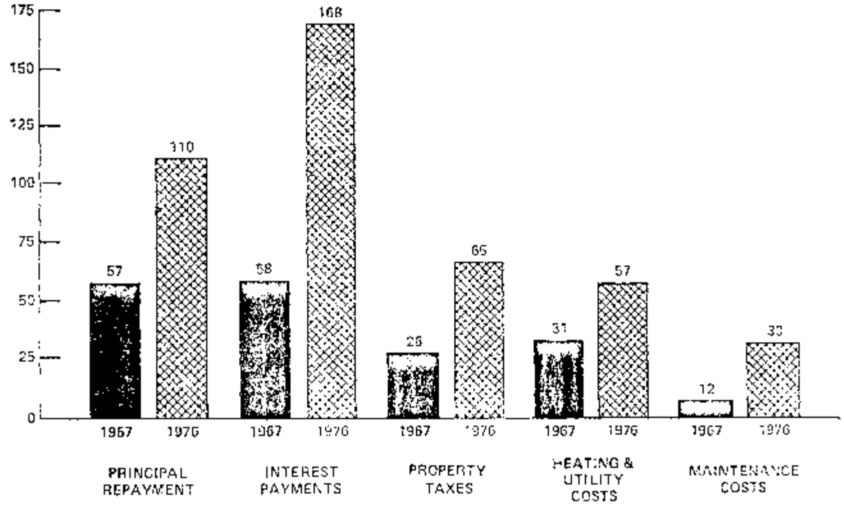
Finally, on June 30, it was reported that the Consumer Price Index (CPI) climbed by nearly 1 percent in May, led by food and housing costs. For the year May 1977-1978, it was also reported that housing costs rose 8.3 percent, while the entire CPI rose by 7 percent.

PRESENT TREND—EVER-HEAVIER BURDEN ON ALL

The high cost of buying and maintaining a home is an ever-heavier burden for almost all of us. But for millions of American families, the effort to find a decent home in a decent environment at an affordable price is more than a burden. If present trends continue, this will continue to be a problem for young couples with limited means trying to buy their first home, lower income families, the elderly attempting to make ends meet on fixed incomes in the face of constantly escalating costs, and those with special housing needs, such as the handicapped.

However, preliminary evidence suggests that these groups are adjusting to higher costs in a number of ways, including spending a greater portion of their income for housing costs and through a greater reliance on two-worker families. Therefore, the overall homeownership rate has not been affected significantly. The following table illustrates the increases in various monthly housing costs for a median priced new home from 1967–1976. While the total monthly payment for a median priced new home was $184 in 1967, it vaulted to $430 in 1976, an increase of 134 percent. The portion going to interest payment increased from $58 to $168 in that period, an increase of nearly 200 percent.

INCREASE IN VARIOUS MONTHLY HOUSING COSTS
FOR A MEDIUM PRICED NEW HOME
1967 - 1976
($22,700 (1967) - $44,200 (1976))



I am sure that all of us have asked, or have been asked: Where or when is it all going to end? I am sorry, but I don't have an answer to that question for the Committee today. But I do know that our Department has taken the lead in focusing national attention on this matter.

TASK FORCE ON HOUSING COST

Early on in this Administration Secretary Harris became concerned about the problem and formed a Task Force on Housing Costs, chaired by William J. White, consisting of experts from all disciplines relating to the problems of housing costs—builders, lenders, planners, labor leaders, architects, local government representatives, consumers—and representing a broad geographic base. We asked them to analyze housing costs and to develop recommendations which they could offer to Secretary Harris for her consideration.

The report has just been issued and it proposes a series of 150 recommendations aimed at the way land developers, home builders, financial institutions and officials at all levels of government go about the work of providing new and rehabilitated housing for our citizens.

Some of these recommendations are basic to the present system of housing production, demanding new legislation. Others require only administrative change. In any case, they will demand discarding old habits and accepting new, less costly, less time-consuming ways of doing business.

The Department of Housing and Urban Development is taking this report seriously. At the time of the release of the Task Force report to the press on June 7, 1978, Secretary Harris announced that HUD had already adopted some of the recommendations of the Task Force, for instance, that there be greater flexibility in determining when a full Environmental Impact Statement for a proposed housing project should be made.

One of the questions the Task Force first raised was whether or not the problem of high housing costs would solve itself? They determined that the answer was NO.

They found that housing costs have increased faster than costs in most other sectors of the economy, and that they will continue to do so unless positive concerted action is taken by the housing, finance and land development industries and by all levels of government which contribute to these higher costs.

What have past Administrations done to alleviate this pinch on the pocketbooks of the American home owner and renter? The answer has been, unfortunately, not much. Government regulation became more involved and complicated, more time-consuming, more burdensome. In many cases, the concern of government was to control unplanned growth, reduce urban sprawl, and end environmental degradation—all worthy goals. Unfortunately, too few have found the right balance between the need for legitimate environmental protection and the need of our citizens for shelter. All too often, the regulations were overly restrictive, unfair, and in some cases, counterproductive.

These were the conditions the Carter Administration faced when it came to office. It was apparent that no simple, single magic formula would solve problems which have been years in the making.

Secretary Harris recognized immediately the impact that housing costs were having, not only on the housing industry, but on the quality of life of the American family, when she took office 15 months ago, and that is why she created the Task Force.

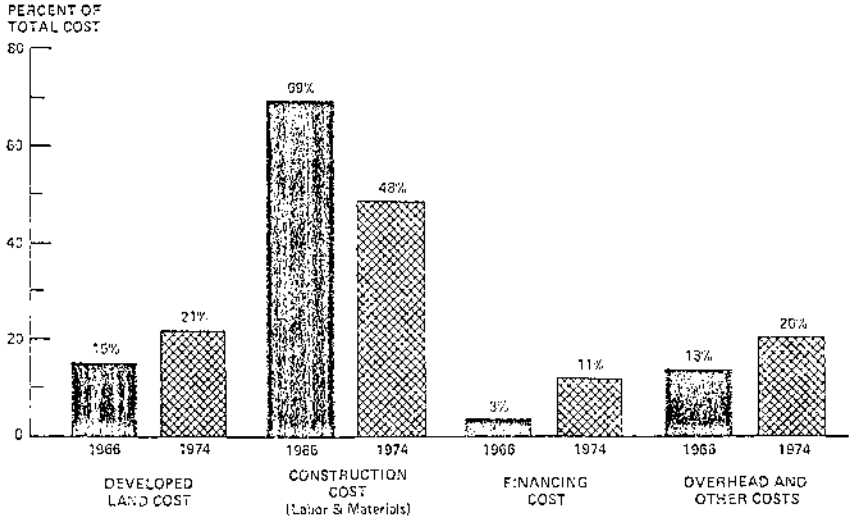
Although the authors did not structure the report in this way, I believe their findings can be categorized into three major areas: the cost of regulation; the cost of cyclicality; and, the cost of indifference. This is what I consider to be the greatest triple threat to the Nation's ability to achieve for all Americans the promise of a decent home in a suitable environment.

THE COST OF REGULATION

Recent estimates have placed the cost of regulation as high as 20 percent of the sales price of a house. Unfortunately, this figure makes no differentiation between necessary and unnecessary regulation, for none of us, I am sure, wants to eliminate requirements which legitimately protect the public health and welfare. However, we have examples of bad regulations, regulations which are unnecessary or overly restrictive at all levels of government—Federal, state and local.

The following table implies that the cost of regulation is most likely significant. As a component of construction costs, developed land cost increased from 15 percent in 1966 to 21 percent in 1974 and in 1976 was 25 percent. This is partially due to normal supply and demand factors, but regulation has also had an effect. The same is true for overhead and other costs, which, even though it declined to 17.5 percent in 1976 from the 1974 figure of 20 percent, still represents a 35 percent increase in 10 years. To round out the table, financing costs constituted 10.8 percent of total construction cost in 1976, while the "hard" costs—labor and materials—dropped further to 46.7 percent.

CHANGE IN CONSTRUCTION COST COMPONENTS
(Typical Single Family House)
1966 - 1974



LAND-RELATED COSTS AND RESTRAINTS

In many areas, the supply of developable land has been constrained in part by local government limitations on the capacity of public facilities—especially water supply and sewerage—and by restrictions placed on the use of land through zoning and related subdivision controls and standards. Some of these regulations are useful; others are not. Government at all levels, has a positive obligation to review these regulations to determine if less costly ways can be found to achieve the same results.

Costs for site development, another crucial element in residential development, have been one of the most steadily increasing components of housing costs over the past ten years. Many standards are outmoded and excessive. Take road construction in subdivisions: unnecessary access road requirements, excess asphalt requirements, and unduly wide streets. Virginia requires a 7 percent grade on residential streets instead of the previous 10 percent.[1] This means more cutting and filling and the removal of more trees. The 7 percent grade regulation is intended for highway construction and is totally unnecessary on local residential streets. Yet it is applied uniformly to both.

In addition to the cost of complying with high standards, the developer is often subjected to a host of fees and assessments which have been increasing steadily over the past few years.

Some of these charges are keyed to local governmental costs of processing applications, conducting inspections, or performing necessary on-site mechanical work. Other charges, sometimes known as impact fees, are designed to finance capital costs normally borne by the community at large.

In a national study of State and local governmental capital demand, George Peterson of the Urban Institute found that "as much as $4 to $5 billion per year is probably contributed to the public capital stock by developers who must install community facilities at their own expense." He estimates that this is an average of $4,652 per housing unit and includes such items as minor subdivision roads, half the cost of collector roads, sanitary sewage collection systems, storm drainage, water distribution and park and recreation space. The imposition of these costs on developers—in actuality, on those who will live in the subdivision—seems equitable provided the costs are reasonable, the charges directly relate to the subdivision, and the items are not those which local government normally provides without cost.

Restrictive land use practices and exclusionary zoning have often removed land from development or have reduced densities as a means of keeping out lower income families. In part because of these and other factors, the cost of land also has been steadily increasing. For instance, an Urban Land Institute survey of seven metropolitan areas found an average increase in urban land prices of 100 percent between 1970 and the spring of 1974. The Department of Agriculture found that the average value of land per acre of farmland—ultimately a prime source of developable lots—almost tripled between 1967 and 1977.

Building codes have often been overly restrictive and local standards are sometimes added to national codes with the result that costs are unnecessarily inflated. Excess requirements are found in many local codes, and we are in the process of making sure that our own Minimum Property Standards achieve a proper balance in protecting the financial interest of the Federal Government while not overly regulating the construction process.

As Secretary Harris announced a month ago, HUD will work with States and local governments in developing recommendations for reasonable standards for land development and in planning for an adequate supply of useable land. In this regard, the Secretary announced that HUD will convene a national conference later this year, at which State and local officials will be alerted to how some land development regulations unnecessarily increase housing costs and to address solutions to the problem.

THE COST OF CYCLICALITY

During the past year, we at HUD have done a great deal of work on the role of housing in the economy and the effects which monetary and fiscal policy have on housing performance. One of the principal things we have learned is that the

[1] A lower percentage grade means a more level road. While this may be desirable, cutting and filling to achieve a more level terrain can be extremely expensive. HUD's Minimum Property Standards allow for no more than a 14 percent grade. Beyond 14 percent, the terrain becomes dangerous for vehicular traffic.

sharp upward and downward swings in the housing industry are adversely affected by rising interest rates and the availability of mortgage credit. As we all know, housing production is one of the most cyclical areas of the economy. There have been seven major housing cycles since World War II. In the most recent swing, housing starts fell from a peak annualized rate of production of 2,500,000 dwelling units in the first quarter of 1972 to a low of 953,000 in the second quarter of 1975. These sharp fluctuations in production tend to drive up costs in all areas related to housing construction and to have a significant effect on the efficiency of the industry. In 1977, starts did increase significantly to 1.97 million units, the fourth highest year on record.

Housing slumps lead to idle plant and construction equipment, to underutilization of manufacturing capacity, to home-builder bankruptcies and to high unemployment in the construction industry.

Unions find themselves for a number of reasons, including cyclicality and seasonality in the industry, adopting restrictive jurisdictional work practices to provide more job security for construction workers, and to bargain for relatively high hourly rates to assure a reasonable average income during the drastic dips and peaks in home industry production. Land developers and home builders find they must have a relatively high rate of return on their investment to compensate for higher risks brought about when demand for housing drops.

Conventional wisdom tells us that cyclicality in the housing industry is unavoidable and, in fact, desirable because of the countercyclical nature as it relates to the economy as a whole. During an economic upturn, the housing sector usually leads activity. As the peak is reached, interest rates usually increase because of credit demands in non-residential sectors of the economy and a "credit crunch" adversely affects the housing sector. If housing production were to be kept relatively stable, the argument runs, its value as a tool to help keep the economy on an even keel would be worthless.

But the conventional wisdom is not necessarily true wisdom. It is not necessarily so that there is a conflict between relatively stable housing production levels and general macroeconomic stabilization policy. A recent study by the MIT-Harvard Joint Center found such to be the case. Stable housing production and a stable economy are not necessarily competing goals. In fact, not only does instability in housing production lead to higher housing costs, its presumed benefit as a cushion on the national economy is also questionable. The results of a number of simulations with econometric models indicated that with less severe cycles, real gross national product could have been higher and the unemployment rate lower during the late 1960's and early 1970's.

THE COST OF INDIFFERENCE

Now I would like to turn to the final category—the cost of indifference. In many respects, this is the most important cost we have to face, because if no one cares, nothing will be done about the problem.

By the cost of indifference, I mean that a whole series of contributors to the cost of housing have been indifferent to what effect their individual actions have meant to escalating housing costs. Over the years, too few of those in this chain cared. Here I am talking about local, state and Federal government officials, builders, materials manufacturers, lenders, local labor union officials, real estate attorneys and so forth. We see the results of that neglect today—exclusionary zoning, almost prohibitive site development costs, a shortage of developable land, extensive red tape, built-in costs and constraints that are unwarranted or unproductive, and so forth. Many previous Administrations paid lip service to the problem of rapidly escalating housing costs. But no one—inside or outside of government—has done much about them. In addition, the valuable work of many task forces and commissions was lost or ignored in the past after initial publicity faded, simply because programs and mechanisms to implemnt their recommendations were lacking.

I assure you that the 150 recommendations made in the Task Force Report will be studied carefully by the Department of Housing and Urban Development. A number of them will be carried out in the future. As a result of the recommendations of the Task Force, Secretary Harris has put into effect the following actions:

She asked all program Assistant Secretaries to analyze all of the recommendations of the Task Force as they affect their areas of responsibility and to report to her on how best these recommendations might be implemented or whether they should be implemented in their present form or in some adjusted form, and on the cost and staff requirements necessary to implement the options they present.

HUD will support the revision of the nationally recognized one and two family dwelling codes and will work toward the development of a uniform code. The Department, in cooperation with the model code organizations, will also support the development of rehabilitation codes for single and multifamily housing.

HUD has recently entered into an agreement with the National Institute of Building Sciences to undertake a comprehensive study of building codes in the country and to make recommendations to the department. On June 7, the Secretary announced a Grant Award of $300,000 to NIBS for this study. We feel they will move forward with a program of activities consistent with the findings and recommendations of the Task Force.

HUD has set aside $500,000 for research to begin immediately on investigations of the costs and benefits of land use and environmental regulations and on the impact of monetary and tax policies on the costs of housing. This research will be competitively awarded to begin this fiscal year. Further research will be undertaken on other items recommended by the Task Force as determined by the Office of Policy Development and Research.

HUD will work with States, and local governments, in developing recommendations for reasonable standards for land development and in planning for an adequate supply of useable land. HUD will convene a national conference later this year, at which local and State officials will be alerted to how some land development regulations unnecessarily increase housing costs.

Community Development Block Grant funds can be used to purchase subsidized housing sites well in advance of actual construction and thus avoid the possibility of higher land costs later.

Block Grant funds can be used to pay for the necessary streets, sewers and water lines, and other community facilities in housing developments serving low-income families.

We are already taking these first steps toward implementing the recommendations of this report. We know that some of the steps are going to be more difficult and will take longer.

We are certain that not all these recommendations will come into being exactly as proposed in the Task Force report, but we do want them aired, discussed and considered.

IMPLEMENTATION OF RECOMMENDATIONS OF TASK FORCE

It is for that reason that Secretary Harris has asked for a report by the end of August recommending what action should be taken on each of the 150 recommendations included in the Final Report of the Task Force on Housing Costs, incorporating in these individual recommendations the comments of each of the HUD Assistant Secretaries with the view of implementing a number of them by the end of the current fiscal year on September 30.

At the same time, HUD will continue its efforts to reduce the time needed to process applications for housing and other assistance in its Area, Regional and Headquarters—an effort which was begun with the Department's recent reorganization—as a further step toward holding the line on housing costs in our nation.

HUD's actions will continue to complement, and be in support of, the Carter Administration's efforts to relieve the supply bottlenecks in all sectors of the economy in an effort to reduce inflation. For instance, the President has already stated that, consistent with environmental goals, he is committed to increasing timber cuts from our national forests as a way to reduce costs.

Only by positive action can the momentum toward ever-higher housing costs be blunted. We are beginning that effort here today with your help and guidance.

That concludes my prepared testimony. I would be pleased to answer any questions the Committee might have.

Chairman MUSKIE. Mr. Smith, you may proceed now.

STATEMENT OF HERMAN J. SMITH, VICE PRESIDENT AND SECRETARY, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. SMITH. Mr. Chairman and members of the committee, my name is Herman J. Smith, and I am a home builder from Fort Worth, Tex. I am testifying today on behalf of the more than 103,000 members of the National Association of Home Builders (NAHB), a trade association of the Nation's home building industry, of which I am vice president and secretary. Accompanying me today are Robert D. Bannister, senior vice president, and Gary Paul Kane, associate legislative counsel.

We appreciate this opportunity to discuss the findings and recommendations contained in the final report of the Task Force on Housing Costs. The HAHB applauds the efforts of the task force and this committee for looking into the serious national problem of escalating housing costs.

The recommendations of the task force should, in our view, receive serious consideration by both the Administration and the Congress. In keeping with the request contained in the Chairman's letter to us, we will attempt to focus particularly on those factors that are amenable to Federal action.

Because of time I will hit the highlights in my statement.

COUNTRY FACING HOUSING COST PROBLEM

Few would argue that this country is facing a housing cost problem of serious proportions. In 5 years, the median sales price of a new single-family home has gone from $32,500 to $53,500 in April of 1978. Provided these are accurate, I will say that for the 5 years, I have never seen a month like last May. If we are to look at the $55,000 median size home, other than in the West, and in the West we are talking about a $75,000 to $100,000 median priced home, it means we need an income of between $25,000 and $40,000 for families to purchase this type of home.

If there was the 25 percent buying homes, it has evaporated, so that I don't even know if 10 or 15 percent could buy homes at that price.

I think this shows the urgency of what we are talking about today. Prices since 1972 have been bad, but the trend in the last year has been terrible.

COMPONENTS OF HOUSING COST INCREASE

No single reason can be given why the inflation in housing costs has exceeded the rise in family incomes, or of the prices of other goods. Many factors have contributed to the sharp increase in the cost of the average single family house. Of these, five that we feel are most significant are the following:

One, the high demand for housing brought about primarily by the rapid increase in family formation;

Two, limitations on the availability of resources used in housing production (land, construction materials, and financing);

Three, sharp, cyclical fluctuations in the level of housing construction;

Four, government overregulation. We don't say that is fourth in importance, but it is one of the five.

Five, the inflationary trend of the entire economy.

INCREASED DEMAND FOR HOUSING

The recent high demand for housing has been brought about in large measure by the rapid increase in the rate of family formation. During the first 7 years of this decade (1970 to 1977), the number of households increased by 10.7 million (17 percent) to a total of 74.1

million. This compares with an increase of 6.4 million households (12 percent) during the first 7 years of the 1960's.

The increased rate of household formation is a result of the postwar baby boom and the ability of young singles and the elderly to maintain their own households.

FIVE-YEAR POPULATION PROJECTIONS

Over the next 5 years, some population projections show an increase of 7.5 million additional households. When combined with the number of families currently occupying substandard housing, and the number of housing units removed from the market each year by demolition, disaster, or other means, an additional 12.5 to 14 million housing units could be needed during the next 5-year period.

Of course, this could be handled through new construction, major rehabilitation, and other methods.

AVAILABILITY OF CONSTRUCTION MATERIALS AND RESOURCES

Getting back to the five reasons, we believe that the Housing Costs Task Force Report is quite accurate identifying the reasons for the increase in the price of land. I will not go into individual items.

Policies of State and local governments have constrained the supply of developable land, increased the infrastructure, development and environmental requirements beyond the minimum necessary, and established land development regulations and procedures which are unnecessarily complex and time consuming.

Let me say that I don't think it is an accident that the Census Bureau shows that in the western part of the country we have jumped 15 percent in May. I am not building in the western part of the country. From what the builders out there tell me—and I believe I am talking about west of New Mexico—some of the land constraint factors are a big factor contributing to this tremendous cost in the last few months.

With various motives in mind, communities throughout the country have sought to limit or control development within their jurisdictions. They have frequently imposed controls in the form of limitation on the capacity of public services (for example, water, sewer facilities, schools, roads), used zoning to limit growth or prohibit certain types of development, and this is all in the area of moderate to lower income, nearly all; discouraged develpoment through property tax practices, or established outright ceilings on population or the number of building permits.

As the Task Force Report notes, many of these requirements go well beyond that necessary to protect basic health, safety and general welfare. In addition, they place a disproportionate share of the financial burden of growth on the first time buyer of newly constructed housing.

The wholesale price index for the 12-month period ending May 1978, shows that all construction materials rose 12 percent, almost twice the rate of increase for all commodities. Concealed within this high average increase for all construction materials are even higher raises for the costs of certain basic housing components. For example, mill prices for lumber and wood products, which make up approximately 30 percent of the construction cost of the average new home, have increased 30.2 percent in the last 12 months.

We have real needs of proper management of the forestry of this country, and of the proper and allowable timber cuts to make this a competitive industry

A second example of excessively inflated materials costs is that experienced in the gypsum products—plaster board and lath—in the 12-month period ending May 1978, during which the wholesale prices for these materials rose by 29.7 percent. One builder in Florida reports that there were five major price increases in the wholesale costs of plasterboard in his area during the 12 months.

AVAILABILITY OF FINANCING

Thrift institutions remain the principal source of long term mortgage credit. Their ability to attract funds for housing investment depends upon their ability to offer investors yields which are competitive with yields from other investments. On the national level the tightening of the overall money supply, general increases in the demand for credit, or large scale borrowing by the U.S. Treasury push up yields on competitive investments reducing the availability of mortgage credit for housing industry.

CYCLICAL FLUCTUATIONS

Cyclic fluctuations in the housing industry, as Secretary Janis has said, are a very important problem. Our written testimony outlines most of the same points that he brought out.

EXCESS GOVERNMENTAL REGULATIONS

A Government Regulations and Housing Costs Study conducted by Rutgers University in 1977 concluded that for a prototype $50,000 single family home, the cost of Government regulation could total $9,844 or 19.7 percent of the purchase price of the home. That study was completed in 1977. If it were updated today, it would be my opinion that it would far exceed 20 percent.

The full impact of Government regulation, however, has yet to be felt. The regulations we see coming on stream will certainly add to this cost, unless they are turned around.

INFLATIONARY TRENDS OF ECONOMY

NAHB believes that the general inflationary trend in costs, wages' and prices across the national economy as a whole has a significant impact upon increasing housing costs. Together with general price rises go increases in the prices of land, construction materials, labor and financing. Business, labor, and government all share responsibility for current inflationary trends—business and labor by demanding increased returns for their efforts, and the Federal Government by high levels of Federal spending accompanied by large budget deficits.

FEDERAL INVOLVEMENT IN CONTROLLING HOUSING COSTS

Appropriate Federal involvement in controlling housing costs, as regards this report: having identified the causes of housing costs increases, we will now address ourselves to the role that the Federal Government could and should play in alleviating or mitigating those cost increases.

FISCAL POLICY

NAHB believes the national administration should take a strong leadership role in an effort to control inflation. We believe, one, that Congress and the administration should proceed immediately toward a balanced budget, two, that no tax cuts be adopted so long as there is a deficit in the Federal budget; and three, that new legislation or regulations be carefully considered for potential inflationary impact.

I might digress to say that I believe that if over a period of years we have a cost-benefit analysis made of regulations that went into effect, we could easily track back the problems that we are talking about today, and we could easily identify the problems that brought us to the point where we are now.

Hopefully, from this point on, we can see the need for all regulations having shown some kind of cost-benefit analysis to the American people, and those concerned with it, instead of just running a paper mill.

MONETARY POLICY

Through national monetary policy the Federal Government can both insure a continuous flow of financing for the housing industry and moderate the sharp fluctuations in housing production.

NAHB strongly concurs with the recommendation of the Report that the implications of wide cyclical fluctuations in the housing industry upon the national economy be comprehensively reviewed; and that the priority of housing when compared with other national goals, such as acceptable growth in GNP, lower aggregate unemployment, and moderate increases in inflation, be redefined.

There is an old adage among builders that when the economy gets a sneeze, our industry gets pneumonia. We see these high interest rates, 11 percent. We talk about this earlier as being a problem, not only in view of inflation, but also a problem of slowing down housing starts. You can anticipate that starts will be slowed considerably in the next few months as the interest rates go up.

NAHB believes that these studies will show that housing cycles can be moderated without adversely affecting the national economy.

TAX POLICIES

National tax policy which impedes the steady flow of investment funds into housing only contributes to the cyclical nature of the housing industry, and causes a further escalation in housing costs. We support the proposal of Congressman Steiger. We believe that lower rates will increase the supply of venture capital.

I might add, gentlemen, venture capital is something the home building industry needs. A recent survey shows that 52 percent of our building members have 5 or less employees. We are truly a private entrepreneurship throughout the country.

By that I am talking about home building without the various subcontractors that fit into it. Venture capital is important.

The land availability in our area—and I might say that in my own area of Dallas and Fort Worth, on the edge of the town, where there might be an old lady who owns a tract of land, if she is looking at a 45-percent tax on that land, she is not going to sell. Whereby, we believe the Steiger amendment will roll back capital gains so that we could buy the lands.

It would come on stream for us by the homebuilding, and at the same time, more taxes would come into the coffers of the Federal Government.

CONSTRUCTION MATERIALS

The Federal Government can have significant influence in removing some of the causes for the current high rates of inflation of construction materials costs. The supply of lumber and wood products could be substantially increased through efficient and environmentally sound management of the national forests. An increase in supply of these materials is absolutely vital if lumber prices are to be kept uner control.

IMPACT OF GOVERNMENT REGULATIONS

When taken collectively, the impact of Government regulations dwarf other factors in the contribution for significantly increasing housing cost. A modest estimate for Government regulations increasing housing cost would be in the area of 20 percent for the total cost of a single family dwelling. If Government's share in inflation were tabulated along with its regulations, the overall contribution would be even greater. The only comfort in the fact that Government at all levels have had a substantial adverse impact on housing cost is the realization that if Government has helped create the problem, it ought to be able to help resolve it.

Some specific examples of Government's impact on housing cost include:

HUD'S PROCESSING PROCEDURE

The task force report confirms the often repeated assertion that HUD's own loan processing procedures are a factor in raising the cost of housing.

NAHB has taken a position in support of the current reorganization of HUD field offices, based upon direct assurance from the HUD administration that the reorganization will lead to a streamlining and efficiency of HUD processing.

However, we believe the Secretary of HUD should be held strictly accountable for the efficiency and effectiveness of HUD processing, and that oversight hearings into the effectiveness of the reorganization be held in early 1979.

BALANCING HOUSING AND ECONOMIC GOALS WITH ENVIRONMENTAL CONSIDERATIONS

NAHB does not question the need for national goals to improve environmental quality. We do, however, believe that in light of the impact of regulatory initiatives on housing cost, it would be appropriate to closely examine ways to reduce unnecessary adverse impacts. Accordingly, we would recommend:

One, HUD and EPA explore the possibility of developing a "one-stop shopping" concept for all federally funded programs to deal with the duplicative nature of permit procedures affecting the development industry.

I might add, Mr. Chairman, in the Wall Street Journal's lead article last week,[1] Professor Case of the University of California had a sentence that made a lot of sense.

One way is to set up a one-stop shopping concept whereby builders deal with a single Government agency for obtaining all the permits. The agency should appoint someone to be truly accountable for his actions. As things are now, public officials tend to pass the buck.

I don't always agree with the University of California's professors, but in this particular case, I agree wholeheartedly. Where we are looking for the development of 1 to 2 years in time to get a set of plans and specifications, the various agencies—and this varies in all parts of the South—in the Southwest we are more fortunate than in other parts of the country. If we had a one-stop concept, with a properly manner agency, properly monitored, but where the setup plans and specifications were all in that department instead of being parcelled across the country, we would save a lot of time.

Senator DOMENICI. Are you talking about development permits or housing permits?

Mr. SMITH. Development permits and single families, because that is where the problem is, mainly. I would say that other projects, it would seem to me we could have one agency that could handle that. We have situations, for example, where under HUD we can obtain FHA and VA approval for subdivisions, but then we have to go to interstate land sales to obtain a permit to sell a lot somewhere else.

Here is somewhere where we have two requirements within the same agency. We now have Farmer's Home, with one set of energy guidelines for homes, and HUD proposed another. So we get to the point where we have to get our act together, or it costs us money.

Two, close congressional review of future environmental legislation to insure that economic considerations, particularly housing cost impacts, are adequately considered.

Three, careful review of Forest Service practices in order to increase the annual harvest from national forests. We mentioned this earlier, and I will not go into details on that. But there is some legislation pending in this area.

INTERSTATE LAND SALES REGULATION

But we are concerned that OILSR has extended its jurisdiction from undeveloped lots in remote parts of the country to the sales of fully improved or developed lots located in metropolitan areas where land development activities are already heavily regulated.

We believe in the city of Fort Worth, or the city of Albuquerque, that the city commission, the city engineers, the staff involved, once they approve a subdivision, a bond has to be posted, that they can properly regulate. And it is not necessary to spend thousands of dollars to send an application to Washington to be approved by a Federal agency.

FARMERS HOME THERMAL PERFORMANCE STANDARDS

The task force report suggests that one method of controlling housing costs is through the cooperation and uniformity of regulations

[1] See p. 75.

among HUD, the Farmers Home Administration, and the Veterans' Administration. I think this is really important, that we have one set of guidelines that all the Federal agencies are affected by.

LAND SUPPLY AND DEVELOPMENT

Senator DOMENICI. What is the third one?

Mr. SMITH. The Veterans' Administration. Normally, the Veterans' Administration and FHA work closely together.

As we noted earlier, excessive and burdensome regulation of State and local governments restricting the development of land, imposing excessive costs in the development of infrastructure or causing delays through redtape and inefficient administration contribute significantly to housing costs.

However, NAHB believes that responsibility for these decisions should rest in the hands of State and local officials. And if pressures for less restrictive land use controls are to come, they should come from the residents of the area, not from the Federal Government.

Requirements relating to land dedication or fees and charges are local problems, and should be resolved on the local level without any Federal intervention.

I would be happy to answer any questions that you may have.

Chairman MUSKIE. Thank you very much for your testimony.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. Chairman and members of the committee, my name is Herman J. Smith, and I am a home builder from Fort Worth, Texas. I am testifying today on behalf of the more than 103,000 members of the National Association of Home Builders (NAHB), a trade association of the nation's home building industry, of which I am Vice President and Secretary. Accompanying me today are Robert D. Bannister, Senior Staff Vice President, and Gary Paul Kane, Associate Legislative Counsel.

We appreciate this opportunity to discuss the findings and recommendations contained in the Final Report of the Task Force on Housing Costs. The NAHB applauds the efforts of the Task Force and this Committee for looking into the serious national problem of escalating housing costs. The recommendations of the Task Force should, in our view, receive serious consideration by both the Administration and the Congress. In keeping with the request contained in the Chairman's letter to us, we will attempt to focus particularly on those factors that are amenable to federal action.

INTRODUCTION

Few would argue that this country is facing a housing cost problem of serious proportions. In 5 years, the median sales price of a new single family home has gone from $32,500 to $53,500 in April of 1978. In urban areas, housing prices have increased even more rapidly. The $100,000 home once thought to be a "dream estate" for the very wealthy, now is not unusual in many areas across the country. Housing prices and operating expenses have increased and are continuing to increase more rapidly than family income and consumer prices generally.

All Americans are affected by increasing housing and operating costs. Those that have purchased homes before the recent dramatic price increases, since 1970 or even 1973, have been least adversely affected. The equity appreciation in their homes has allowed many to move up to more comfortable homes with very little increase in monthly mortgage payments. Those harmed the most by the acceleration in housing cost are newly formed families which are potential first time home buyers, low income families, and elderly people or others on fixed income. For these individuals, the rapid increase in the cost of housing quickly outstrips the gains in income they may have.

The National Association of Home Builders strongly concurs with the statement of the task force that "all Americans are entitled to enjoy housing that is decent, sanitary, and safe—and affordable—as a matter of right." Frankly, however, unless a concentrated and conscientious effort is taken to address this problem, millions of Americans may never realize that right.

COMPONENTS OF THE HOUSING COST INCREASE

No single reason can be given why the inflation in housing costs has exceeded the rise in family incomes, or of the prices of other goods. Many factors have contributed to the sharp increase in the cost of the average single family house. Of these, five that we feel are most significant are the following:

(1) The high demand for housing brought about primarily by the rapid increase in family formation;

(2) Limitations on the availability of resources used in housing production (land, construction materials, and financing);

(3) Sharp, cyclical fluctuations in the level of housing construction;

(4) Government overregulation; and

(5) The inflationary trend of the entire economy.

INCREASED DEMAND FOR HOUSING

The recent high demand for housing has been brought about in large measure by the rapid increase in the rate of family formation. During the first 7 years of this decade (1970-1977), the number of households increased by 10.7 million (17 percent) to a total of 74.1 million. This compares with an increase of 6.4 million million households (12 percent) during the first 7 years of the 1960's. The increased rate of household formation is a result of the post war baby boom and the ability of young singles and the elderly to maintain their own households.

Over the next 5 years, some population projections show an increase of 7.5 million additional households. When combined with the number of families currently occupying substandard housing, and the number of housing units removed from the market each year by demolition, disaster, or other means, an additional 12.5 to 14 million housing units could be needed during the next 5-year period.

AVAILABILITY OF CONSTRUCTION MATERIALS AND RESOURCES FOR HOUSING

While demand for housing has been increasing, the supply of resources (land, construction materials, and financing) used in building has not been allowed to increase proportionately. Rather, constraints on the availability of these resources have been increasing in recent years. These limits on the ability of the private sector to respond to increased demand, are a significant factor in the increase of housing costs.

LAND

We believe that the Housing Costs Task Force Report is quite accurate in identifying the reasons for the increase in the price of land. Policies of State and local governments have constrained the supply of developab e land, increased the infrastructure, development and environmental requirements beyond the minimum necessary, and established land development regulations and procedures which are unnecessarily complex and time consuming.

With various motives in mind, communities throughout the country have sought to limit or control development within their jurisdictions. They have frequently imposed controls in the form of limitations on the capacity of public services (for example, water, sewer facilities, schools, roads), used zoning to limit growth or prohibit certain types of development, discouraged development through property tax practices, or established outright ceilings on population or the number of building permits.

Other communities through regulations requiring dedication of land, construction of public facilities, or compliance with certain environmental control requirements have substantially increased the cost of developing a lot as a site for housing. As the Task Force Report notes, many of these requirements go well beyond that necessary to protect basic health, safety and general welfare. In addition, they place a disproportionate share of the financial burden of growth on the first time buyer of newly constructed housing.

CONSTRUCTION MATERIALS

The wholesale price index for the 12 month period ending May 1978 shows that all construction materials rose 12 percent, almost twice the rate of increase for all commodities. Concealed within this high average increase for all construction materials are even higher raises for the costs of certain basic housing components. For example, mill prices for lumber and wood products, which make up approximately 30 percent of the construction cost of the average new home, have increased 30.2 percent in the last 12 months. Yet the annual harvest in the 1970's from the National Forests—which constitute the single largest source of the softwood timber used in construction—is below what it was at the beginning of the decade. Since timber production from privately held lands is expected to decline in the 1980's when housing demands will continue to increase, the National Forests will become an even more critical factor in the lumber price situation. The only way lumber prices can be moderated is to increase the supply and the current trends show supply decreasing.

A second example of excessively inflated materials cost is that experienced in the gypsum products—plaster board and lath—in the 12 month period ending May 1978, during which the wholesale prices for these materials rose by 29.7 percent. One builder in Florida reports that there were five major price increases in the wholesale costs of plasterboard in his area during the 12 months. This materials industry is dominated by three large companies which accounted for almost 75 percent of the total sales last year. Two of these companies reported 1977 increases in net earnings of 67 percent and 34 percent. NAHB is becoming increasingly concerned with the reasons behind the premium prices for gypsum products.

Other materials costs are experiencing increases directly attributable to governmental action. The cement industry, for instance, is widely engaged in fuel conversion programs to meet pollution control requirements. Some areas, particularly in the West and Southwest, report cement plant closings which are, at least in part, due to the high costs of compliance with new air quality standards.

Another case of governmental action leading to rising materials costs is in the cost of insulation which has risen rapidly due to increased demand based on new Federal energy conservation regulations for new construction, and the proposal for tax credits for installing additional insulation in existing structures.

AVAILABILITY OF FINANCING

Thrift institutions remain the principal source of long term mortgage credit. Their ability to attract funds for housing investment depends upon their ability to offer investors yields which are competitive with yields from other investments. On the national level the tightening of the overall money supply, general increases in the demand for credit, or large scale borrowing by the U.S. Treasury push up yields on competitive investments reducing the availability of mortgage credit for housing industry.

Federal action through monetary policies and through the action of various administratuve agencies can have a significant impact upon the availability of funds flowing into thrift institutions.

CYCLIC FLUCTUATIONS IN THE HOUSING INDUSTRY

The sharp, cyclic fluctuations traditional in the housing construction industry also contribute to the increase of housing costs. During periods of slack construction, plant and equipment stand idle; the capacity for manufacturing materials and components used in housing construction are underutilized; and construction workers are not employed. During periods of high construction activity, workers demand higher wages to provide reasonable annual incomes (considering periods of unemployment); returns on plant and equipment must be high to make up for losses during idle periods; and the demand for resources used in housing is increased sharply, resulting in higher land prices, higher material prices, and higher interest costs.

EXCESS GOVERNMENTAL REGULATIONS

A Government Regulations and Housing Costs Study conducted by Rutgers University in 1977 concluded that for a prototype $50,000 single family home, the cost of government regulation could total $9,844 or 19.7 percent of the purchase price of the home. A report by the Comptroller General, dated May 11, 1978, found that in the communities that it has surveyed specifications or standards for streets and related site inprovememts could increase the cost of a house by as much as $2,655. In addition, potential savings from less restrictive local building codes range between $0 and $7,300 with the median projected savings being about $1,700 a house. The proliferation of government regulations and processing delays, including those at the local level, add significantly to construction costs.

The full impact of government regulation, however, has yet to be felt. The Army Corps of Engineers' Dredge and Fill Permit Program, EPA's policy to limit funding of interceptor sewer lines, EPA's 208 area-wide water quality planning program, and the Coastal Zone Management Program, administered by the Department of Commerce, are all at various stages of implementation. At the same time, other legislative proposals are on the hearthstone that could also contribute to housing cost increases.

INFLATIONARY TRENDS OF THE ECONOMY

NAHB believes that the general inflationary trend in costs, wages, and prices across the national economy as a whole has a significant impact upon increasing housing costs. Together with general price rises go increases in the prices of land, construction materials, labor and financing. Business, labor, and government all share responsibility for current inflationary trends—business and labor by demanding increased returns for their efforts, and the federal government by high levels of federal spending accompanied by large budget deficits.

APPROPRIATE FEDERAL INVOLVEMENT IN CONTROLLING HOUSING COSTS

Having identified the causes of housing costs increases, we will now address ourselves to the role the federal government could and should play in alleviating or mitigating those cost increases.

FISCAL POLICY

NAHB believes the national administration should take a strong leadership role in an effort to control inflation. We believe (1) that Congress and the Administration should proceed immediately toward a balanced budget, (2) that no tax cuts be adopted so long as there is a deficit in the federal budget, and (3) that new legislation or regulation be carefully considered for potential inflationary impact. As its part, NAHB adopted a resolution on June 29, 1978, whereby NAHB pledged to limit 1978 price increases to less than the average during the December 1975–December 1977 period (barring unusual or unforeseen cost increases in the price of materials or labor beyond the control of the home builder), and to limit 1978 compensation increases to 5 percent.

MONETARY POLICY

Through national monetary policy the federal government can both ensure a continuous flow of financing for the housing industry and moderate the sharp fluctuations in housing production. In so doing, the housing industry and each of its suppliers would be able to utilize more efficient technology and more capital intensive production techniques. Plants could be built to accommodate relatively stable and predictable construction levels. And the uniform demand for land, labor, materials, and financing would avoid artificially high prices for those resources during periods of peak demand.

The Cooley-Corrado study cited in the Task Force Report suggests that sharp, cyclical fluctuations in residential construction may not be necessary to achieve more stable output and employment in the overall economy. If this conclusion is accurate, monetary policies could and should be used to moderate the wide fluctuations in the housing industry to the benefit of the home builder and consumer, without harm to the general public.

NAHB strongly concurs with the recommendation of the Report that the implications of wide cyclical fluctuations in the housing industry upon the national economy be comprehensively reviewed; and that the priority of housing when compared with other national goals, such as acceptable growth in GNP, lower aggregate unemployment, and moderate increases in inflation be redefined.

NAHB believes that these studies will show that housing cycles can be moderated without adversely affecting the national economy. We would support use by federal government of various monetary policies intended to accomplish that result. Specifically, the use of the government's financial institutions (FNMA, FHLMC, GNMA, FHLBB) to moderate swings in the cost and availability of mortgage credit; increasing the ability of thrift institutions to attract funds, such as an extension of Regulation Q, and withdrawing Federal Reserve Board regulations which permit commercial banks to transfer funds automatically between checking and savings accounts; and the use of tax incentives and modified regulations to increase the participation of pension funds and life insurance companies in the residential mortgage market.

NAHB also believes that increased consideration should be given to certain alternative mortgage instruments, such as graduated payment mortgages and the financing techniques provided under the proposed Homeownership Opportunity Act, S. 3053, introduced by Senator Sparkman. However, NAHB continues its strong opposition to the use of variable rate mortgages, in the belief thrift institutions will use those instruments as a device to continue the upward trend of long-term interest rates and to increase their profits. For this same reason, we oppose the Task Force's recommendation that the FHA mortgage interest rate by deregulated.

TAX POLICIES

National tax policy which impedes the steady flow of investment funds into housing only contributes to the cyclical nature of the housing industry, and causes a further escalation in housing costs. NAHB agrees with the Task Force recommendation that national tax policies should be reviewed to insure stability and predictability of the tax treatment of funds for housing related purposes, and to insure that the private investment and financing of housing will be encouraged.

The cornerstone of home ownership in America has been the deductibility of mortgage interest and property taxes from a family's gross income. We are opposed to any change in this deduction. NAHB supports S. 456 which provides that contributions in aid of construction to electric and gas utilities be treated as non-taxable contributions to the capital of a utility, rather than as income. The Tax Reform Act of 1976 provided this rule for contributions to water and sewage disposal utilities. NAHB supports the concept of the Steiger amendment which would return the capital gains tax to a maximum of 25 percent which prevailed in 1969. We believe the lower rate will increase the supply of venture capital. And rather than reducing tax collections, Chase Econometric Associates has determined that if the maximum rate were dropped to 25 percent on January 1, 1980, the result by 1985 would be $16 billion in added tax revenues.

CONSTRUCTION MATERIALS

The Federal Government can have significant influence in removing some of the causes for the current high rates of inflation of construction materials costs. The supply of lumber and wood products could be substantially increased through efficient and environmentally sound management of the National Forests. An increase in supply of these materials is absolutely vital if lumber prices are to be kept under control.

A review should be made of all existing and proposed federal regulations dealing with fuel conversion and pollution control of industries which produce construction materials to determine whether these regulations are unduly burdensome, either in extent or in timing of compliance, and contribute substantially to the rise in costs of such materials. Where the supply of essential building materials is compromised by such regulations, procedures for waiving or moderation of requirements should be established.

Finally, the Federal Trade Commission should carefully examine pricing practices in the gypsum industry.

IMPACT OF GOVERNMENT REGULATIONS

When taken collectively, the impact of government regulations dwarf other factors in the contribution for significantly increasing housing cost. A modest estimate for government regulations increasing housing cost would be in the area of 20 percent for the total cost of a single family dwelling. If government's share in inflation were tabulated along with its regulations, the overall contribution would be even greater. The only comfort in the fact that government at all levels have had a substantial adverse impact on housing cost is the realization that if government has helped create the problem, it ought to be able to help resolve it. Some specific examples of government's impact on housing cost include:

HUD'S PROCESSING PROCEDURE

The Task Force Report confirms the often repeated assertion that HUD's own loan processing procedures are a factor in raising the cost of housing. These procedures include unnecessary and cumbersome processing steps, unnecessary and duplicative documentation and inefficient staff and management within the HUD organization.

NAHB has taken a position in support of the current reorganization of HUD field offices, based upon direct assurance from the HUD administration that the reorganization will lead to a streamlining and efficiency of HUD processing. It is also our belief that to reverse the reorganization at this time would be wasteful and place a further strain on families who have already made commitments to change location.

However, we believe the Secretary of HUD should be held strictly accountable for the efficiency and effectiveness of HUD processing, and that oversight hearings into the effectiveness of the reorganization be held in early 1979.

BALANCING HOUSING & ECONOMIC GOALS WITH ENVIRONMENTAL CONSIDERATIONS

NAHB does not question the need for national goals to improve environmental quality. We do, however, believe that in light of the impact of regulatory initiatives on housing cost, it would be appropriate to closely examine ways to reduce unnecessary adverse impacts. Accordingly, we would recommend:

1. HUD and EPA explore the possibility of developing a "one-stop shopping" concept for all federally funded programs to deal with the duplicative nature of permit procedures affecting the development industry.

2. Close congressional review of future environmental legislation to ensure economic considerations, particularly housing cost impacts, are adequately considered.

3. Careful review of Forest Service practices in order to increase the annual harvest from National Forests.

4. Development of reasonable and balanced criteria to be utilized in any wilderness area designation.

5. EPA be urged to adequately consider the nation's future housing and growth needs as part of its mandate to protect the environment.

6. Review of the policy that is under consideration which would restrict the funding of interceptor sewer lines.

INTERSTATE LAND SALES REGULATION

A classic example of how an administrative agency can distort the purpose of well intended legislation, and thereby drive up housing costs unnecessarily, can be observed by studying how the Office of Interstate Land Sales Regulation (OILSR) distorted the purpose and intention of the Interstate Land Sales Full Disclosure Act between the time of its passage in 1968 and today. NAHB supported enactment of the Act in 1968 as a reasonable means to protect consumers against certain deceptive and fraudulent sales practices used by a minority of unscrupulous land developers in the interstate marketing of generally undeveloped real estate. A major ploy in the marketing of this land was usually the fact that it was sold to purchasers who were unable to inspect the site because of the buyer's geographical separation from the land's location. In many cases the land lacked, and could not be provided with, without exorbitant costs, basic services such as water, sewer, electricity, and paved roads.

NAHB's major concern is that OILSR has extended its jurisdiction from undeveloped lots in remote parts of the country to the sales of fully improved or developed lots located in metropolitan areas where land development activities are already heavily regulated. In most of these "regulated jurisdictions" before a builder can sell even a single lot, he must gain approval from myriad local and state governmental entities. In addition, he must have either completed, or post a bond for the completion of, water, sewer, electrical facilities, and roads.

When confronted with uncertain filing requirements, the potential delays and costs of a protracted dispute, and the potential civil and criminal sanctions, many builders are simply refusing to sell any lots whatever to individuals; they will sell only to other builders. This can prevent a family which does not yet want to be tied to a particular builder from buying a lot in a good neighborhood either as an investment or as a future home site. Those families who do purchase lots from the second builder pay a higher price for the land as the result of paying two builder's markups.

NAHB strongly believes that where lots are provided with the necessary public improvements constructed under substantive state and local subdivision regulations, further regulation by OILSR is duplicative and wasteful and needlessly adds to the cost of housing.

NAHB strongly supports the provisions of S. 2716, sponsored by Senators Nelson, Sparkman, McIntyre, Tower, Garn, Morgan, Cranston, Brooke, Heinz, Bentsen, and Laxalt, now incorporated into S. 3084. We believe this legislation represents a positive step toward correcting the hardships to home builders and consumers alike caused by OILER's overreaching jurisdiction. The exemption of the greater of 5 percent of a builder's sales or 5 lots a year is especially beneficial to smaller home builders who may, without solicitation, inadvertantly sell a few lots to out-of-state purchasers.

The 100 mile exemption is most helpful to the builder operating near the borders of one or more other states. People living within the 100 mile radius should have easy access to the property and should be able to ascertain the facts necessary to make an informed decision on the purchase of a lot.

Under each of these exemptions the consumer is well protected. The lot must be free and clear of encumbrances, the purchsaer or his or her spouse must have made an on-site inspection, and the seller must consent to jurisdiction in the purchaser's home estate.

FARMERS HOME THERMAL PERFORMANCE STANDARDS

The Task Force Report suggests that one method of controlling housing costs is through the cooperation and uniformity of regulations among HUD, the Farmers Home Administration (FmHA), and the Veterans Administration. The Report urges that the three agencies utilize uniform documentation, uniform procedures and standards for environmental and subdivision review, and that mechanisms be established to assure similar contents, enforcement and reciprocity of minimum property standards by HUD, Farmers Home, and VA.

Despite the apparent good sense of this recommendation, on July 1, 1978, the Farmers Home Administration put into effect Thermal Performance Standards for the insulation of newly constructed homes inconsistent with the standards just proposed by the Department of Housing and Urban Development. NAHB believes that there is no justification for two sets of standards regarding thermal insulation, and that the precipitous action by the FmHA is a clear example of government action needlessly contributing toward increased housing cost.

From a technical standpoint, the Thermal Performance Standards promulgated by FmHA do not take into account the type of heating system used in a home. Instead they are based on the most expensive and least efficient form of hearing—electrical resistance heating. Our engineers have estimated that the enforcement of the Thermal Performance Standards could add several thousand dollars to the cost of the average FmHA house. However, these regulations provide no incentive for the builder to choose a more efficient form of heating since generally the least expensive heating system to install is also the most inefficient. The proposed Department of Housing and Urban Development Thermal Performance Standards take these cost differences into account.

NAHB believes that oversight hearings should be held to inquire into FmHA justification for promulgating these inconsistent standards.

HUD MINIMUM PROPERTY STANDARDS

Finally, we support the Report's recommendation that HUD Minimum Property Standards (MPS) be revised to be more flexible and to not include excessive standards. We agree with the recommendation that the MPS's should be revised to allow the design and construction of low priced basic starter, unusual or different types of housing. And we agree that the current MPS requirements should be studied and immediately removed there from any unjustifiable cost increasing technical, design, or site requirements.

LAND SUPPLY AND DEVELOPMENT

As we noted earlier, excessive and burdensome regulation of state and local governments restricting the development of land, imposing excessive costs in the development of infrastructure of causing delays through red tape and inefficient administration contribute significantly to housing costs.

Communities which prohibit or exclude development entirely, shift the entire burden of regional development pressures to their neighboring communities. This seems not only inequitable, but also causes the cost of available land to escalate still further. NAHB believes that communities should recognize their responsibility for accommodating a proportionate share of regional developmental pressure, and should develop growth plans or strategies to permit that orderly process of growth.

However, NAHB believes that responsibility for these decisions should rest in the hands of state and local officials. And if pressures for less restrictive land use controls are to come, they should come from the residents of the area, not from the federal government.

We do not agree with the Task Force recommendation that the federal government should specify land use standards or publish advisory guidelines for local governments on matters such as types and density of housing, amounts of land developable, or locational characteristics. It has too frequently occured that "advisory guidelines" have quickly evolved into Federal controls or regulations. It is our belief that land use is an appropriate function of state and local government.

We cannot too strongly voice our disagreement with the recommendation that HUD withhold funds for urban development from non-complying jurisdictions. Requirements relating to land dedication or fees and charges are local problems, and should be resolved on the local level without any federal intervention.

We do support and agree with the remaining Task Force recommendations which would streamline federal procedures in this area, including for example:

1. The elimination of requirements for environmental assessments in existing subdivisions;
2. The maintenance of lists of experienced developers so that applications from those developers can be expedited;
3. The identification and allowance of area wide use of acceptable Affirmative Action plans; and,
4. The adoption of uniform standards for environmental reviews, and uniform policies and procedures for subdivision analysis among HUD, Farmers Home, and VA.

CONCLUSION

We appreciate the opportunity to appear before you today, and we would be pleased to respond to any questions you may have.

Chairman MUSKIE. Ms. Neuhauser, you may proceed now

STATEMENT OF MARY C. NEUHAUSER, COUNCIL MEMBER, IOWA CITY, IOWA, AND MEMBER, HUD TASK FORCE ON HOUSING COSTS

Ms. NEUHAUSER. Mr. Chairman and members of the committee, thank you for giving me this opportunity to speak to you today on the final report of the task force on housing costs.

Mr. Chairman, I hope you will appreciate that I interrupted my vacation in the sunshine State of Maine to come down here.

Chairman MUSKIE. A supreme sacrifice.

LACK OF SUFFICIENT, DECENT, AND AFFORDABLE HOUSING

Ms. NEUHAUSER. As a former mayor and a current city council member, I have been concerned about the lack of sufficient, decent, and affordable housing in my city. As a former member of the mayors' task force on housing and a present member of the community development committee of the National League of Cities, I have found similar concerns throughout the cities of our country. As a member of the HUD task force on housing costs, and as chairperson of the Subcommittee on land supply and development, I became convinced that reducing housing costs can make better housing available to more people.

I address the committee with that perspective.

LAND SUPPLY AND DEVELOPMENT

I am sure that all of you have copies of the final report of the task force on housing costs, so I will not repeat its contents in much detail here. I support the general recommendations of the report, and specifically the recommendations contained in the chapter on land supply and development. The full committee agreed that the biggest contributor to rising housing costs is an insufficient amount of land serviced with water and sewer for development.

Particularly, in the rapidly growing parts of the United States, the price of buildable land has skyrocketed. In addition to land price, site development requirements and processing delays drive the cost of housing higher than necessary in many communities.

AFFORDABLE HOUSING

Antiquated and unduly restrictive building codes and lack of financing make it difficult for young families to enter the housing market. For these same reasons, rents have increased as well, making it difficult for a moderate-income family or elderly person on a fixed income to afford unsubsidized rental housing.

I speak mainly of eliminating low-income people at this time, because I don't think they will ever afford any unsubsidized housing.

Of course those who already own housing can profit by the inflationary trend; and since the majority of voters in most communities are homeowners, there is no great outcry by them for governmental policies to change. It's a matter of, "I'm on board, now pull up the gangplank."

The Federal Government should play a major role, in partnership with local and State governments and private developers, to make sure that an adequate supply of decent, safe, sanitary, and affordable housing for all is available. Specific recommendations to accomplish this are spelled out in the housing costs report. Let me highlight just one. Although I believe orderly growth is in the best interests of a community, policies which specifically exclude provision for housing for low- and moderate-income people should not be followed by any community which expects to receive grants from the Federal Government. Such policies can and should be identified by HUD.

SITE DEVELOPMENT STANDARDS

In addition, HUD should work with State and local governments to establish reasonable standards for site development. However, this should be done with great care, recognizing that such standards may vary across the country, depending on such factors as climate, population projections and market acceptability.

While doing this, it is important to recognize that, although many changes in site development standards can in fact reduce costs, others may simply shift the costs to the taxing body. Such shifts will not be palatable either to elected officials or to taxpayers and may result in exactly the opposite of what we wish, a no-growth policy.

REHABILITATION PROGRAMS

In all deliberations on housing costs by the Federal Government, it would be wise not to isolate that problem from other problems. For instance, might the encouragement of more land development discourage redevelopment of inner cities? Is money spent on new sewers then not available for replacement of old sewers?

The housing situation varies considerably from one place to another. One community may not be able to house its people adequately and should be expanded. Another community may have considerable amounts of abandoned housing or urban land sitting idle. Rehabilitation programs and those which encourage the use of infill land should be emphasized here. The solutions should fit the local scene, not be designed in such an inflexible manner that they make no sense in many parts of the country.

In our recommendations we should be careful to see that we are not promoting further deterioration of the urban cores of cities and that rehabilitation is given an equal emphasis. Remember that housing situations vary from one place to another. While two cities may have high-priced new housing, one may have abandoned neighborhoods with decent housing stock while the older simply does not have enough housing.

I found the deliberations of the housing costs task force to be stimulating and provocative. Answers to very complex questions are not easy to come by, and I found all the participants to be genuinely concerned about the needs of low- and moderate-income people, as well as lower housing costs for all. The builders represented on the committee were particularly helpful in coming up with practical solutions. I say this lest anyone think my final remarks are critical of these individuals, but they are meant to be a warning.

Housing costs are only one problem among many. I hope we will not squander limited resources on extravagant solutions which do not benefit those who really need them. If by reducing the cost of building houses we come nearer making decent, safe and sanitary housing available to all, then lowering housing costs is a commendable goal. However, if the reduction of the cost of building houses simply results in larger profits to developers without directly or indirectly benefiting low- and moderate-income people, young couples trying to buy their first home, older people living on a fixed income and those with special housing needs, the Housing Costs Task Force will labored in vain.

I support the report of the committee and am happy that the Budget Committee of the Senate is giving it immediate attention. I look forward to the Federal Government's working with us on the local level to see that its recommendations can be carried out.

Thank you.

Chairman MUSKIE. Thank you very much for your excellent presentations.

I yield to Senator Chiles at this point for questions.

CONSOLIDATION OF MULTIPLE REGULATIONS

Senator CHILES. Thank you, Mr. Chairman.

Mr. Janis, a recurrent theme in the task force report, and in Mr. Smith's testimony today, is the cost of having multiple regulations by HUD and the VA, Farmers Home, as well as the Environmental Protection Agency. The task force recommended two kinds of consolidation on environmental reviews, the first having various Federal agencies develop uniform standards to accept each other's reviews; and, second, having HUD accept State or local reviews if they meet certain criteria, and making that subject to appeal.

It seems that, really, both of these procedural changes could speed up processing and reduce the risk and uncertainty for the developer without requiring a reduction in the quality of environmental standards.

You pointed out in your testimony that, while these regulation costs are high, many of them are requirements that Congress has put on, and that the people have demanded. We don't want to go backward in regard to trying to provide safeguards and standards like that. But where we find that it is simply because of overlapping, doesn't that appear to be the fastest way we could get at reducing so many of the costs without giving up any of the benefits.

Do you think this kind of streamlining is feasible? Can it be done administratively, or is it going to require legislative change?

Could we do it with a simple amendment to the HUD authorization bill? What is your idea on that?

Mr. JANIS. I don't think it can be done easily, Senator. I think it is something we ought to be continuing to look at.

We have to, I think, on consolidation—well, as you know, HUD and the VA have worked very closely together. It is practically interchangeable as far as regulations are concerned. These are agreements of long standing which go back between FHA and VA.

Farmers Home used to be under the same umbrella, but Farmers Home has kind of drifted away.

With regard to the acceptance by the Federal Government of State requirements where there is an overlap, we are in fact now testing that out in two places. We have an experiment in two communities going on. I don't remember which they are. I think Seattle is one of them, and Minneapolis.

That is on local codes.

There is that attempt to see if there are adequate local codes in existence, and if there is good enforcement of those local codes, and we are experimenting with the possibility of waiving our own procedures.

The same is true on the environmental level. I believe we have an experiment starting in the Tampa Bay area with regard to the environmental, where the local requirements are sufficient.

Part of the problem here is that there are statutory differences, and obviously, we can't waive statutory provisions even though there are similarities between State requirements. In Florida, as you know, the Land and Water Management Act of 1972 is a specific State law that involves development and land use, and to the extent that it is consistent with Federal law, fine; but the problem is, I think, generally, that we are dealing with laws that are at local, State and Federal levels, and the melding and consolidation of those is not an easy sort of a thing.

ONE-STOP SERVICE ON REGULATIONS

Senator CHILES. I understand it is not easy, but let me just break the question down a little bit. If we decided in Congress that HUD, FHA, VA, Farmers Home should have the same kind of regulations and that one should accept the other that there should be a one-stop service in regard to those regulations, would that take legislation, or can that be done by administrative fiat?

Mr. JANIS. I am not 100 percent sure.

Senator CHILES. How about telling me for the record, then, if you are not sure today. Tell me how we do it.

Mr. JANIS. Let me give you the sense of it. VA and FHA are no problem. I don't know with respect to Farmers Home. I think Farmers

Home would probably be the best one to answer that, but I would be glad to ask the question and furnish you with an answer from them as to why they drifted out from under the umbrella.

[The following was subsequently supplied for the record by Mr. Janis:]

For the record Senator, Farmers Home has told me that the decision to accept our regulations is an administrative decision and does not require statutory changes. They agreed to work with us to try and eliminate needless duplication of required reviews, forms and regulations. Efforts in this regard have already been taken with the Council on Environmental Quality to get environmental procedures standardized. Farmers Home is also willing to work with HUD and VA to get standardized regulations for subdivisions. They are willing to work with us in establishing mechanisms to assure similar contents, enforcement and reciprocity of MPS by themselves, FHA and VA when the standards are the same. In some instances, such as energy conservation, the HUD standards and those of Farmers Home are not the same. As a result, Farmers Home has adopted its own energy conservation regulations. Let me assure you that we and Farmers Home will work to develop similar standards on this issue and any other issue where differences now exist.

COST-BENEFIT STUDY

Senator CHILES. HUD started some experiments in a couple of areas. If that follows the normal pattern of how we do things, 10 years from now we will still be reviewing those experiments and trying to see what kind of progress they are making, or something. Why can't HUD come up with a model that, "If your local government had this, or better, and State government this model, and if you were enforcing it, then this would be sufficient"?

Then at least the local builders in an area would know where they could go to put the pressure, in effect, to see that the local government did come up with that. Or the local government deciding that they were conscious of what the overlapping costs would be, could come up with that.

Mr. JANIS. As you know, we have a study that is underway, and that is the cost-benefit study—that we have put $500,000 into trying to find that out. I don't know what that study will show. My guess is that it is going to show an amazing complexity. I wouldn't downgrade experiments, by the way. The typical way in which FHA has operated over the years——

Senator CHILES. I don't downgrade them, Jay. My only concern is that, when you give me the one-month figures, those are so alarming, and as you raised yourself, and Mr. Smith did, I try to think where we can do something about the problem immediately. Well, this looks like to me the easiest, fastest way to try to get some kind of results in this with a minimum amount of friction.

If you say that we have got to change the EPA requirements, then, my gosh, we run into all kinds of problems of whether we are going to minimize the changed requirements.

But to simply have a one-stop service and to have people using the same set of regulations, it is kind of hard to logically argue that, and I think maybe that is something we could accomplish. My concern is how fast can we accomplish it.

ONE-STOP SERVICE HAS INTERGOVERNMENTAL RELATIONS PROBLEMS

Mr. JANIS. You, know I proposed a one-stop service when I was in Florida, as a Florida builder, just State and county level, and it was just about impossible.

In Florida, the State has its own requirements on water quality, and Dade County had its requirements on water quality. Now you start imposing the Federal Government on. The one-stop idea is a great idea, but when you are dealing with State, Federal, and local governments, each with their own ideas, it is an enormous problem, from the HUD point of view, that is.

If the Minneapolis thing works, and we will know shortly, that will become the national criterion as far as waiving the other requirements is concerned.

We can do that much from the Federal level. The problem is a problem of intergovernmental relations, and it is a problem that I know Senator Muskie has dealt with for years. It is not an easy problem.

Chairman MUSKIE. We have not found a way to eliminate it.

LAND MANAGEMENT AND PLANNING STANDARDS

Senator CHILES. Ms. Neuhauser, Secretary Janis stated that HUD would work with State and local governments to develop reasonable standards for land management and planning for an adequate supply of usable land. The task force spelled out a rather specific process for getting from HUD guidelines for local compliance with sub-State regional councils playing the lead role and setting binding standards.

I have heard a variety of criticisms on the ability of regional councils to enforce compliance. That is that they tend to be dominated by the same planners who escalate the sets of regulations that we are trying to reverse.

As a local official, what do you see as a workable way to get local communities to change their behavior?

Ms. NEUHAUSER. Senator, you state the problem very accurately, and I think I am sorry you asked that question, because I think that is something we have a lot of difficulty with, trying to come up with a mechanism to develop these regional standards, if you will.

That was what we hit on, but I think the problems you described are certainly inherent in it. The sub-State regional councils are not financed to do what I consider to be an adequate job on just about anything, frankly, and, secondly, there are political problems that you raise, that the planners and the people who are going to be affected by these will, in fact, be the ones actually writing the regulations.

Frankly, I do not have an answer for it. I think you have to—I guess my feeling is that probably there are going to have to be some sticks involved as well as some carrots to communities to get them to comply.

Now, when you talk about things like limiting exclusionary zoning, I think there are some very clear things you can do there. When it comes to site development standards, that is much more difficult.

HUD'S COMMUNICATION WITH LOCAL GOVERNMENT

Senator CHILES. Mr. Janis, how do you see getting the information about HUD's model guidelines down to the local governments?

Mr. JANIS. The problem here, Senator, is leverage. I am not a lawyer, but as I understand the Constitution, the reservation clause leaves to the States that which they don't give the Federal Government, and one of those kinds of powers is the power to police such things as codes and regulations and standards.

Many of the kinds of local codes and zoning are the purview of State government. State government then enables local government to enact local ordinances.

Federal Government, as I understand it, doen't have a great deal of leverage on a direct basis, and that has always been one of the problems in this area. So what we have to use is persuasion, and we have to use education, and what we have got to use is hearings such as these and other kinds of methods and conferences to try to get State and local government to care enough about the problem to realize that there are serious problems here. Then may be we can make some progress.

Senator CHILES. Mr. Smith, you criticized the task force recommendations concerning sub-State regional councils, and I tend to side with you in that criticism. That mechanism is not going to work, I don't think, and I think HUD has now said that, too.

What do you see as a practical strategy for trying to get State and local government to do something in this area?

Mr. SMITH. Well, certainly the local government is one of the major concerns here, because we know a local city council has great power in most of our States, and the persuasion factor is a big factor.

We have, for example, in my community, 33 municipalities outside the city of Fort Worth that make up the county, which has about an equal population to the city of Fort Worth. In this area, we have many multiple zoning and building code differences, and some are exclusionary—no doubt about it.

One community tried to pass a minimum square-footage requirement lately that would keep everyone earning less than $30,000 out of the community.

Now, once that stood the light of day, once a public hearing was held on it, and once the informed citizens started getting involved, they tabled the motion.

I believe that, if HUD and governmental regional agencies were to take a look at this, and were to investigate and put light on what is going on, and maybe through future oversight hearings let someone come up here and tell you why they are doing that, you could frame it and focus it to the point where you could get something done about it.

On the other hand, if we allow an agency in Washington to zone property back home, we are in greater problems than we are today.

ADOPTION OF UNIFORM CODES THROUGH INCENTIVES

Mr. JANIS. Could I say another word, Senator? I think one way to get at it is not to beat people over the head at the local level, but I think what we have to do is provide incentives. We have some now. One of them is the 701 program where we can fund activities that will get, that will allow, States to work with local jurisdictions for the adoption of uniform codes.

Another is the State incentive grants program that is part of President Carter's urban policy, which is $400 million of money that is available to those States that want to help their urban areas and have a program for doing so, and reform of local standards, local requirements is one of the allowable things under that program.

Our housing opportunity program is a means of providing extra incentives by dollar in section 8 funding for those communities which will get hold of the exclusionary zoning problem.

So we have incentives. Whether we have enough to require local government to do the right thing is another matter. But there are a number of incentive programs, and I would recommend that approach as possibly the most productive.

MINIMUM PROPERTY STANDARDS

Senator CHILES. Mr. Janis, the task force recommended changes in HUD's own minimum property standards. Mr. Smith endorsed that recommendation. Your statement seems to be kind of vague on that.

How much of a lead is HUD really prepared to take in reducing the cost of regulations? Could you run down the specific list of regulations on page 41,[1] I think, of the task force report and tell us which of those you think are easy to go ahead with and the ones that would cause problems that might take a couple of weeks to get done?

Mr. JANIS. I can do that, Senator. In fact, I am prepared to do it. I would prefer to do that for the record and make a statement about your question in general, if I might.

Senator CHILES. Fine.

[The following was subsequently supplied for the record by Mr. Janis:]

I am pleased to submit the following for the record in response to a question posed by Senator Chiles.

In essence, the Senator wished to know which of the Task Force on Housing Costs recommendations relating to HUD Minimum Property Standards and Procedures would be easy or difficult to implement.

Although those 16 recommendations of the task force are still under review by the Department staff, it appears 11 recommendations would be easy to implement, although 8 would require study or research. The remaining 5 would would be more difficult to implement. The difficulty with recommendations H, K, L, M and P stems primarily from the fact that they involve others outside of HUD.

The Secretary, of course, will be making final determinations on the above during September after the Working Group has submitted its recommendations to her.

Mr. JANIS. You know, I think there is some misunderstanding of the question of the MPS and what it has affected. Minimum property standards, in my judgment, are not the real problem. The real problem, the problem that is really causing builders concern are the problems of environmental protection, equal opportunity, affirmative action, A-95, and that long list I read before. It is those regulations.

In my judgment, the MPS means very little to the builder. I think if you talk to a builder directly whom you consider to be a good, sound, honest, competent builder, there is very little in the MPS that I, for one, would change.

Those are guidelines and are performance kinds of guidelines. They are entirely different than a building code. I don't know if you have

[1] See p. 124.

ever had an opportunity to read the MPS's and the building code. I have, and have had to, in my field. They are entirely different items.

I must say the MPS, 20-some-odd years ago, taught me how to build. The building code would not tell me. That would be the thickness of the material, or the ATSM, but the MPS taught me the right way to drain a lot and the right way to design, and taught me a lot of good things.

There is very little there that I would say is excessive in the MPS's themselves. In fact, I would have to say, and I say this, and I have said this really before I was in HUD, in the 1960's or the 1970's that the MPS's have probably made the greatest contribution to housing in this Nation of any document I have every seen. It is a superb document.

I know there are those who would prefer no regulations at all and no standards at all, and in terms of providing decent housing people can rely on it.

The MPS's come out pretty high. That doesn't mean we don't have to be on top of any changes. You have to keep up on them, and anything that is restrictive and unnecessary we need to change, and we do provide for a local waiver of MPS's for certain conditions and standards that require that.

Senator CHILES. I would be happy to yield.

MEDIAN COST OF HOUSING IN THE WEST

Senator DOMENICI. Mr. Smith, I had to step out of the room for a minute, and I think you mentioned the State of New Mexico in your testimony with reference to cost increases. Could you just tell me again what that was about?

Mr. SMITH. I think this is an area of statewide restrictions we were talking about, and I said that in my part of the country, the Southwest, including New Mexico and Oklahoma, I have seen less of this on a statewide restrictive nature than I have seen in my travels in other parts of the country.

Senator DOMENICI. I thought you mentioned land cost increases specifically.

Mr. SMITH. I think we were talking about the median cost of housing in the West, and I said that this—the new Census Bureau report comes out and says that the median cost has risen from 65.4 to 75,200. I think it is west of New Mexico, where they say west. I believe this is normally the Pacific coast figures that have jumped that much in the last months.

LAND COSTS

Senator DOMENICI. Let me first say to Secretary Janis that I really compliment you on your analysis today and what I personally perceive as a very good understanding of the problem. I think it is perhaps because you were experienced in the field. If I have heard a witness that is in a high position in one of the major departments that I thought really understood the problem, it is you today. I think it is because we weren't afraid to put somebody in, and the President wasn't, who had experience in the private sector in doing the kinds of things that we have to do now, and I commend you for that.

SIGNIFICANT INFLATION FACTORS IN HOUSING

Let me ask you, if I understand the testimony correctly, it is obvious that land costs, that is, the developed lot ready to build a house on, that the increase there is one of the most significant contributors to the spiraling cost of housing. Then, if we add to that Mr. Smith's testimony, I would assume that one would add all kinds of regulations, local, State, and Federal, including your list, which is certainly not generally thought to be a contributor, on affirmative action and the others.

On land costs, let me ask you this. Is it not true that, actually, there is, because of certain problems in the communities, an inadequate supply of available lots, and therefore the price is skyrocketing, or is it the actual cost itself of the lots? Do you have an opinion on that?

DEVELOPMENT COSTS

Mr. JANIS. Yes, sir. There are two aspects of the cost of land. One is the raw land, and that is determined by speculation, tax policy, supply, and factors such as those.

The other side of it is the cost of developing that raw land into a finished lot. That means bringing in the roads, water, sewer, drainage, electricity, phones, and so forth.

In the latter case, the development costs, it has been my judgment that the development standards that communities have been imposing in recent years have been overly restrictive, have been unnecessary in terms of protection of public health and safety.

Let me give you an example. I know of a situation where they used to require a half inch of asphalt on an 8-inch rock base as the standard kind of specification for building an internal road in a subdivision.

In my judgment, that is adequate, and certainly with the right ground conditions and the right climate, namely the Southeast, which I am familiar with, that is an adequate specification.

Now, I know of a certain public works department, which will remain unnamed, which, every 6 months, starting in about 1972, added a half-inch of asphalt to that requirement, and so by the time they got done they had 3 inches of asphalt up from a half-inch, and the asphalt, of course, is a petroleum-based product, and there was an energy implication here as well.

By the time they were done with the 3 inches of asphalt on top of that road, you must understand the asphalt is just protecting the rock, that is the technical use of asphalt, and by the time they got done, that 3-inch road was the same specification as the interstate highway system, and this was an internal road in a subdivision.

Now, that is part of the problem on development.

On the other side of it, just the problem of the raw land, of course, that is supply, and tax policy, and environmental constraints, and so forth, which tend to keep land off the market for one reason or another and make it hard to develop.

Senator DOMENICI. Let me then ask you a general question.

Is there some role that the Federal Government should play, in appropriate parts of the country, in making available more developed lots so the competition will be less?

Mr. JANIS. I wish I had an easy answer to that, Senator.

GROWTH CONTROL—PINBALL TECHNIQUE

Senator DOMENICI. The reason I ask you is that I don't hear anybody saying anything about it. It appears to be something that on the one hand we know it contributes to the cost, and on the other hand it is a bad thing to say, that anybody ought to be promoting the availability of developed lots. We have some sort of strange dichotomy around.

Mr. JANIS. I know you should never answer a question with a question, but I have to give you a short story. I was at an environmental conference once, and the chairman of the county commission of another county was describing his method of growth control in that county. He said his method of growth control, and he stood up in a public meeting sponsored by the Governor of the State, and said his method was a pinball technique.

He said, in answer to a question, "What I mean is that we take the builder when he comes in with his proposal and we bounce him around from one department to another."

Now, how do we change that attitude?

I am not sure I know. I know that market forces aren't working adequately, and that is what is driving up the price of land. You don't have supply and demand really working.

In the 1974 recession, and in 1975, I was amazed to find that land prices did not fall even though the demand on the part of builders fell and there was no adequate demand on the part of the home buyer. Now, why was that? I asked myself that question, because, if supply and demand were working, then land prices should be fluctuating, but they in fact were not. They stabilized. You had a ratcheting effect. They stabilize, and then only go up.

I expect that is caused in large measure by the interference on the private market and the market mechanism, because when you have the intrusion of unnecessary environmental and growth controls and communities that take an attitude of stopping growth at all costs, then I think you run into a problem.

Let me make clear that there are very needed environmental rules and regulations and protections and the communities must enforce those.

The problem, as I said earlier, is striking the right balance.

Senator DOMENICI. I have a number of questions, Mr. Chairman, but I will yield and get back to them later.

Chairman MUSKIE. Proceed.

FEDERAL GOVERNMENT PINBALLING

Senator DOMENICI. Thank you.

Let me ask you this. You talked about pinballing at the local level. I would suspect that it wouldn't take us too long to find a developer or builder who could come in here and say that he thinks the Federal Government is pinballing, perhaps not with the same audacity as the county commissioner you spoke of, but when you look at the kinds of regulations and rules that you were saying are having an impact, they certainly are not the kind that I would assume would all be found in one place if the rules and regulations are spread across the Government. Some of them are not even in your shop. They are in other departments of Federal Government.

Wouldn't it be appropriate to start right here by saying that maybe we will come up with an approach to quit pinballing and see if you can bring the A–95, the affirmative action, the handicapped, and the others into one focal point in the Federal Government?

They are running all around in my city and the cities in New Mexico. They don't get all of their instructions from the Farmers Home Administration. They have to go all over the place. Isn't that pinballing in a sense?

BLANKET ENVIRONMENTAL IMPACT STATEMENTS

Mr. JANIS. Well, perhaps. It is hard for me to talk for any agency beyond HUD, and I am sure you understand that. I am here as a representative of the Department.

We are trying to do our job on this, because we are very concerned about it, Mr. Simons and I and the Secretary, and Mr. Embry, all four of us have an involvement in this.

We have gone to such things as blanket EIS's, where we go to an areawide EIS as we did in Delaware, where an environmental impact statement was acceptable for a total area, and no one had to file individually once there was blanket approval.

We are looking for an early start, where a builder doesn't have to process an EIS, where he can go in for 200 lots and then another 200 before he crosses the threshold.

We are looking at the threshold queston, tyring to raise it. We have made significant changes already.

Senator DOMENICI. I understand that, but the same rationale you used in answering my question is used at the State and local level. You have a public works department in a city which has as its jurisdiction, and you have an environmental agency in the city government that has its jurisdiction.

You say that you can't answer for the other programs, and the ones HUD has you are working on. But the costs and delays don't identify themselves as being HUD promulgated as compared with some other agency. You have total frustration out there when they go through HUD, and yet they have five other agencies to go through. It is the same thing you are being critical of at the city level, although not so much, and maybe the cost imposed is not as serious.

HUD'S HANDLING OF INTERNAL ADMINISTRATION

Let me switch for a minute and ask you how you handle some internal things.

I gave you an example in my opening remarks of a project for handicapped people, nonprofit in nature, which showed a preliminary list of 26–8 items that are required before they could even seriously consider the application.

Now, I just ask you this: How often, or what does it take for HUD to take a look at those 26 for these 8-unit housing clusters for handicapped and mentally retarded people?

How do they go about seeing whether they still make sense? I mean I can give you one, and I am going to take it all the way up to the top and find out how do you go through evaluating, whether you are going to make soil tests in every part of the country for cluster housing. I am not being critical of that one.

I am wondering, what does it take to get somebody to see whether an imposed regulation is still valid? I am sure there are a lot of these that, it is a nice easy way for the bureaucrat to be sure he is going to get safe and healthy housing, but maybe it was 6 years old, maybe it was imposed for reasons that no longer exist, maybe it was imposed because of a problem in a given area.

Do you have an internal auditing method for those to pop up and see if they are really worthwhile?

Mr. JANIS. Was that a FHA or a Farmers Home?

Senator DOMENICI. A FHA.

Mr. JANIS. You are sure? Was it under 202?

Senator DOMENICI. Let's use it hypothetically, then.

Mr. JANIS. I don't think that sounded like a HUD project, but at any rate, how many of the 26 items are Federal versus State?

Senator DOMENICI. All these are Federal.

Mr. JANIS. Curb and gutter wouldn't be Federal.

Senator DOMENICI. That is Farmers Home, a Federal requirement for self-help housing in the United States right now. It doesn't matter where it is now.

Mr. JANIS. Most curb and gutter requirements are local requirements. With regard to soil tests, something is obviously wrong there. I have had soil tests—I would never build a building, by the way, without soil tests; just so you understand that; but I would say normally I could get any soil test for a small project of that nature for under $100.

So either they have found something wrong in the initial test, or something is out of whack. I have done soil tests on 15-story apartment buildings that I have built for one-tenth of that price.

RELEVANCY OF REGULATIONS

Senator DOMENICI. I will send you that. I don't want to take a long time either from the committee or the panel on those specifics. I can take those up in due course with letters and communication. I am just wondering, to set an example for the local government, why we don't have a regular system internally of auditing the complaints and the relevancy of regulations.

HUD TASK FORCE EVALUATING SECTION 8 REGULATIONS

Mr. JANIS. We continually review our regulations. We continually change them. You mentioned sidewalks before. They can be waived in local areas, and I think should be in the case of a rural situation such as yours.

Septic tanks are permitted under certain circumstances as well, depending, again, on where they are located.

We are continually reviewing them. We have a task force now looking at our section 8 regulations, because not only do we have to get a reduction as a result of our reorganization, but I expect to get a major reduction as a result of the work of that task force.

One of the problems we encountered was doubletracking. We found if you were doing a 221-D-4, a multifamily project, you had a process under that program, and if you were going to add section 8 to it, and most of them did, then you had a process under that program.

One of the first things Assistant Secretary Simons and Secretary

Harris and I did when we arrived at HUD was to eliminate that doubletrack process by bringing the two of them together. So we are continually doing that in our own shop.

COMMUNICATION BETWEEN FEDERAL AGENCIES

Senator DOMENICI. Do the major Federal agencies that are involved in housing and related matters have a policy of talking to each other?

Mr. JANIS. The FHA and the VA are together all the time on just about everything, and they are interchangeable in terms of regulations. I think that is still the case. I remember when I was building. You could build under VA and then go get an approval under FHA.

In other words, one takes the other's 100 percent. Farmers Home is similar. As a matter of fact, there is a task force involving the three agencies. We are continually working on standardizing everything.

The agencies have a task force whose work I am familiar with on condominiums and co-ops, in which they are getting all their forms and monitoring for us, and I understand by the end of the year they will be pretty much 100 percent.

ACCEPTANCE OF ENGINEERING AND PLANNING WORK

Senator DOMENICI. What about with reference to acceptance of engineering and planning work? Do the agencies accept that required by HUD?

Mr. JANIS. Well, as I said, as far as VA and FHA are concerned, I know that the two are interchangeable on conditionals, and on the site development analysis.

Of course, in most cases the builder will come up against local regulations long before Federal in terms of degree of difficulty.

Senator DOMENICI. Thank you, Mr. Chairman.

MEDIAN COST OF HOUSES—1949 VERSUS TODAY

Chairman MUSKIE. I will ask a couple of questions.

Mr. Secretary, you gave us percentages of costs using 1949 costs and today. I don't have any testimony here on what the cost of a median priced house in 1949 would have been.

My wife and I bought the first house we ever owned in 1949, and we paid $8,000 for it, and it was more of a house by far than the house my oldest daughter bought a couple of years ago for $45,000, and I think that house is probably worth about $60,000 today.

Now, using that, the experience is $10,000, which is a sound figure for the cost of a median house for 1949, just so I can relate it?

Mr. JANIS. My figure is $8,800, the median for a new house in 1949.

Chairman MUSKIE. So I got an $800 bargain. Then I proceeded to finish two rooms in the attic and broke my back in the process, so that house was quite expensive, really, by the time paid off the doctors and the hospitals.

Mr. JANIS. Mr. Smith might have suggested that you call in a licensed contractor, I am sure.

Chairman MUSKIE. Today, what breaks your back may be not building the house, but paying for it.

But applying your percentages, in 1949, the cost of financing was $500 of a median house, and in 1978, it is $6,000. So, that has added $5,500 to the cost of the house.

On land, a lot back then cost probably $1,000. Now it costs $16,000. So that has added $15,000. So those two items have added $20,500 to the cost of that house, assuming comparable quality and size and all the rest of it.

Probably you would have to make other adjustments to make these two items comparable, but for the purpose of our analysis, those two items have added $20,000.

In the same period, as a percentage, the cost of labor and materials has gone down 69 to 47, but in actual dollars that menas that labor and materials in 1949 cost $6,900 and today it is $27,000.

Looking at just these items, then, labor and materials have added about $20,000, and land and financing have added roughly $20,000. These are the same.

Now, let's look at your three overriding costs, costs of regulaton, costs of cyclicality, and costs of indifference. Which of those increase in cost of those three has the greatest impact?

Mr. JANIS. It is hard to say. I have not tried to put a percentage or a dollar sign next to any of them. The Rutgers study indicates that the cost of regulation approaches 20 percent of the cost of the house.

I think the problem with the Rutgers study is that it doesn't distinguish between good regulations, or put another way, necessary and reasonable regulations, versus those regulations that I would term as excessive and unnecessary.

COST OF FINANCING

Chairman MUSKIE. The cost of regulation appears to have had a minimum effect on the cost of financing.

Mr. JANIS. Yes. That is right. The cost of financing is an interesting one. You would expect that there would be no percentage differences, because if you have a construction loan and you are paying, let's say, you are paying for a construction loan 6 percent interest in 1960, say, and you are paying 12 percent in 1977, since you are paying it on a greater price—in other words, you would expect the percentages to stay the same.

Chairman MUSKIE. But they haven't according to your figures.

Mr. JANIS. They haven't. The question is why. I would posit the following as why: Because a construction loan interest charge for a builder is based on the percentage times the price, the amount of the loan, times the time—the time.

So, if you have a construction loan for 4 months versus a construction loan for 12 months, you have got a 300-percent increase in the cost of that construction loan. So it is time.

Chairman MUSKIE. What you are saying is that the regulation adds to time, and to that extent, adds to the cost of the house?

Mr. JANIS. Exactly.

COST OF LABOR AND MATERIALS

Chairman MUSKIE. Now, on labor and materials, frankly I am somewhat surprised that the cost has not increased proportionately more than it has.

Mr. JANIS. Something has to decrease if other things are increasing. In other words, if we are talking about a 100-percent sale price and we are talking about percentages and relative weights, so if land has been going up at astronomical rates, and financing has been going up at astronomical rates, but the costs of materials have just been going up at very high rates, then on a percentage basis, the costs of materials would be coming down as a percentage of the total.

QUALITY OF HOUSING

Chairman MUSKIE. I was looking at dollars. Using the median house again, the price of land and financing has gone up the same amount as the cost of labor and materials.

The percentage of costs going to labor and materials has gone down. Does that mean that there has been a reduction in the quality of workmanship, the quality of materials, the quality of housing services provided by the median house?

Mr. JANIS. No, I wouldn't say there has been any significant change in quality. I would't say that at all.

Chairman MUSKIE. I wouldn't compare the quality of the first house we bought with the quality of the first house my daughter bought.

Mr. JANIS. It depends a lot on the builder and the locality, and values change a little over time. It is a little hard to talk about quality. I could talk about it at length.

COST REDUCTION OF HOUSING RELATIVE TO AVAILABILITY

Chairman MUSKIE. Let me get to a question that is really what I am trying to lead up to. We have been getting into many refinements of our understanding of the cost of housing, of factors that have added to the cost of housing, and of the implications of these costs for the availability of housing to young people, and to some income groups. I think Mr. Smith said, as he analyzes it, only 15 percent of the populace can afford new housing. Is that accurate?

Mr. SMITH. If the figures I saw today on the new census cost, I would say we sure are bracketing it to a very small amount.

Chairman MUSKIE. But the more you analyze the reasons, it seems to me less likely that there is much chance of stabilizing the cost of housing to make it available to lower income groups, let alone reducing that cost.

The central question, it seems to me, is—what can be done practically to reduce the costs of housing or to reduce the increase in these costs? I am all for simplifying the regulatory process, and I am all for considering whether some regulation might be eliminated, but we are not talking about eliminating it all.

I am sure we would all agree there are certain fundamental values that ought to be protected by regulation. You are not going to be able to just eliminate regulation and the additional time required to finance it.

I don't know how you are going to force down the cost of land. I have never seen the cost of land go down. It persists because people hold on to land knowing it is going up sometime. I cannot recall when the cost of land in my State, which has had a slow growth rate, ever went down. It always goes up. Even when you get into recession, you don't see land costs reducing. People can hang on to land.

So, I cannot see land costs going down. Financing costs, well, maybe interest rates will drop sometime in the future, but I don't see it coming very fast. So, where are we going to get the reduction in cost that this hearing is aimed at trying to identify?

HOUSING NEED GREATER THAN SUPPLY

Mr. JANIS. Let me suggest, Senator, that in terms of production stability—it seems to me that the need for housing is greater than what we are supplying right now.

We are producing about 2 million starts a year at the present time, but we have been down to as low as 1.1 million, and it goes up and down. The need is actually in the neighborhood of 2.4, 2.5, or 2.6 million, based on family formation and the amount of substandard housing.

If we could have, and I mean our Nation, could have some kind of policy that made it very clear that we were going to try to meet that housing need and we could allocate the financial resources to do so both on the subsidized side on a continuing basis to where we had a steady, known supply of subsidized housing, and if we could make sure that there were adequate mortgage credit available, and that housing didn't suffer when there is a credit crunch in this Nation generally, as the rates go up, and that housing funds were available, mortgage funds were available on a stable basis, and we could remove some of these local, State, and part-Federal constraints that restrict supply of land and other items, if we had, in short, stability, I think while we might not reduce housing costs in the absolute, certainly on a relative basis and certainly in terms of slowing down the increase, I think we can make a lot of progress.

NATIONAL COMMITMENT FOR CREDIT

Chairman MUSKIE. If you could actually establish such a national commitment that was totally credible, might not that commitment be inflationary?

In other words, let's say we made a national commitment to provide a steady flow of credit, and we were going to build 2.4 million units a year. Wouldn't everyone in the housing industry, depending on that, take advantage of that, and exploit it, to profit from it?

There was an enormous infusion of Farmers Home residential money into Maine, because of the 25,000 population threshold for eligibility, and most of our communities are under 25,000.

So we saw this—when there was a moratorium on HUD's housing programs, there was a tremendous infusion of Farmers Home money into State, which resulted in a proliferation of developments that were not examined as closely as they should have been.

New contractors, small ones that you have been talking about, came into the business, the quality of the housing tended to deteriorate and become shabby. I am not characterizing all of them, because there were good developers, too. However, given the commitment of the assured funding, the tendency was not to produce a better product for lower prices, but lesser quality at higher prices.

I have an idea that that might be inflationary.

CYCLICAL HOUSING STARTS CAUSE PROBLEMS

Senator CHILES. I think that proposition you raised might be a one shot thing that would happen initially. But I think you could help things by removing some of the cyclical trend out of this. Well, what happens when we start, in May, we have a boom and a bust economy. We either overbuild or underbuild.

Right now, we came out of the bust and are starting to boom. What the higher interest rates will do, I don't know. When we get a boom, then tremendous shortages of material come in.

I used to do a little jackleg building myself, or put some money into some people that did it, and I saw the shortage problems. What you are talking about now on the price of gypsum board, I have seen it be asphalt before, and tar paper before, and all kinds of things of what would happen at the time.

MATERIAL PRICES CAUSE INCREASE IN LABOR COSTS

You went out there, you got your permits and your starts, and then suddenly you had the units sold and then they started telling you what the material prices were.

Every time that it peaked up, and that is what would eventually topple it over almost, would be these tremendous increases. About the time that starts were going up, those labor people on the job would start seeing what land costs you are paying and they say, "Wait a minute, you are paying that price for that kind of material, and it is time I got something more per hour." We would see that cost tacked on—for a while, you got all those people wanting to buy, and the builder goes ahead, as far as he can go, and then suddenly, whop, it changes and the builders are bankrupt. Half of them are, and we are in a recession, and we are overbuilt. It is boom or bust.

Mr. JANIS. You know, Senator, I remember the time in 1971 when my superintendent came to me on a job and said, "We are having a slowdown because we cannot get any water closets," water closets are toilets, as you know. I could not believe that.

I had been in the business by that time for almost 20 years, and I had never heard of a time when you couldn't get water closets.

"What do you mean? Let's try another plumbing house, a different brand."

We went all over, and there was a shortage in the industry of water closets in 1971. That was the year that a lot of shortages started to occur.

INSULATION MANUFACTURERS URGED TO GEAR UP

Now, why is that? I talked to some manufacturers. I have talked to insulation manufacturers under the President's energy program and I have said, "Can you gear up?"

I have talked to the big three and told them we would like to have them gear up. We are going to have a retrofit, and the President's energy program is going to provide for the refitting of older homes and there are going to be better requirements on new homes.

"Can you gear up?"

They said, "Well, how much can you assure us as far as new production is concerned that there is going to be level construction over the next 10 years to amortize that?

"If we bring new plants on, which costs to increase production 20 or 30 percent, you know, it is hard to warehouse insulation, because it is not comprehensible. We will be stuck with all that if you have a downturn like that of 1974."

To that, there was no good answer, except we have to bring stability to this marketplace.

MOBILE HOUSING

Senator BELLMON. May I ask a question?

In looking over the report of the task force, I don't see any mention of mobile housing. In our area, it is important, and as far as I am concerned, a discouraging development.

Is this where people are turning to get housing as the costs go up?

Mr. JANIS. Well, I have some figures on mobile home shipment that go back to 1968. Without reading them, I see some high years from about 1969 to 1973, up around 400,000 to 500,000 as the high, about 576,000 in 1972, and, then, starting back down again in 1974, 1975, and 1976, down to about 246,000.

I am looking just at the first 4 months of 1978, and I see an average annualized rate of about 240,000. It is down. Apparently they are not going to that in the kind of quantities that they did to mobile homes in the early 1970's.

Senator CHILES. There are some real zoning problems there. In Florida, you get a piece of land zoned for mobile homes in the right place and it is worth better than gold.

Mr. JANIS. We are interested in technology. We even are trying to develop some better technology for mobile home requirements.

Senator BELLMON. The figures you give about the number of units you give, are you including the mobile homes?

Mr. JANIS. The figures I just gave include mobile home shipments.

Senator BELLMON. But I mean when you said we have had a 2 million unit year, does that include the mobile homes?

Mr. JANIS. No, sir, it does not.

Senator BELLMON. So mobile homes are in addition to that?

Mr. JANIS. Yes; they are in addition.

FACTORS CAUSING MOBILE HOME COST INCREASES

Senator BELLMON. Are the costs of mobile homes escalating as rapidly as the other costs?

Mr. JANIS. I don't have figures on that. I expect they are, because they are made from the same types of components. I don't know on a percentage basis.

To the extent they use land, as Senator Chiles pointed out——

Senator BELLMON. They normally use much less land?

Mr. JANIS. I think we are using relative costs. The implication of your question was the relative cost of land for a mobile home today versus 10 years ago. That has gone up, I am sure, because of zoning restrictions against mobile homes

Senator BELLMON. You will find mobile home parks don't add such things as gutters. In many cases, they don't have paved streets, or as good sewer systems and that sort of thing, and I doubt that it is legal.

I don't know anything about the mobile home business. But it seems they buy a pasture and start parking trailers on it.

STRICT RESTRICTIONS PLACED ON MOBILE HOMES

Ms. NEUHAUSER. Could I speak on this?

Mobile homes were not touched on much in this report, but they certainly ought to be. Certainly, local restrictions against mobile homes have become more and more strict, mainly, I think, because of poorly run trailer parks in the past. They are not entirely in the past.

In my part of the country, they tend to put them out in the county where there are no sewer and water lines, and put in a lagoon system or something like that, and they simply became slums.

That is one problem that we have had with them.

The other problem is the restrictions that the owners of the parks put on people who are moving in there, forcing them to buy a mobile home that they sell, not allowing them to bring their own in there, and so forth.

So there are all kinds of problems, but they definitely ought to be addressed in my opinion. I guess off the top of my head I really shouldn't say it, but I think it might be Indianapolis, or some community in Indiana which has very good zoning restrictions to permit mobile homes and to encourage good use of them. But——

DEVELOPING REGULATIONS ON MOBILE HOMES

Chairman MUSKIE. You have identified one of the reasons, the regulations that are developing.

Ms. NEUHAUSER. You have to have certain kinds of regulations. We don't want our communities to turn into slums. But you don't want to overdo it.

Senator BELLMON. But there are some desirable mobile home developments.

Ms. NEUHAUSER. Yes; there are.

Senator BELLMON. It seems to me that HUD, instead of looking at mobile homes as an outcast ought to see that these developments are desirable and serve people who live there.

LIBERALIZED FINANCING OF MOBILE HOMES

Mr. JANIS. I agree, Senator, and we have just liberalized the financing with regard to mobile homes, as a matter of fact.

They should be encouraged where they are appropriate. Section 8 assistance will now be provided for mobiles, which is a change.

Senator BELLMON. The figures you have given seem to ignore mobile homes.

Mr. JANIS. I am sorry, Senator. The figures I gave you are national figures of housing starts, and that is not something that we invent. That is essentially a census figure.

Senator BELLMON. Maybe you need a subparagraph (a) that deals with mobile homes. You haven't given us anything about the way mobile home costs have changed, either.

Mr. JANIS. That is true. I have not.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Senator BELLMON. I want to ask about HUD's intentions as far as community development block grants are concerned.

Do you intend to allow advance purchase of plots for development, and so forth, for low income families?

Do you intend to use these only for public housing, or how about privately developed areas?

Do you intend that these funds might be used there as well?

Mr. JANIS. No; Senator. It would be for subsidized housing.

ENCOURAGE PRIVATE USE OF FUNDS

Senator BELLMON. Why, I wonder, not also encourage the private use of these funds?

Mr. JANIS. It is providing for public housing, section 8, those types of subsidies. I don't think it would be appropriate under the concept of the block grant program for advance acquisition of land.

I don't think it would make sense. The private sector normally can acquire land, and should acquire its own land. In terms of subsidized housing, I think acquiring it out in front makes a lot of sense, because it will tend to keep the cost down.

I am not sure it would be an appropriate use of block grant funds.

Senator BELLMON. But all the time this morning has been that rising housing costs are a problem not just for low income, but for middle income as well.

Mr. JANIS. I would prefer, if I had a choice in the matter, that local government make land available by other means than use of block grant funds.

We are talking now about unsubsidized. I am afraid they could use up all their block grant funds on the acquisition of land if that were not restricted. Communities have other major kinds of needs that they use the block grants for, and some of those are housing rehabilitation loans and so forth.

AVAILABLE FUNDS INSUFFICIENT FOR PRIVATE SECTOR

Senator BELLMON. My only point here is that the amount of money available in community development block grants isn't enough to make it available to the private sector, and, perhaps we ought to consider enlarging the size of the grants and in this way bring in additional development by the private sector.

I think this is a valuable tool that could be used to develop private housing that maybe you should recommend to Congress that we use this device.

STATES LIMIT LOCAL GOVERNMENT

Ms. NEUHAUSER. Senator, I have one caution on that. This sounds very good, but most States limit what a local government or any kind of government entity can give to an individual.

In other words, we could very well wind up with that land, but we would then have to sell it at a fair market value, and then the benefit of having acquired it in the first place would be nullified.

So, unless those constitutional prohibitions that States have could be changed, we would have considerable difficulty, I think.

So, while I think it may be a commendable goal, it is not going to be quick to achieve.

AVAILABILITY OF LAND IN LESS RESTRICTIVE AREAS

Senator BELLMON. Let me ask one other question in a different area.

There is a large market for homes now that exceed the cost-saving criteria. The question is, how significant are exclusionary provisions in increasing the costs of houses available to buyers who may not want a big yard or a brick facade, or a garage, or some of the other niceties. Are we actually making enough of these less restrictive areas available for buyers?

Mr. SMITH. Senator, I think you have touched on one of the problems. Certainly in some of the more affluent suburban areas, where land is available, but only available for a certain type of house. As we talk about suburbia, surrounding a city, we talk about land availability being in suburbia rather than in the city, and where we come up with these restrictive coffee grants, we come up with a factor that chases the price of land higher and higher.

COMPONENTS OF LAND VALUE

The Senator from New Mexico asked a question pertaining to developed lots. Although land, dirt itself has gone up, it is what sometimes is stacked on top of the dirt that makes the land a developed lot that causes the real problem. As a very young developer, 25 years ago, I would take a small tract of ground and develop it. A lot of builders do this. Today I can count on one hand the major developers in my whole county, because the staff, and by the way, that is labor, and when we really start looking at labor that goes into land, sometimes we do not allow enough of the labor and other methods to be attached to the land value we use.

But I have the checkoff list in my local community that my engineers and staff have to accomplish and bring toward prior development.

A lot of the ideas are very good, I guess. A few I would say were not necessary. That same development, when I got it to a certain level, I had to attain a $25,000 environmental impact study.

REGULATIONS CHASE OUT SMALL BUILDERS

It took me 78 months, four college professors, and my interest during this time was tremendous. I could go on and on with these stacks of regulations that we were affected with, and, consequently, we chased out all the little fellows. We don't have small developers anymore. They cannot afford it.

In that field we have eliminated the competitive spirit.

Now, testimony earlier showed that until 1972 the increase of average income was commensurate with the increase of housing costs since that time, like last year, 7 points in one area, but over 12 percent on housing.

HOUSING COSTS MORE INFLATIONARY THAN PERSONAL INCOME

What has happened since 1972 that has caused the cost of housing to be more inflationary than average income of the buyers?

Now, when we start analyzing that, we start rifle-shooting instead of bird-shooting. The lot price, because of the items we have mentioned, is one. The fight to keep inflation down through direct increases by the Federal Reserve of interest rates is more harmful to the home buyer, because the long-term mortgage market is the earliest and the most affected, and we can talk about the items pertaining, for example, to this one-shot inspection.

PERMITS AND INSPECTIONS

My city has a large government refund coming back every year through revenue sharing. They use it in several departments. I presume they also use it in the inspection and engineering departments. I am not sure about that. A lot of the cities do.

Why not have a qualified department to handle permits for all agencies?

Let me say this: I think somebody asked earlier when that would be accomplished. I think that will only be accomplished when Congress and the administration mandate it. I do not believe that agencies are going to voluntarily give up duties to other agencies, and I believe if we look at multilaws written by multicommittees of Congress handled by multiagencies of Government, until we can bring a focus back into the problem, it will be more in the area of rhetoric than solution.

COOPERATION OF FEDERAL AGENCIES WITH LOCAL GOVERNMENTS

Senator BELLMON. Let me ask a question in three parts. First of all, can the Feds do this as it affects the local interest; and, second, I wonder if HUD would run into difficulties if it undertook to get other Federal agencies to line up and agree to this; and, third, is HUD willing to make some sacrifices to do this?

Mr. SMITH. I would have to let HUD speak to the sacrifices, but in Fort Worth and Dallas, if HUD wanted to cooperate with the local building department to handle inspections for them, and I might point out that on page 1 there is a suggestion to reduce duplication in inspections by field office personnel.

I can readily see where a good inspector, whether he wears the badge of a local official or county, or Federal or State, is a good inspector or a bad one. Why have four of them?

I believe, sir, that HUD could contract with a local agency or some other governmental entity where we do have the one-stop approach. They could have periodic reviews, if this is abused, if quality is going down, if other things are not acceptable.

Yes, make a change. Don't make it overall, but I think an important approach like this is going to be necessary, and again I think that it is going to have to come from you.

BLUEPRINT FOR COOPERATION

Senator BELLMON. Could your organization lay us out a blueprint of how this could be done, by legislative mandate—how we could require it?

Mr. SMITH. We would be pleased to.

Senator CHILES. Mr. Chairman, I had other questions, but I think the panel has been very forthcoming. I think it has been a very interesting hearing, and I don't want to belabor them further.

Mr. JANIS. I am wondering if I might say another word, Mr. Chairman.

Chairman MUSKIE. Of course.

Mr. JANIS. I realize that this has been a difficult kind of a hearing sitting on your side of the table hearing this kind of testimony from all three of us. I recognize how difficult it is to try and find the lever to do something about something that is obviously a very serious problem.

I would ask that when you reflect on the hearing, and when you look at the answers to specific questions or review the testimony, that you try and put into context some of the things, or put into proportion, I should say, some of the things that you have heard.

DEAL WITH IMPORTANT ITEMS THAT RAISE BUILDING COSTS

I think it is important to deal with the big things and not the little things. I think when you talk about inspections, whether they are local inspections or whether they are FHA inspections, that you understand that, yes, there are about 16 or 17 inspections that take place in a single-family house in terms of each stage, plumbing inspection, electrical inspection at four stages, and building inspection, and I think you need to understand that that has been the case for many, many years and that hasn't been the kind of thing that has raised costs.

In terms of the change as it was in former years and as it is today, it is the new items that have come in, the serious, big-ticket items. I looked at the environmental questions. I looked at questions of financing and cyclicality, the big questions of stability in the industry. That is what is causing the change.

I hope that you will not get bogged down on some of the smaller things that occur relative to inspections and so forth.

ESTABLISHING PRIORITIES OF CONCERN IN HOUSING IS HUD'S ROLE

With regard to HUD and HUD's role, I might say that we have only 8 percent of the share of the single-family market in this country at the present time. HUD regulations as far as single-family buildings are concerned are a very small part. But we see a major role to play in the area of leadership, in the area of trying to work with State and local governments and work with Congress on change, and so, you know, in a leadership sense we would see our future in this area.

Thank you.

QUALITY OF HOUSING OUTLOOK BLEAK

Chairman MUSKIE. Let me ask you one final question.

It seems to me that these increases in cost may very well lead to some improvement in regulation, simplification and all the rest of it. However, it seems to me that one almost inevitable result is smaller houses, poorer quality houses, perhaps more mobile homes; and that in terms of quality and space the average American is going to be more poorly housed, whatever amenities may be added with new technology, than in the past.

Is that an erroneous assumption?

Mr. JANIS. I would hope that it is.

Chairman MUSKIE. Is that not what has been happening?

Mr. JANIS. Well, I would hope we would have the intelligence at all levels, Federal, State, and local, wherever these kinds of decisions are made, to sort out the good from the bad, the necessary from the unnecessary, in order to come up—in order to have regulations that legitimately protect people's health and safety and their environment. But, on the other hand, ones that don't require costs that are unneeded.

I think it is a matter of government at all levels looking from an impact point of view at every regulation. You know, we look now at the impact on inflation by regulations. We look at all other kinds of impacts. One problem, I would submit, Senator, is that we have not looked at the impact of some regulations on housing costs. It has just been one of the things, as I said before, that nobody cared about.

I would hope one of the things that would come out of this hearing would be that whatever regulations are adopted, at the local, State or Federal level, that we look at the housing cost aspect, the impact on housing costs of those regulations in addition to the other impact that we normally look at.

Chairman MUSKIE. Mr. Smith?

LOOK AT FUTURE REGULATIONS URGED

Mr. SMITH. Senator, I agree with him 100 percent, and when he said "we," I look at the regulations. I would hope that that also meant you and your committee ought to relook at regulations that come out in the future, because we have a problem on the regulations factor.

REGULATION-RELATED INFLATION OF COSTS

I do believe that on the local level these are being exposed and can be exposed, but very frankly we have a better look at this on the local level than we do through the Federal Register. This is one of the big item costs, and we can spread it to the little 2x4 that goes into a house.

If we trace it back to the truck that delivers it and the forest, we will find that that has had a tremendous increase in price since 1972, and I would say that a large amount of that is in multiregulations on that little 2x4.

The same thing is true with a sack of cement, and we have to take all the variable items that go in. But if we had the opportunity to do research, and take a hard look at these regs as they come forth, we could stop some of that spiraling costs. I hope you will allow us to do it in the future, and I hope congressional committees will take a hard look at even changing the present law whereby you have some type of veto over regulations that are unnecessary.

INFLATION IMPACT STATEMENTS

Chairman MUSKIE. You may be interested to know that we have initiated a request in the Appropriations Committee to add an inflation impact section to the Congressional Budget Office. Out of it will come inflation impact statements with respect to major items of legislation.

We can't know how effective that will be, but some of us think it is worth an effort.

SUNSET LEGISLATION FACING RESISTANCE

Second, there is our continuing interest in sunset legislation, which is now on the calendar in the Senate. It is facing some resistance within the Congress. However, I am hoping that under the stimulus of the message from California that we may be able to get sunset legislation enacted.

Mr. SMITH. We strongly support sunset legislation.

CHANGING REGULATIONS RESULTS—LOWER QUALITY HOUSING

Ms. NEUHAUSER. I wanted to make a response to Senator Muskie's concern that the changing of regulations would result in lower quality housing. I don't think that this is going to happen if it is done with great care.

Ironically, I think—I don't know whether I would say the quality of a house has gone up in the past few years, but certainly the amenities offered have, and there is a phenomenon that can't be adequately explained, that houses being built today are not for the first-time homeowners. They are for those already in the market who want a better house.

I don't think in Iowa City you could find a new house without a garage, for instance, whereas at the time you were buying your first house, Senator Muskie, that was kind of considered a luxury—maybe not in Maine. People added on a garage after they lived there a few years.

Lot sizes could be made smaller, clustering, this kind of thing. Not only with all the costs and regulations, but also the type of houses being built we have priced that first-time home buyer out of the market.

CREATIVITY IN HOUSING NEEDED

Chairman MUSKIE. In other words, there is room for creativity within the housing industry?

Ms. NEUHAUSER. I think there is. It isn't just a government thing. It is the housing industry, too, and then there is the whole market.

Mr. SMITH. I think she is right, on the level of all sources, business and government, we can look at this, but the same of the fact that the first home buyer has been priced out of the market for this generation and the generations to come if we don't turn this cycle around.

The 60 percent American home ownership will be a thing of the past for the next generation.

PEOPLE PRICED OUT OF MARKET

Senator CHILES. That, of course, eventually kind of brings about the train wreck, because the only way that all of us who own a home and have been able to cash in or to buy another one—the only way we have been able to do that is because there have been people coming in buying. As they are being priced out, and that is not just on new homes, but priced out of buying the old home now, because those prices have gone right up with the new homes.

HOUSING MARKET AND TURNOVER ABILITY

What you are doing is, you are, at some stage, and I think we may be reaching it before long, we stop that turnover ability. It is great and all of us that have enjoyed a home have been able to move up much more readily, as our incomes have gone up. We have had a house that has appreciated, and we have been able to move.

But when there is nobody in there to buy the first one, that stops everything.

SHIFT TO SMALL MULTIFAMILY UNITS

Mr. SMITH. Last year in Dallas, Tex., four-to-one ratio of permits was in small multifamilies, and it is a tremendous shift and a trend. The city is worried about it. People are concerned about it, and this is not a trend only in Dallas, Tex., because that young couple out of college simply cannot afford a new home.

I think we can do something about it, and by the way, Senator Sparkman's bill on housing opportunity has some merit here, as a lender to the first buyer, not a grantor. It really has some merit that I would hope you could look at very seriously. For example, in my area under the old 25 program, the homes sold for $1,500. It is now reselling for $35,000 or $40,000. If the law had provided a lending situation there, that loan would already be made back to the Federal Government of the grant that went in and the subsidy in the beginning. You could now be using that as a rollover to help these new couples we are talking about.

I think it has merit and justifies investigation further.

Chairman MUSKIE. Thank you all very much. The hearing will be recessed.

[Whereupon, at 12:42 p.m., the committee adjourned, to reconvene at the call of the Chair.]

STATEMENT OF THE SIERRA CLUB

Washington, D.C., July 27, 1978.

Re Hearings on Housing Costs and Inflation.
Hon. EDMUND S. MUSKIE,
Chairman, Senate Budget Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR MUSKIE: We appreciate the notice you sent us about the hearing on housing costs and inflation, to be conducted on July 25, 26 and 27, preparatory to Committee action on the Second Concurrent Resolution on the FY 1979 budget.

The Sierra Club has a deep interest in this subject, because some current proposals being made for reducing housing costs suggest a large increase in logging of the public forests as a possible remedy. Since the public forests have been established and are managed to produce a variety of services and protect a variety of important values other than timber production, we are concerned that proposals greatly increase logging could have serious adverse effects on these other services and values. Already, as you know, there are thousands of pages of testimony and evidence before repeated hearings conducted by the Congress over the last eight years, demonstrating the fact that excessive logging, particularly in the wrong places, causes severe and often permanent damage to the public forests.

The Sierra Club does not believe that a large increase in timber harvest on the National Forests would solve the very real problem of increased housing costs, since by far the overwhelming bulk of such increases in the past decade are attributable to increases in land and financing costs. Finally, we believe that estimates of increases in softwood sawtimber supply to provide needed lumber for housing have been overstated, particularly for the years 1981–85.

In support of these various points, we ask that the attached paper, "Timber Harvest in the National Forests and Its Relationship to Lumber Supply and Housing Costs" be included as a part of the public record of the hearings now being conducted by your Committee. The paper was prepared by Mr. Robert Anderson, a forest economist acting as a consultant for the Sierra Club in San Francisco. We believe it points out rather well, using figures from the home building industry itself that (1) housing estimates prepared by the Council on Wage and Price Stability for the period 1981–1985 are unrealistically high; (2) that therefore, since their methods of projecting lumber and sawtimber demand depend heavily upon housing estimates, the projected lumber and sawtimber demand figures are unrealistically high; (3) that the remaining undeveloped timber lands on the National Forests which are considered as possible sources of new raw material production are precisely the areas where, because of soil and watershed conditions, environmental damage would be greatest; and (4) that the actual reduction in real housing costs which would be expected from a major (e.g., ten percent) increase in National Forest cut would be so insubstantial (approximately $340 for a $60,000 house) that the drastic environmental tradeoffs involved do not justify such an increased harvest for housing purposes.

We believe this is important information which the Committee should have. Thank you for your consideration of this request.

Sincerely,

BROCK EVANS,
Director, Washington Office.

Enclosure.

TIMBER HARVEST IN THE NATIONAL FORESTS AND ITS RELATIONSHIP TO LUMBER SUPPLY AND HOUSING COSTS

This paper is, in large part, a response to recent public discussions of short and long term timber supply and its relationship to changes in lumber prices. The short-term softwood timber supply will be the main focus of this discussion which centers on an analysis done by the President's Council on Wage and Price Stability (CWPS), entitled, Lumber Prices and the Lumber Products Industry." It was published in October 1977. Their analysis will serve as the focus since it is the most recent, comprehensive study available. It does suffer some serious shortcomings, including an overestimate of lumber demand in coming years, and insufficient attention to sources of lumber besides what seems to be a predisposition toward increased and dramatic cuts in the national forests.

OUTLINE OF THE CWPS METHOD

The CWPS report projects a shortfall in softwood sawtimber supply, the source of lumber for housing, during the early and middle years of the 1980's. Their predicted shortfall ranges from 6 to 10 billion board feet, with, of course, a concomitant rise in lumber prices. In Table 1, reproduced from their publication, the CWPS estimates of demand involved two methods. For one method they updated Bureau of Census estimates of household formations, and these were used in their own projections of housing starts. From this point the average per unit use of lumber for the various types of units was used to estimate the amount of lumber needed for future housing construction. To this was added estimates of the non-housing use of lumber, which according to the CWPS accounted for 66% of total lumber consumption in recent years. Since their major concern was lumber for housing, which would be predominantly softwood, and their only suggested source of additional supplies were the national forests, which are almost entirely softwood, they reduced their estimate of lumber demand by 19 percent to eliminate that portion of demand which historically has been hardwood. This estimate of softwood lumber demand was then divided by .676 in order to take account of the non-lumber uses of softwood sawtimber. This includes such use as plywood, pulp and chemicals. The ratio of .676 was based upon a 12-year average, 1964–75, of softwood lumber to softwood sawtimber. However, the ratio in more recent, and relevant, years is, .079, apparently reflecting an increasing proportion of softwood sawtimber converted to lumber, due probably to the more recent relative higher prices for lumber. The results of the above method were used as the estimate of the lower limit sawtimber consumption in Table 1. The second method involved a logarithmic, regression equation which utilized the time trend, housing start projections, and an elasticity factor of 1 applied to the GNP in 1972 dollars. The resultant estimates appear as the upper limits of demand in Table 1.

TABLE 1.—AVERAGE ANNUAL DEMAND AND SUPPLY PROJECTIONS, 1976–90

	1976–80	1981–85	1986–90
New housing demand (thousands of units).	2,169	2,713	2,271
Softwood sawtimber demand and supply (billions of board feet):			
Demand.	55.2	61.2 to 65.2	56.8 to 64.4
National Forest output [1].	10.5	11.0	11.0
Other output [2].	40.2	39.3	38.4
Net imports [3].	4.0	4.3 to 4.6	4.0 to 4.5
Total supply	54.7	54.6 to 54.9	53.4 to 53.9
Supply minus demand.	-.5	−6.6 to −10.3	−3.4 to −10.5

[1] This assumes sales of National Forest softwood sawtimber at current rates.
[2] Based on Forest Service projections for a relative price which is held at current levels.
[3] Imports are assumed to maintain the share of the market achieved in 1972, the highest share observed thus far, and comparable to the 1977 share.

HOUSING STARTS AND PER UNIT LUMBER USE

This critique of the CWPS projections primarily focuses on their estimates of housing starts. Much evidence points to the fact that the housing estimates for the period 1981–85 are unrealistically high. Both of their methods of projecting lumber and sawtimber demand depend heavily on accurate housing estimates. More recent projections made by organizations directly involved in housing finance or construction all suggest that the CWPS projections of housing starts for the period 1981–1985 are roughly 400,000 starts too high. Indeed it appear to be turning out that the CWPS projections for the period 1976–80 are also too high by perhaps 1000,000 to 200,000 starts. These judgments are based upon more recent statistics (up to May 1978) but more importantly the latest projections of housing starts made by such organizations as. Chase Econometrics, The National Association of Homebuilders, and the Federal Home Loan Mortgage Association. See Figure 1.

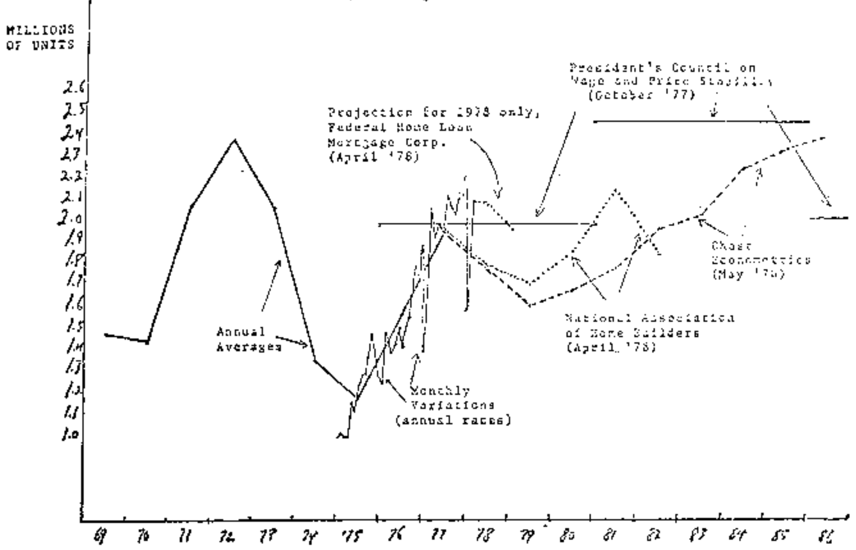
In the summary to their study, the CWPS discussed the shift which occurred in 1973–74, in the composition of homebuilding toward single family units, which according to the CWPS require at least three times the lumber per unit than typical multi-family units. They incorporated this trend toward greater proportions of single family units in their estimate of housing and lumber consumption. However, after a peak in 1975, the proportion of single family units in total housing starts reached a plateau and appears to be declining, going down 3 percentage points from 1976 to 1977.

TABLE 2.—*Single family units as a percentage of housing starts*

	Percent
1972	55
1973	55
1974	66
1975	77
1976	76
1977	73
1978 (1st quarter)	71
1978 (March)	69

Source: U.S. Department of Commerce.

FIGURE
PRIVATE HOUSING STARTS BY VARIOUS PROJECTIONS*
(excluding mobile homes)



* Public housing starts account for less than 1% of total starts in recent years

In addition, during the first quarter of 1978 the proportion of building permits for single family units has declined relative to permits issued for multi-family units.[1] These permits have always been a strong indication of building plans in the months and quarters ahead. To the extent that the shift back to multi-units continues from 1976, the lumber demand projections of the CWPS will be over-estimated due to improper weighing in housing compositions. Indeed we should be mindful of this whenever housing projections are examined.

A related factor of some significance is the expected decline in lumber consumption by type of unit in future years.

TABLE 3.—PROJECTED LUMBER CONSUMPTION BY UNIT

[In board feet]

	1-, 2-family units	3 or more family units
1970	10,840	3,700
1980	10,660	3,400
1990	10,500	3,100

Source: USDA Forest Service, "The Outlook for Timberi n the United States," 1970.

The projected decline in the use of lumber per unit proceeds at a faster rate, both in absolute and relative terms, for multi-family units than for 1-2 family units. This lends somewhat of a multiplier effect to the decline in lumber consumption per unit in future years which would be due to a shift toward multi-unit construction. The period of shift to single family housing which occurred in 1974–75 closely followed a period of stable, then declining, lumber prices in 1973–74. The mix of single and multiple unit housing seems to shift to a small degree in response to levels of lumber prices which may help explain the change to multi-units which appears to be occurring now. The expected leveling and downturn in housing starts as well as the shift to multi-units should significantly reduce the pressure on lumber prices.

[1] U.S. Commerce Department taken from a Wall Street Journal article, Apr. 18, 1978.

The demand and price of lumber is linked in the long term to housing starts and household formation. However, on a short-term basis the decision about exactly when to build is heavily dependent on the price and availability of credit. Decisions to build can be taken early or postponed in anticipation of the behavior of the credits markets. In 1969–70 and again in 1973–74, declines in housing starts, and declines in residential construction as a percentage of BNP, occurred at the same time as periods of restrictive monetary policy by the Federal Reserve Board. Conversely, periods of less restrictive policy were periods of greater growth in housing, 1970–72 and 1975–77.[2]

A significant reason for the recent projections of a downturn in housing have to do with the expected and recently, announced, decision by the Federal Reserve Board to restrict credit.

The Bureau of the Census predicted a rapid rise in net household formation in the 1970's that would peak between 1979 and 1982, depending on which series of projections is used. The table below contains the high series of projections.

TABLE 4.—*Projections in the net increases in households*

1978	1, 645, 000
1979	1, 675, 000
1980	1, 681, 000
1981	1, 714, 000
1982	1, 731, 000
1983	1, 715, 000
1984	1, 692, 000
1985	1, 651, 000
1986	1, 605, 000
1987	1, 581, 000
1988	1, 559, 000
1989	1, 572, 000
1990	1, 545, 000

Source: Bureau of the Census, Department of Commerce.

However the levels of housing starts attained in 1977 and so far in 1978 are well above the net projections by the Bureau of Census. In addition, the rate of change that occurred in housing starts between 1975 and early 1978 is much greater than any rate of change in any previous period of rising household formation or any rates of change that can be observed in the future projections in Table 4. The suggestion here is that in the period 1975 to early 1978, a period of relative easy credit, a large investment was made in housing in anticipation of the expected peak in household formations. To some degree this phenomenon occurred during the housing start peak in the early seventies. In the past, housing starts have been much more volatile than the actual level of net household formations, swinging both below and above the actual level of household formation The Census Bureau projected levels of household formation in Table 4 have been criticized for not emphasizing sufficiently the expected increase in one-person households. In recent years, over 20 percent of existing households contained only one person.[3]

This proportion has been growing steadily for the past several years. The CWPS, on page 54 of their publication, touch on the fact that rising personal incomes, especially among young people, and the changing social environment lead to the likelihood of more people living alone. An additional characteristic is that these people as a whole are freer in electing when to live alone i.e., set up a separate household. Many may have elected to do so previous to the time that the peak in Census Bureau household projections would imply, and thus contributed to the housing boom of 1976–77, since they are freer to respond to periods of easier credit than are the other types of potential household formations.

ADJUSTMENTS TO THE CWPS METHODS

The following section will involve adjustment to the CWPS estimates of timber demand and supply found in Table 1, incorporating much of the material discussed above, especially involving more up to date housing data.

If the estimate of softwood sawtimber demand on Table 1, 55.2 bbf (billio board feet) had utilized the more recent relationship between softwood lumber, and softwood sawtimber, .709 instead of .676, the estimate of softwood sawtimber

[2] Data Resources Inc. taken from a paper on housing price inflation prepared for the Sierra Club by Susan Mulloy.
[3] Bureau of the Census, U.S. Department of Commerce.

demand would be approximately 52.6 bbf for the period 1976–1980.[4] In addition upon examination of the annual housing starts levels of 1976 and 1977 in Figure 1, and the various projections for 1978, 1979, and 1980, it is apparent that there will be an overestimate by the CWPS of private housing starts of probably from 100,000 to 200,000 units for this period. Adjustment for either of these two factors would change the predicted shortfall of sawtimber in Table 1 to a situation of adequate supply for the period 1976–80.

Most attention should be focussed on the predicted shortfall for 1981–1985. Adjusting the figure for housing starts for this period down from the CWPS 2,713,000, to a more relevant 2,313,000 and carrying this through the same calculations used by the CWPS would result in a correction to their lower limit figure of 61.2 bbf to a figure of 57.4 bbf. This does not include the effect of the change in recent years in the composition of housing to multi-unit from single-family, which would reduce further their estimate of demand. One measurable factor which does reduce this corrected estimate still further is the adjustment for the more relevant ratio .709. This further reduces the estimate of demand for this period to 54.6 bbf or equivalent to the CWPS estimate of the lower limit of supply. Changes in the levels of sawtimber consumption are closely linked to changes in housing starts. After the peak in housing starts in the early seventies softwood sawtimber consumption dropped in one year approximately 8.3 bbf from 54.7 in 1973 to 46.4 in 1974.[5]

The upper ends of the range of projections used by the CWPS were made using a regression equation in logarithmic form, based on annual data since 1959. The three major components of the equations are: the time trend, GNP in 1972 dollars, and the level of housing starts. The log of the GNP has as a coefficient the elasticity figure of 1. This assumes that the demand for softwood sawtimber would increase in the same proportions as the increase in real GNP.

Although the Sierra Club is not in a position to construct a precise alternative elasticity factor, the factor for recent years is likely to be significantly less than 1. The CWPS factor is possibly based upon data going back to 1959, and the relationship between real GNP and the demand and pricing of lumber is likely to be substantially different in recent years. From 1972 to 1974 residential construction as a percent of actual GNP dropped from about 5 percent to 3 percent, in relative terms a 40 percent drop.[6] This came at a time when the private non-farm GNP in 1972 dollars rose about 4 percent.[7] This demonstrates the apparent short term volatility of the relationship. Over the longer term, the growth in 1972 private non-farm GNP seems to be much greater than the growth in consumption of softwood sawtimber. The private, non-farm GNP in 1972 dollars grew from a five year average, 1961–1965, of about $680 billion to about $1,000 billion in 1971–75, over a 40 percent increase.[8] While a comparison of respective five yea averages for softwood lumber and softwood sawtimber shows an increase of less than 10 percent, indicative of an elasticity relationship significantly less than perfect.[9] The Council of Economic Advisors has predicted a leveling and probable decline in housing starts for 1978 (housing annually consumes about 40 percent of total softwood sawtimber), while at the same time projecting an increase in GNP in 1972 dollars of between 3.3 and 3.8 percent.[10] Finally, the apparent turnaround in housing starts composition toward multi-family units at a time of record lumber prices, with real GNP rising, is a further indication of less than perfect elasticity.

The predominant criticism however, of the method based upon the regression equation is that it includes as an important factor, the same overestimate of housing starts as utilized in method number 1. Indeed, the same problems with the wrong composition of housing starts would also contribute to an over-estimate of sawtimber consumption.

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[4] Based on CWPS Data, 7 years average, 1970–76, of the ratio of softwood lumber consumption to softwood sawtimber consumption.

[5] Estimate utilized the ratio .709 applied to the actual levels of softwood lumber consumed in these two years, 38.3 bbf and 32.2 bbf respectively. Taken from USDA Forest Service Publication, "The Demand and Price Situation for Forest Products, 1976–77.

[6] Mulloy—Data Resources, Inc., *op. cit.*

[7] "Annual Report of the Council of Economic Advisors" (CEA), January 1978.

[8] *Ibid*, p. 263.

[9] "The Demand and Price Situation for Forest Products, 1976–77, U.S.D.A. Forest Service.

[10] "CEA Annual Report", *op. cit.*

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A consideration of these factors: type, composition, elasticity and, most importantly, the overestimate in housing starts, suggest a reduction of the CWPS upper limit estimates of a magnitude at least equivalent to reductions in the lower limits which amounted to about 6.6 bbf. That would leave an upper limit of demand in Table 1 for the period 1981–85 of 58.6 bbf.

SAWTIMBER SUPPLY

We will examine the supply side of the CWPS estimates leaving the national forest timber harvest at the given levels. However, a number of differing assumptions and adjustments can be made concerning the "other output" and "net imports" categories of Table 1. A minor correction to "other output" in Table 1 would be an upward adjustment of 39.3 to 39.7 and 38.4 to 38.8. The Forest Service estimated "other output" production for 1980 and 1990 of 40.2 and 38.4 bbf respectively. The CWPS averaged these for 39.3 bbf in 1985, but should also have averaged 1985 with 1980 and 1990 to obtain these more relevant estimates for the periods 1981–85 and 1986–1990.

The category of "other output" includes not only production from forest industry held lands, but also from an ownership group entitled, "Farm and Miscellaneous Holdings," which accounts for the second largest inventory of softwood sawtimber in the United States.

It appears from the production figures available in Table 5 that the average annual domestic production of 50.7 bbf of softwood sawtimber for the period 1976–80, projected by CWPS, will easily be met, and probably exceeded. The 50.7 figure is a total of 40.2 bbf from the "other output" category and 10.5 bbf from the National Forests. Considering that the actual level of recent National Forest harvests have been somewhat below the level of 10.5 bbf, the "other output" category appears to have been exceeding the CWPS production projection of 40.2 bbf. Historically, National Forest timber is not harvested for about 3 years after the sale of the rights to harvest. Considering that sales are projected to start turning back upward (see Table 5), eventually harvest levels should also, this will help support the level of softwood production in the 1980's.

TABLE 5.—TOTAL DOMESTIC PRODUCTION

[Billion board feet]

	Softwood lumber [1]	Softwood sawtimber [2]	National Forest harvest [2]	Softwood sawtimber sales [2]
1970	27.5	46.2	11.0	13.1
1971	30.0	46.9	9.8	10.3
1972	31.0	51.4	11.4	9.9
1973	31.6	[3] 49.9	12.1	9.7
1974	27.7	[3] 45.4	10.4	9.5
1975	26.7	[3] 43.5	8.4	9.9
1976	30.8	[3] 49.5	9.1	9.8
1977	34.6	[4] (55.0)	[5] (8.7)	[3] 10.4–11
1978				[3] 10.4–11

[1] USDA, "Demand and Price Situation," op. cit.

[2] Taken from the CWPS report. Opinion varies as to the accuracy of any available data on softwood sawtimber production. Reporting methods vary from place to place involving actual counts and measurements of logs to estimating the amount of sawtimber consumed based upon the amount of timber products obtained. The softwood sawtimber production for 1973–76 was estimated by the CWPS staff. Any comments or adjustments to their report involving softwood sawtimber utilized their figures.

[3] Estimate.

[4] Estimate based upon previous ratios.

[5] USDA, Forest Service.

It is sometimes suggested that some of this National Forest timber sold and not scheduled to be harvested for two or three years, could be harvested early to meet a situation of an unusually rapid increase in demand. However, when a sale is made from a National Forest, it usually involves relatively inaccessible acreage and time is needed to plan and build the necessary roads before harvesting can begin. A second, and perhaps more important, problem is that lumber companies that customarily base their operations on timber from National Forests often cannot obtain the necessary operating capital unless their financial backers are assured that the loggers and mills have a steady source of sawlogs available for more than just the current year. In addition, in some cases, there may be problems with inadequate sawmill or logging operation capacity which would prevent "early" harvests.[11]

MILL STOCKS

Up to and including recent months gross mill stocks of softwood lumber have remained at levels equivalent to the average for the past nine years, about 4.3 bbf.[12] In 1972, stocks dropped to 3.6 bbf in response to the highest recorded demand for softwood lumber, 38.8 bbf. Variations in mill stocks, over 1 bbf in recent years, does provide some cushion for short term increases in demand.

TABLE 6.—*Gross mill stocks softwood lumber (bbf)*

1964	4.7
1970	4.9
1971	4.3
1972	3.6
1973	4.0
1974	4.3
1975	4.2
1976	4.2
1977	4.2

Source: Fingertip Facts and Figures, monthly, National Forest Products Association, 1619 Massachusetts Ave., Washington, D.C

EROSION AND OWNERSHIP

Much of the softwood sawtimber inventory in the U.S. is found in the Pacific Coast states, and much of this is in the National Forests. Most of the National Forest land is located along the north coast of California, and in the Cascade range extending from southern Oregon through Washington to the Canadian border. The north coastal area of California, including the National Forest area extending up along the Oregon coast, has one of the highest potential and actual erosion rates in the world. This is due to very high annual precipitation, structurally unstable base, and the cumulative human impact. Even though the erosional effects of logging on fragile slopes can be quite serious, taken as a whole the erosional effects of roads and trails in this area far outweight the effects of logging per se.[13]

The Cascade range, which is further inland than the coastal ranges discussed above, generally speaking has an erosion potential only slihgly less than the coastal ranges. The harvestable softwood that is in the National Forests of the Cascade range is predominantly found in the more unstable areas with the greatest potential for erosion. In a recent study done in an experimental area of Oregon's Willamette National Forest, it was determined that roads were an extremely significant factor, perhaps the most important in causing erosion damage. Along right of way erosion was estimated to be 30 times greater than in comparable forested areas. Clear-cutting caused an estimated 3 times as much erosion damage as in comparable forested areas. According to the study, the experimental area was "representative of much of the western cascade terrain."[14]

Mean annual precipitation in the experimental area is approximately 95 inches, roughly equivalent to much of the north coastal area of California.[15] Not many areas of the United States have this combination of steep slopes, unstable base, and unusually high precipitation, which creates very serious erosion problems, as does northern California and the Cascade range. Watershed destruction should be of particular importance to the people living in the recently drought stricken areas of the west coast, since it fosters less even flow of runoff. This contributes not only to flooding but is a form of loss of storage capacity which results in less usuable water available to reservoirs during the course of a year, aggravating dry season or drought conditions.

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[11] Based on an interview with Lloyd C. Irland, Bureau of Forestry, Department of Conservation, Augusta, Maine, and interviews with various staff of the Pacific Northwest Forest and Range Experiment station at Portland, Oregon, including David Darr and Roger Fight.

[12] According to the National Forest Products Association, gross mill stocks include "finished product in mill yards awaiting sale or delivery" and does not include sawlog stock, logs in process, drying lumber, or any lumber which eventually will be discarded.

[13] Robert Coats, "The Road to Erosion" Environment, vol. 20, no. 1 January/February 1978.

[14] F. J. Swanson and C. T. Dyrness, "Impact of Clear-cutting and Road Construction Soil Erosion by Landslides in the Western Cascade Range, Oregon," Geology, vol. 3, no. 7, July 1975.

[15] *Ibid.*

The costs of erosion are indirect and are often delayed for several years. There exists very little in the way of accurate indicators of current and past erosion similar to those indicators in use to measure the CPI or GNP, and of course, even less in available method of projecting potential erosion. However, it is obvious that the effects of watershed destruction can be massive and long term. The fact that measurement and projection is difficult, and the erosional effects can be so great, means that great care must be exercised when choosing an area, or type of timber ownership, in which to build roads and harvest timber. According to the Forest Service, in 1970 there was approximately 129 bbf of softwood sawtimber inventory under the farm and miscellaneous holdings category in the Pacific Coast states.[16] Of equal importance is the fact that this timber is, according to the Forest Service, "readily accessible from existing roads and is relatively close to timber markets."[17] The areas of the National Forests that are being sought for additional timber harvests tend to be quite undeveloped areas. It is therefore likely that much more road building, and concomitant watershed destruction would have to take place to harvest timber in the Pacific Coast National Forests, than if more emphasis were placed upon other sources such as the farm and miscellaneous holdings. The Forest Service has for many years been suggesting greater utilization and development of this neglected source of timber. With the increase in stumpare prices in recent years, these smaller lot ownerships should be much more interested in marketing their timber to meet any "bulge" in timber demand that could occur in the 1980's. The existing structure of the logging industry would lend itself well to harvesting timber from these smaller ownerships. Most of the logging done in the U.S. is done by small, independent contractors, who are used even by most of the large integrated companies. According to the CWPS, there are approximately 12,000 to 13,000 of these companies, whose number has remained quite constant in spite of consolidation and decline in the number of saw mills. In addition, the timber lands held by the forest industry are likely to have a substantially greater existing road system than the National Forests.

PRODUCTIVITY AND OWNERSHIP

The Forest Service used productivity classes to rank the potential of U.S Commercial timberland. These are based on potential annual growth in cubic feet per acre. The categories include: 20–50, 50–85, 85–120, and 120+ cu. feet. Acreage in the top site class is potentially 6 times as productive as in the first category. About 50 percent of the commercial softwood acreage in the Pacific Coast states is found in National Forests.[18] Much of this involves land that is likely more remote, definitely less productive and hence with a lesser capacity to accept reforestation, and very ecologically fragile. While only about 19 percent of the 59.1 million acres of commercial softwood timberland on the Pacific coast is under the Farm and Miscellaneous ownership, a much higher proportion of their sites are in the top productivity class, 37 percent, compared to 21 percent for the National Forests. About 51 percent of the National Forest acreage is in the lower two categories and 42 percent of the Farm and Miscellaneous holdings. The Pacific Coast forest industry lands total 17 percent of the softwood acreage, but have 55 percent of that in the top category and only about 27 percent of their acreage in the lower 2 classes.[19]

If the Forest industry acreage in the top two productivity classes is combined with the top two classes of Farm and Miscellaneous acreage, it will total about 14 million acres, roughly equivalent to the acreage of the National Forests in the top two classes. The Rocky Mountan area has about 55 million acres of commercial softwood timberland, however 75 percent of this is in the two lowest productivity classes. The majority of the land is in the National Forests. This large area contains just over 15 percent of the nation's softwood sawtimber inventory.[20]

The northern forests in the U.S. contain relatively little softwood inventory. The South on the other hand contains just over 15 percent of the nation's commercial softwood sawtimber. These inventories in 1070 amounted to 276 bbf with

[16] "The Outlook for Timber in the U.S.". U.S.D.A. Forest Service, July, 1974.
[17] *Ibid.*
[18] *Ibid.*
[19] "Outlook for Timber" *op. cit.*
[20] *Ibid.*

57 percent of that under the Farm and Miscellaneous holdings ownership. The forest industry held 29 percent and the National Forests about 10 percent. In the Farm and Miscellaneous ownership growth exceeded removals in 1970 by 2 bbf.[21] About 67 percent of the softwood acreage in the South is under the farm and miscellaneous ownership with 38 percent in the upper two productivity classes. The forest industry held 24 percent of the acreage with 44 percent of that in the upper two classes.[22]

Considering the costs of roadbuilding in Pacific Coast National Forests, and the rapid rise in costs of transporting lumber and wood products to the East from the Pacific Coast, and considering previous discussions about the nature of the logging industry, an intensified effort could be made to locate and harvest softwood on the farm and miscellaneous holdings in the South as one source to provide sawtimber for any peak in demand in the eastern markets in the next few years. This is especially recommended when one considers the greater potential for ecological damage, in the Pacific Coast national forests, and what the real cost of lumber would be is a true accounting were made for the effects of watershed destruction.

OTHER COSTS

Railroads by far are the predominant carriers of lumber from the sawmill areas to the market areas of the U.S. All railroads are subject to essentially the same set of rates for similar cargo between the same points. The cost of transporting a typical load of lumber from the Pacific Northwest to the Philadelphia/New York area has increased from about $1.68 per hundred pounds in mid-1970 to about $3.28 in mid-1978.[23] This is about a 95 per cent increase and comes at a time when the GNP nonfarm price deflator rose about 70 percent.

Along with costs of transportation, changes in the average hourly earnings of forest industry employees have contributed to the rise in lumber prices. During the period 1967 to 1976 average hourly earnings rose in the lumber and wood products industry by about 100 percent. Even considering that domestic lumber production was 10 percent higher in 1976 than 1967, after much interim variation, and considering a reduction of about 10 percent in the number of employees in this industry, this rate of increase was still well above the growth exhibited in the GNP non-farm price deflator.[24] The changes in part reflect historical average hourly earnings lower than other manufacturing industries and reflect efforts to equalize wage levels.

Other, perhaps substantial, pressures on lumber prices that could be explored further include the CWPS statement in their summary that profits as a percent of gross sales in the lumber operations of the timber companies, will be higher in 1977 than any previous year this decade.

IMPORTS AND EXPORTS

Although at this point, the corrections made to the CWPS projections of soft-wood, sawtimber demand, and to a lesser extent the adjustments to the supply projections, would result in little if any shortfall in sawtimber supply in the next decade, much more attention needs to be given to the role of net imports than was given by the CWPS in their analysis.

In Table 1, the CWPS erred significantly in projecting the net imports at a stable level for the next ten to 15 years. As will be discussed in the following paragraphs, there is great potential for upward adjustments to this figure. Decreases in our substantial exports of timber and/or increases in our imports would be quite sufficient in meeting any forseeable timber or lumber shortfall in domestic supply. To merely use a "net import" figure obscures the substantial amounts that are involved in both imports and exports and the related substantial effect that these have on lumber supply and pricing. In addition, to only speak of a stable level of "net imports" gives a false impression of the importance the national forests would have in any potential timber shortfall situation.

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[21] *Ibid.*
[22] *Ibid.*
[23] Telephone interview with the freight rate section of the Burlington Northern Railroad in St. Paul, Minn.
[24] "The Demand and Price Situation" *op. cit.*

TABLE 7.—SOFTWOOD LUMBER IMPORTS AND EXPORTS (EXCLUDES LOGS)

[Billion board feet]

	Imports	Exports
1967	4.8	1.0
1968	5.8	1.0
1969	5.9	1.0
1970	5.8	1.2
1971	7.2	.9
1972	9.0	1.2
1973	9.0	1.8
1974	6.8	1.6
1975	5.7	1.4
1976	8.0	1.6
1977	10.4	1.4

Source: "The Demand and Price Situation for Forest Products," 1976–77, USDA, Forest Service, December 1977.

In the last 11 years, consistently, 99 percent of our softwood lumber imports came from Canada, predominantly British Columbia. Thirty-three percent of our lumber exports in recent years have gone to Japan, the other lesser but important recipients of our softwood lumber exports include: Canada, Europe, and Latin America. The important element of this table is that imports increased dramatically during the years of our two peaks in housing starts, 1972–73 and 1976–77, and fell dramatically during the interim years. No inverse trend is discernable for the export column. Obviously, the supply of lumber from Canada is very closely tied to changes in housing starts in the U.S. Imports of softwood lumber from Canada in 1977 will amount to almost 30 percent of domestic production of softwood lumber estimated at 34.6 bbf.

TABLE 8.—SOFTWOOD PLYWOOD IMPORTS AND EXPORTS

[Million square feet, ⅜-in basis]

	Imports	Exports
1967	3	85
1968	10	64
1969	15	199
1970	2	114
1971	3	99
1972	6	220
1973	9	462
1974	4	542
1975	7	791
1976	12	218

Source: "The Demand and Price Situation for Forest Products."

While imports of plywood are virtually non-existent, exports have been steadily increasing and the trend appears unaffected by changes in U.S. housing starts. However, exports in recent years have accounted for only about 5 percent of domestic production, which has varied significantly over the past ten years, generally following the level of housing starts with an annual average during this period of 15,500 million square feet.

Since 1970, domestic production of pulpwood has averaged about 73 million cords. Pulpwood consists of roughly ⅔ softwoods. Imports of pulpwood have averaged 1,032,000 cords but has been generally declining since 1970. Exports of pulpwoods have been increasing since 1970 and have averaged 2,349,000 cords. The export of pulpwood equivalents (paper and board) have remained relatively steady in recent years with an annual average since 1970 of 8,300,000 cords. Imports have also been steady with an average of 16,100,000 cords.[25]

A major additional factor that is often overlooked in discussion of imports and exports of lumber, is the substantial and increasing amount of softwood lumber exports in the form of logs. However, before consideration of the following table dealing with the trade in logs, a clarification is necessary. Logs measured in the "long log scale" are not equivalent to board feet measurements in the conventional lumber scale. An "overrun" is involved where the board feet of obtainable lumber

[25] "The Demand and Price Situation" *op. cit.*

from a given log will exceed the board foot measurement in the long log scale. The Forest Service estimates that there is usually between 25 percent and 30 percent more board feet in the lumber scale than the long log scale for any given log.[26] Other sources indicate that most of the particular types of wood exported to Japan have an "overrun" factor closer to 1.40.[27] Considering both of these estimates, 1.35 was used in Table 9 to adjust exported logs to equivalent lumber cale.

TABLE 9.—SOFTWOOD LOGS—EXPORTS AND IMPORTS

[Billion board feet]

	Exports		
	Long log scale	Equivalent lumber scale	Imports
1967	1.9	2.6	0.03
1968	2.5	3.4	.04
1969	2.3	3.1	.04
1970	2.7	3.6	.11
1971	2.2	3.0	.06
1972	3.0	4.1	.01
1973	3.1	4.2	.01
1974	2.5	3.4	.05
1975	2.6	3.5	.07
1976	3.2	4.3	.07
1977	NA		NA

Source: "The Demand and Price Situation."

Two factors stand out in the adjusted exports column, one is the increase in volume over time, but of perhaps greater significance is the peak in log exports coming at the same time as the peaks in demand for lumber in the U.S. This of course puts extra pressure on domestic lumber supplies and prices at the most inappropriate time. In 1976 the lumber volume of softwood logs exported was about 14 percent of the volume of the softwood lumber produced in the entire U.S. At 10,000 board feet of lumber per house, this amounts to a rough equivalent of 430,000 single family houses exported in 1976. If the amount of actual softwood lumber exported were combined with the log equivalent exported in 1976, it would have been equivalent to roughly 570,000 single family houses exported in that year alone.

In the last ten years 80 to 85 percent of these exports have gone to Japan and are used in Construction there.[28] The increasing flow of lumber to Japan may be important to our balance of payments accounts, but the lumber consuming public should be aware of the tremendous impact this has on prices and supply, and that the environmental movements efforts to preserve wilderness timber areas is not the prime factor in the complex lumber and housing supply equation.

If restrictions in the flow of timber to Japan were considered, we should realize that Japan has other sources for lumber for the immediate future and, potential sources of a greater magnitude than we would ever be able to provide.

TABLE 10.—1972 FOREIGN SUPPLY OF TIMBER FOR JAPAN

[Million cubic feet, roundwood equivalent]

	Logs	Lumber
United States	366	52
U.S.S.R.	280	6
Canada	10	56
South Seas Lauan	636	8
New Zealand	64	6
Other	122	15
Total	1,478	143

Source: "The Outlook for Timber."

[26] U.S.D.A. Forest Resources Economics Research Staff, Washington, D.C.
[27] "Utilization Estimates for Western Softwoods—Trees, Logs, and Residue", Gedney and Henley, PNW 158, July 1971, PNW Experiment Station, Portland, Oreg.
[28] "The Demand and Price Situation", *op. cit.*

The magnitude of supply from other sources is such that restrictions on exporting of logs, especially if established gradually, would not disrupt the Japanese supply to a great degree. They may elect in the next few years to take much more lumber from Canada which, as will be discussed, has a great unexploited export potential for lumber. An even greater long term potential source are the vast softwood forests of eastern Russia, estimated to contain 54 percent of the world's standing softwood inventory.[29] The Soviet Union has in the past expressed a desire to develop their Eastern Siberian timber resources and export markets. It is apparent from the above table that contrary to the situation for other sources more lumber was taken from Canada than logs. This is due to existing restrictions on the exportation of logs from British Columbia to protect jobs and the timber processing industry. The increase in log exports also has to have a substantial effect on the closing of sawmills, and the decline in jobs in our Pacific Coast timber industry. It could be noted here also that the lumber companies that the CWPS estimated in their publications as having the best profit margin in recent years, are the companies that are heavily involved in exporting logs. While exporting timber from their private lands, the timber industry has a significant role in a movement to cut increasing amounts of timber from the public domain "to provide affordable housing for the American public."

In recent years softwood sawlog cuts have exceeded net growth nationally. As such, the current levels of exports should not be permitted until we are at a sustained yield basis nationally. According to the Forest Service, there are ample opportunities for increasing growth. In 1970 the forest industry's 67 million acres of commercial timberland, which includes a very high proportion of high productivity classes, averaged only 52 cubic feet of timber harvest per acre, about 60 percent of the average attainable in fully stocked natural stands.[30]

One source of lumber imports in the past, Canada, has been quite responsive to the fluctuations in our lumber demand. This was recognized by the CWPS but again no details were given. Canada actually has a production pattern that matches quite closely the variations in our levels of housing starts and our demand for lumber. It's obvious that they have the processing capacity to meet even substantial short term increases in our demand.

TABLE 11.—*Softwood Lumber Production in Canada (bbf)*

1967	9.7	1973	15.0
1968	10.8	1974	13.0
1969	11.0	1975	10.9
1970	10.8	1976	14.8
1971	12.3	1977	16.0
1972	13.4		

Source: "The Demand and Price Situation for Forest Products". (1977 Estimated by Forest Service).

A comparison of the variations in Table 11 and Figure 1 will demonstrate the close relationship between our changes in housing demand and Canada's variations in production.

Canada desires to develop its timber resources and export markets to a much greater degree. Exports at present are much greater than Canadian domestic consumption. The Canadian softwood timber harvest in 1970 was less than half of the sustainable allowable cut for the year, which was 8.2 billion cubic feet.[31] If the CWPS's conversion factor of .124 were used to convert softwood logs from cubic feet to board feet this would work out to 66 bbf annually. Of course not all of this is sawtimber suitable for lumber, but the major portion would be, considering that domestic Canadian consumption currently accounts for less than half of domestic production (the population of Canada is about one tenth that of the U.S.), the Canadian export potential is extremely great and will remain so for several years, if not decades. The best projections of housing starts and lumber demand-supply relationships should demonstrate to the Canadians the long term importance of developing the processing capacity to meet this more gradual growth in demand. In addition, this would help alleviate any supply problems during short term cyclical variations.

When considering imports for the more immediate future the continued lower relationship of the Canadian dollar versus the U.S. dollar should help mitigate

[29] "Outlook for Timber" . . . *op. cit.*
[30] "The Demand and Price Situation" . . *op. cit.*
[31] "The Nations Renewable Resources—An Assessment", 1975, USDA, Forest Service, June 1977.

the pressure on lumber prices. Indeed, the relationship of the two currencies underscores the fact that there has been a continuous and growing trade surplus with Canada i.e., they have purchased more from the U.S. than we have purchased from them. In recent years this surplus has been about four billion dollars. This is a net figure and includes our payments for the importation of lumber.[32] The relationship of the currency and the continuing surplus is a strong indication of the propensity of the Canadians to rapidly return dollars to the U.S. economy through purchases in U.S. markets, a process supported by our purchases of lumber in the Canadian markets. Considering the very favorable trade and currency relationships with Canada, a relationship that has existed for several years, their huge supply, and their desire to export more lumber, their timber would be an excellent source of wood products to meet any rapid, or gradual, increases in demand in future years.

If the Russians and Japanese cooperated in developing timber processing in ecologically appropriate areas of eastern Russia, Japan could over the long term shift all or part of its timber demand to Russia. The proximity of the two countries would eventually result in savings in shipping costs; transportation being a very significant factor in the price of lumber. In recent years the U.S. has annually exported about 400 million cubic feet of softwood logs to Japan. At the same time they have taken about ⅔ that amount from Russia. A gradual shift to Russia as the major source of logs may, with appropriate preparation, cause few problems within Russia since they have the largest softwood sawtimber inventory in the world. In 1972 the inventory was estimated at about 2,345 billion cubic feet.[33] Both Russia and Canada have ratios of population to softwood inventory much less than in the U.S. Considering the ecological fragility of the National Forests along our Pacific Coast, timber harvest in either Canada or Russia is more likely to occur in areas that can better sustain harvesting. In recent years most of the timber harvested in British Columbia has come from the interior and not the coastal areas, which likely means from areas of less erosion potential.[34]

TABLE 12.—SIERRA CLUB ADJUSTMENTS TO CWPS PROJECTIONS

AVERAGE ANNUAL DEMAND AND SUPPLY PROJECTIONS, 1976–90

	1976–80	1981–85	1986–90
New housing demand (thousands of units)	2,000 to 2,100	2,313	2,271
CWPS estimates	(2,169)	(2,713)	(2,271)
Softwood sawtimber demand and supply (billions of board feet):			
Demand	52 to 53	54.6 to 58.6	56.8 to (?)
CWPS estimates	(55.2)	(61.2 to 65.2)	(56.8 to 64.4)
National Forest output [1]	10.5	11.0	11.0
CWPS estimates	(10.5)	(11.0)	(11.0)
Other output [2]	40.2	39.7	38.8 to (?)
CWPS estimates	(40.2)	(39.3)	(38.4)
Net imports [3]	1.3 to 2.3	3.9 to 7.9	7.0 to (?)
CWPS estimates	(4.0)	(4.3 to 4.6)	(4.0 to 4.5)
Total supply [4]	52 to 53	54.6 to 58.6	56.8 to (?)
CWPS estimates	(54.7)	(54.6 to 54.9)	(53.4 to 53.9)
Supply minus demand	0	0	0
CWPS estimates	(−.5)	(−6.6 to −10.3)	(−3.4 to −10.5)

[1] This assumes sales of National Forest softwood sawtimber at current rates.
[2] Based on Forest Service projections for a relative price which is held at current levels.
[3] Based upon the material discussed in this paper, net imports are assumed to fluctuate in response to sawtimber demand.
[4] In the period 1986-90 technological changes in log processing and lumber use could significantly increase levels of supply.

LONG TERM PROJECTIONS

Projections of timber supply and demand in the period 1985–90 are difficult to discuss. Predictions that far ahead are very difficult even if housing starts settle at the level projected by the CWPS. Changes in such things as the composition

[32] Survey of Current Business, U.S. Bureau of Economic Analysis.
[33] "Nations Renewable Resources." . . *op. cit.*
[34] "Report of the Forest Service". Department of Lands, Forests, and Water Resources, Province of British Columbia.

of housing by type and per unit uses of lumber could significantly effect demand for timber. The huge nonhousing demand for timber could change due to technical developments and conservation efforts. In any event, what shortfall that would occur in the long run could obviously be made up through changes in net imports.

There is great potential for increasing the usable lumber from existing levels of timber harvest. The Forest Service estimates that perhaps one third of all timber harvested in the United States is still being wasted.[35] They are involved in a number of research efforts and programs to utilize logs more efficiently. These include such things as development of a computer programmed method of determining the best position for the initial cut of a log to maximize the amount of full-sized lumber. They suggest that up to 15–20 percent more lumber can be obtained from smaller logs, and somewhat less from the larger logs. Another project involves making high quality 2x4's by bonding particles from waste wood to a solid wood backing. The potential here is to double the usable wood from each log processed. Improved drying operations can save millions of dollars annually in grade and footage losses. Development and utilization of thinner saw blades can also make a significant contribution to reducing waste.

Obviously, a number of factors involving timber use, technical changes in lumber use and production, as well as changes in sources of supply make timber supply projections 10 to 15 years in the future tenuous at best.

THE EFFECT OF LUMBER PRICES ON HOUSING COSTS

The CWPS analysis includes a statement that "an increase in the output of the national forests would have some effect on the average price of timber products." However, they did not follow through completely to estimate the effect on a typical home buyer.

Based upon elasticity factors from the Forest Service and the "Report of the President's Timber Advisory Panel," (April 1973) they suggest that a 10 percent increase in timber harvest from public lands (over 80 percent of which are National Forests) would effectively result in only about a four percent decrease in the wholesale price of timber products in the long run. A further important consideration (according to the CWPS) is that an increase of about 10 percent in National Forest Harvest, would decrease the harvest on private land by about 1.8 percent and decrease net imports by about .4 percent.

Lumber and wood products account for 14 percent of the total structure cost (including land) of the average single-family home, (all materials account for about 30 percent).[36] Hence, the lumber cost in a \$60,000 house would be roughly \$8,500 (60,000×.14). A 10 percent increase in National Forest cut then would have the rough potential of reducing cost of the \$60,000 house by about \$340 (8,500×.04=340). This reduction is about .5 percent of the structure cost. However, if total housing costs including debt service were considered, it would at least double the effective housing cost for the great majority of home buyers, and the lumber price savings of \$340 would amount to only about .25 percent of total cost, probably less. This is an insignificant amount, especially when considered over the life of the house. Only about 70 percent of new housing units are single-family, and multi-unit construction usually consumes much less than half the lumber and wood on a per unit basis compared to single-family units. Hence, for about 30 percent of future new housing units, the figures of \$340 and .25 percent would likely be cut to at least half on a per unit basis.

Two forest economists, utilizing more recently developed elasticity factors relating the price of lumber to National Forest timber harvests, have arrived at equally pessimistic estimates of what effect increases in National Forest timber harvests would have on lumber prices. In work done in 1977 they estimated that if current harvest levels were doubled in National Forests it would reduce the expected trend in price increases by only \$50 per thousand board feet by 1980.[37] In early April of 1978 standard 2×4's sold at western mills at about \$228 per thousand board feet.[38]

A recent newspaper article quotes Mr. Thomas M. Lenard, economist in charge of the CWPS report, as saying that an average American home would be \$3,563 cheaper today if lumber prices had not risen since 1974.[39] The average value used

[35] "Stretching the Nations Timber", USDA, Forest Service, Oct. 1975.
[36] According to National Association of Homebuilders. The 14 percent figure is also cited in the CWPS publication.
[37] "Public Forest Policy-Wood Prices and the Consumer," Roger Fight and Douglas Youngday, "Journal of Forestry", Nov. 1977 (elasticity factors in article taken from an econometric analysis by Darius Adams, Forest Research Laboratory, Oregon State University).
[38] Wall Street Journal, Apr. 7, 1978.
[39] "Multipulps," Washington Post, Apr. 2, 1978.

was not given in the article. However, according to the Commerce Department, the average value of a new single-family house in the U.S. in the 3rd quarter of 1977 was $54,000.[40] Assuming that the value of lumber and wood in that new house in 14 percent of the value, a percentage cited in the CWPS publication, the value of wood used in that new house would be about $7,560. According to data on changes in the wholesale price index for softwood lumber found on page 9 in the CWPS report, this price increase, 1974—1977, was about 27 percent. Hence, the value of the wood used in that new house in 1974 would have been about $6,000. This means the value of the wood for an average house went up about $1,600. The difference between $1,500 and Mr. Lenard's $3,563 would largely be attributable to financing costs and not directly to lumber. The costs of obtaining financing, and the availability of credit are much more significant than the costs of lumber as factors in determining whether or not housing construction takes place.

A further relevant point is that the GNP nonfarm price deflator went up during this period of a magnitude roughly half the rise in lumber prices. Hence, the rise in price during this period of lumber used in the construction of an average single-family house, went up only about $800 in excess of the general rise in prices for the economy as a whole. Although lumber is rising at a faster rate than other materials, total material costs have been rising at a rate of about 7–8 percent annually, and labor costs have been rising at about this rate also.[41] These two items are largely responsible for total direct construction costs of housing. According to the National Association of Homebuilders, these costs account for less of the total cost of housing in 1977 than in 1967, 47 percent now versus 55 percent in 1967. Instead, the Association believes that land and development costs, and the costs of financing were the areas that had the greatest impact on the increase in housing costs in the last ten years. Other studies and sources indicate that in some parts of the country profits of builders and developers is the most significant single factor in the increase in housing costs over the last decade.[42]

If the President's Council on Wage and Price Stability were really intent on doing something about housing inflation, their attention should be directed toward the areas of speculation in land, development costs, financing costs, and the profit levels in the building industry. If the President's Council fears coming up against entrenched building industry interests, and the forest industry lobby, it should consider the fact that the public retains strong views about forest and wilderness area preservation. In a recent nationwide survey done for the American Forest Institute (a timber industry public relations group), the Opinion Research Corporation found that 62 percent of the people surveyed said they would rather have the Forest Service preserve trees than increase timber yield and sales. A larger proportion in the West favored preservation than in the East. Only 7 percent feel that there is too much wilderness, 33 percent say there is too little, and 42 percent are satisfied with present levels. These preservationist-favorable results were obtained with questions generally biased toward the timber industry.

Opinion Research Corporation concluded: "we do not find sufficient latent support among the American people to warrant a mass communications program to increase public support for greater harvesting on Federal lands." Their suggestion instead was to skip the American public, and apply persuasion directly to "Washington thought leaders," i.e., the elected representatives.[43]

[From the Wall Street Journal, July 10, 1978]

BOON OR BOTTLENECK?

Home Builders Assert Governmental Rules Raise Prices Needlessly—Local, State, Federal Delays and Other Woes Listed; But How About Benefits?

(By James Carberry)

Five years ago the median price of a new single-family house was $32,800. Today it is $53,500.

The main reason is the rising cost of labor, land and materials. Builders and buyers can't do much about that but shrug. But among other reasons, builders say, is the high cost of regulation. Builders aren't shrugging about that; they're hollering.

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[40] U.S. Commerce Department Bureau of the Census, "Construction Reports Series C–27".
[41] "Engineering News Record, December 1977.
[42] Taken from the housing paper presented to the Sierra Club by Susan Mulloy.
[43] "Public Participation in Outdoor Activities and Attitudes Toward Wilderness—1977," Research Recap, No. 10, Dec. 1977, American Forest Institute, 1916 Massachusetts Ave., N.W., Washington, D.C.

The builders assert that badly written, poorly administered or just plain unnecessary laws and regulations—at all levels of government—cause delays and other problems that increase their costs and thereby add to the cost of housing.

According to a recently published nationwide study by Rutgers University, the price of a house increases 1 percent to 2 percent for each additional month needed to complete a project. Thus, a $50,000 house delayed six months becomes a $53,000 to $56,000 house.

As usual, there are two sides to this. Builders' critics say the builders tend to ignore the benefits of regulation while complaining about the cost. Tough regulation, the critics say, assures that buildings are properly constructed, promotes orderly economic growth and protects the environment. In the absence of stringent regulation, they say, builders are prone to scatter housing projects all over the landscape.

Time lag grows

Still, talks with builders and community officials indicate that the housing industry has some valid complaints. The Rutgers study says that largely because of regulatory delays, the average time from initial application to completion of construction increased from five months in 1970 to 13 months in 1975. At present, builders say, the average time lag is two to three years.

The builders' complaints are falling on attentive ears, thanks largely to the steep increase in the price of single-family houses. A Department of Housing and Urban Development task force, composed of HUD officials, builders, consumers and others, has recommended that HUD take the initiative in helping "to eliminate cost-inducing standards and regulations" in housing. Similar studies are being carried out by several congressional committees and by private researchers in Texas and in other states.

One way of cutting costs, builders say, would be to overhaul building, plumbing and electrical codes. Many cities and states, the builders complain, base their codes on the standards of national model-code organizations dominated by building-products manufacturers and building-trade unions. A spokesman for the Council of American Building Officials replies that city and state building officials are also represented on the model-code groups and that the groups have been working to cut costs in the administration of the codes.

Plastic versus cast iron

Builders say the codes prohibit the use of newer, cheaper building materials that are just as good as those already being used. Plastic pipe, for instance, while gradually being permitted under local building codes, is barred by about 30% of the communities surveyed in the Rutgers study. The study says that the plumbers' union and manufacturers of cast-iron pipe have resisted plastic pipe, which is not only cheaper but also easier to install; the homeowner can install it himself.

William Cavanaugh, managing director of the American Society of Testing and Materials, a Philadelphia-based organization that helps to set standards for the testing of building materials, says, "In my view, there's no question that some people who didn't want to see plastic pipe introduced worked through our structure to prevent this innovation." He adds, however, that the slowness in adopting plastic pipe also reflects necessary caution in approving any new material for use.

Many of the codes, the builders say, are unnecessarily cautious. One example: The Florida Homebuilders Association says that the number of ground fault interrupters required in a house to prevent electric shock could safely be reduced, at a saving of $60 to $135 a house. A spokesman for the National Fire Protection Association comments that home builders were represented on the NFPA committee that drafted the requirements for the devices.

A lot of steps

Another way of paring costs, builders say, would be to cut down the number of steps required for regulatory approval. A Rutgers survey of 21 south New Jersey communities finds an average of 85 steps in the process.

Fred E. Case, professor of real estate at the University of California at Los Angeles, believes there are ways to help builders surmount their problems with the bureaucracy without diluting the benefits of environmental and other regulation. One way, he says, is to set up a "one step" system whereby a developer deals with a single government agency in obtaining all the permits for a project. He adds that the agency should appoint a single official to be clearly accountable for its actions. As things now stand, he says, public officials tend to pass the buck.

Builders suggest, in fact, that government disorganization is as much to blame for delays as is the sheer number of regulations. "In a lot of places, land-use planning is done on an ad hoc basis," says Michael Towbes, a builder in Santa Barbara, Calif. "They wait for a developer to walk in with a proposal." Emmett Clifford a California builder, agrees. Communities, he says, should make the "tough political decisions" about land use in adopting their general plans rather than wait until developers come in with their proposals.

Also in agreement is Robert Levenstein, president of Kaufman & Broad, one of the biggest U.S. home builders. Mr. Levenstein further urges communities to stick to their decisions once made. All too often, he says, they change their minds after a builder has begun to develop a property.

In many communities, development standards for subdivisions aren't clearly defined. "The standards are in the heads of local officials" who use their power to make excessive and costly demands, asserts George Sternlieb, director of Rutgers' Center for Urban Policy Research. Mr. Sternlieb says, for example, that developers are sometimes required to provide and pay for recreational and other public facilities in new subdivisions. But the cost of these facilities, he contends, should be shared by the city treasury because they are open to the entire community.

Another example, from a federal housing official: Some developers are required to put in streets "that meet the specifications of the interstate highway system"—although the streets will never carry the heavy traffic load for which they were designed.

Builders also criticize the so-called growth-management plans of some communities. Such plans, devised to control population growth, tie the rate of housing production to the availability of public services. Instead of letting developer build wherever they want to and providing public services virtually on demand, these communities permit development only where and when they are willing to provide the services. "Good growth-management planning ultimately saves a developer time and money because he knows exactly where and under what circumstances he can build," says Robert H. Freilich, a University of Missouri law-school professor.

Another criterion

Mr. Freilich, who helped write growth-management plans for Ramapo, N.Y., and San Diego, says the community also benefits from more orderly growth, but builders say a growth-management plan should be judged by whether the public's need for adequate, affordable housing is satisfied. By this standard, they say, many growth-management plans fail.

One of these critical builders is Robert E. Brennan of Chevy Chase, Md. According to Mr. Brennan, about 2,500 houses are built annually in Maryland's Montgomery County, near Washington, D.C., but "demand could easily support 6,000 or more housing starts a year." He blames the county's growth-management policies for a housing shortage and resulting high housing prices that make it difficult for people of modest means to live in the county.

Eugene Sieminski, Montgomery County's director of housing, says the county has overemphasized environmental and other considerations, and he agrees "we are woefully short of meeting the housing needs of the county." Mr. Sieminski, a former building-industry executive, adds, however, that even if the regulatory climate were more conducive to home building, builders probably would concentrate on higher-priced housing because of bigger profit margins, and a shortage of housing for low- to middle-income families would persist.

Across the country, San Francisco economist Claude Gruen examined the records of two San Jose, Calif., builders and found that the price of housing produced by one builder rose 80 percent from 1967 while the other's prices jumped 121 percent during the same period. Mr. Gruen, who did the study for the Urban Land Institute, a research organization, attributes 20 to 30 percentage points of each builders' price increases to San Jose's growth-management policies. "San Jose is doing to housing prices what OPEC is doing to oil prices," he says.

Gary Schoennauer, San Jose's planning chief, notes that the city's voters have consistently turned down bond issues to finance new parks, libraries, street improvements and other services. Consequently, he says, the city simply lacks the resources to provide services in every area where builders might want to go.

(If San Jose has injured housing construction in the city, last month it added an insult. Reacting to Californinians' approval of Proposition 13 limiting property taxes, the city passed a tax on new construction. The rate for residential construction is 2¾ percent of valuation.)

Builders also blame the federal and state governments. Their slowness in disbursing funds for, say, sewage treatment plants has contributed to shortages of facilities, builders say, and builders have therefore been forced to trim back or even abandon some housing projects.

One builder, Nathan Shapell, chairman of Shapell Industries, believes that more housing would get built where it is needed if regulatory agencies were more flexible. In particular, he advocates less stringent zoning laws.

Breckenridge, Colo., a former mining town that is booming as a ski resort, abolished its zoning laws entirely and substituted a one-step "conditional-use permit system" that guarantees a decision within 40 days. It requires a developer to meet certain "absolute" policies, such as health regulations, and adds or subtracts points depending on the degree of compliance with "relative" policies—e.g., a policy encouraging Victorian-style architecture in certain neighborhoods of Breckenridge. If a builder attains a certain number of points, he gets the permit.

One man's experience

The multimillion-dollar Lake Merced Hill condominium housing project in San Francisco provides a good illustration of some of the things builders have to put up with. The project was begun in early 1973 and was scheduled for completion by the end of that year. But the site, near the ocean, was challenged by environmentalists in hearings before a commission that regulates California's coastline development. The challenge was settled when developer Gerson Bakar paid nearly $100,000 into an environmental fund. He could then proceed with the condominiums.

Because of the hearings, the project wasn't completed until June 1974, six months late. Because the delay came at a time of rising interest rates, the developer says, his cost per condominium increased to $70,000 from $60,000, but a softening real estate market prevented him from passing on his full cost increase to home buyers. Consequently, he says, he lost money on the project.

Mr. Bakar blames his woes squarely on the state law that led to the hearings. The law, he says, failed to spell out clearly the coastline commission's jurisdiction and administrative procedure. "That law was an annuity for lawyers until the courts decided what it meant," he says, adding that the law has since been revised and now is "livable."

U.S. Department of Housing and Urban Development
Washington, D.C.

MAY 1978

Final Report of the Task Force on Housing Costs

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410

NEW COMMUNITY DEVELOPMENT CORPORATION
OFFICE OF GENERAL MANAGER

May 25, 1978

Honorable Patricia Roberts Harris
Secretary of Housing and Urban
Development
Washington, D.C. 20410

Dear Madam Secretary:

I am pleased to transmit to you today the Final Report of the Task Force on Housing Costs.

When you created this Task Force late last summer, you requested that we deliver a comprehensive and realistic program of actions for the Federal Government, HUD and others to implement now to help reduce or stabilize housing costs to the consumer. We believe that we have succeeded. We have finished our deliberations within the nine-month period established by our Charter. This Report contains highly significant findings of fact, and major recommendations which deserve Administration as well as Departmental review.

The Task Force on Housing Costs and its predecessor group have conducted more than 20 meetings in a public process which has enabled the members to generate and review more than 400 specific ideas for cost-reducing actions. Through committees and in general sessions, we have developed a coherent and real perspective which underlies the recommendations contained in this Report. We believe all of these recommendations have merit, and are convinced that they comprise a relevant and feasible method for helping to lower the housing cost burden for most Americans.

I wish to pay special tribute to the members of this Task Force and to the Task Force Staff for their dedication and hard work. This Task Force has performed its task in a distinguished manner.

I also want to thank you and Under Secretary Janis for your continued support and encouragement during this process.

Sincerely,

William J. White
Chairman, Task Force
on Housing Costs

Final Report of the Task Force on Housing Costs

"The Department of Housing and Urban Development and any other departments or agencies of the Federal Government having powers, functions, or duties with respect to housing, shall exercise their powers, functions or duties under this or any other law in such manner as will encourage and assist (1) the production of housing of sound standards of design, construction, livability, and size for adequate family life; (2) the reduction of the costs of housing without sacrifice of such sound standards; (3) the use of new designs, materials, techniques, and methods in residential construction, the use of standardized dimensions and methods of assembly of home-building materials and equipment, and the increase of efficiency in residential construction and maintenance; (4) the development of well-planned, integrated, residential neighborhoods and the development and redevelopment of communities; and (5) the stabilization of the housing industry at a high annual volume of residential construction."

[Excerpt from Declaration of National Housing Policy in Section 2 of the Housing Act of 1949, as amended, Public Law 171, 81st Congress; 63 Stat. 413; 42 U.S.C. 1441]

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Chapter one

Introduction

The high cost of housing is now a major problem for millions of American families. Costs of acquiring or occupying decent housing have increased dramatically in recent years. While it is true that many owners of existing homes have benefited from inflation and have moved on to improved housing without major financial strain, others have not been so fortunate. They include the young couple of limited means buying its first home, the lower-income family, the elderly on fixed incomes, and many Americans with special housing needs. For these households the high cost of shelter is not merely serious, it is too often an insurmountable crisis.

The housing cost problem is nationwide. It is not limited to a few cities or regions. When so many families cannot afford to fulfill so basic a human need as shelter, it is clear that the country has failed them. All Americans are entitled to enjoy housing that is decent, sanitary, and safe--and affordable--as a matter of right. Bluntly, the Nation is morally obliged to take concerted action to reduce housing costs for all of its citizens. This national imperative for action requires dynamic and cooperative leadership from all elements of government, the business community, and the general public.

The moral imperative falls most clearly and sharply on the Department of Housing and Urban Development (HUD) Congress has delineated the Department's authority to assert a leadership role in addressing housing cost problems. Secretary Patricia Roberts Harris has assumed such authority and leadership. The HUD Secretary must continue to serve as a forceful and effective advocate at the Cabinet level for national policies to reduce and stabilize housing costs.

This leadership starts with HUD but it does not end there. Other government agencies--Federal, state, and local--all have resources and strengths which are unique and critically important to a resolution of the problem. Only through people working together in a sustained effort involving all levels of government, the private sector, and the public at large can the critical problem of rising housing costs be overcome.

The members of the Task Force on Housing Costs represent a broad cross-section of the Nation's leadership, with members appointed to represent the private housing sector, consumer interests, academic institutions, and all levels of government. Our consensus, as evidenced by the conclusions in this report, is that a serious crisis is upon us and that it can be resolved through concerted nationwide action.

2 The Scope of the Housing Cost Crisis

During the past 25 years housing costs have been of continual concern to the American people. They have been the focus of many Congressional actions and the subject of Presidential commissions. In very recent years, the cost of building, buying, and operating a decent home has increased faster than family income. This is true for new, existing and rehabilitated housing, and for renters and owners alike. The rising cost of shelter is a nationwide problem which affects all of us. It is exacting a heavy toll which must be measured not just in statistics but in human costs.

Housing costs to the consumer have been increasing faster than prices generally (as measured by the Consumer Price Index) during both the 1960s and the 1970s. During the 1960s this was not a serious problem for most families, because their income kept pace with housing prices, the overall costs of homeownership (which include loan amortization and operating costs) and rents. The accompanying table shows that median family income increased at an average annual rate of 6.60 percent between 1963 and 1972, while the price index of the median new single-family house of constant size and quality rose at an average rate of only 4.23 percent per year The index of homeownership costs increased at 5.17 percent per year Rents rose at only 2.55 percent during the same period.

During the 1970s, however, the picture changed dramatically. Between 1972 and 1976, family income lagged well behind housing inflation and did not even keep up with the Consumer Price Index. Income rose annually at an average annual rate of 7.05 percent, compared to a rate of 9.94 percent for the price of new single-family homes of constant quality and 12.49 percent for the median price of homes unadjusted for quality. During the same period, the costs of homeownership rose at an average annual rate of 8.15 percent. Trends in resale prices of existing homes followed a similar pattern.

While rents have not increased as fast as incomes, nonetheless they have risen twice as fast since 1972 as in the preceding decade. The human dimension of increasing rents appears especially urgent to the millions of poor people who pay what for them are excessive rents. According to recent testimony by the Ad Hoc Low-Income Housing Coalition before the Senate Budget Committee, 25 percent of all renter households--concentrated at the bottom of the income scale--paid more than 35 percent of their incomes for rent in 1975, when payment of 25 percent of income is the accepted norm. As all housing costs rise, existing Federal subsidies do not stretch as far to help

TRENDS IN INCOME, PRICES AND HOUSING COSTS, 1963 - 1976

(Data indexed to 1967 base year, where appropriate) 3

Item	Year				Average Annual Rate of Increase	
	1963	1967	1972	1976	1963-1972	1972-1976
Median Family Income	78.8	100.0	140.0	184.0	6.60%	7.05%
Consumer Price Index	91.7	100.0	125.3	170.5	3.53%	8.00%
Median Sales Price, New One-Family Homes (1)	79.3	100.0	121.6	194.7	4.86%	12.49%
Price Index, New One-Family Homes of Constant Quality (1)	90.2	100.0	131.0	191.4	4.23%	9.94%
Median Sales Price, Existing One-Family Homes (1)	NA	100.0	138.4	197.5	NA	9.30%
Cost of Homeownership (CPI series)	89.0	100.0	140.1	191.7	5.17%	8.15%
Rent (CPI series)	95.0	100.0	119.2	144.2	2.55%	4.97%
Boeckh Residential Construction Cost Index	85.1	100.0	145.8	198.6	6.16%	8.03%
Site Value, New One-Family Homes (1)	NA	NA	$5500	$8900	NA	12.79%
Effective Mortgage Interest Rate, New Homes (FHLBB)	5.89%	6.46%	7.60%	9.00%	2.87%	4.32%
Operating Expenses, Median Priced New Home (2)	74.7	100.0	140.0	218.7	7.23%	11.80%

(1) Data from the Bureau of the Census

(2) Operating expenses are based on actual experience under the HUD/FHA Section 203(b) program and include insurance, property taxes, maintenance and repairs, and fuel and utilities.

these citizens most in need. In many areas both new and rehabilitated rental housing are becoming commercially infeasible without subsidies.

The underlying costs of producing, financing, and operating housing have all risen more rapidly in recent years than in the 1960s. As the accompanying table shows, residential construction costs grew at a rate of 8 percent per year between 1972 and 1976, compared to slightly more than 6 percent between 1963 and 1972. The cost of improved lots increased at almost 13 percent per year during the most recent period. Higher mortgage interest rates, when applied to higher sales prices, have increased the typical monthly loan amortization costs for the buyer of a median priced single-family home by 80 percent between 1972 and 1976, or an average annual increase of 15.9 percent. Operating expenses increased almost 12 percent during the same period.

The statistics cited above are nationwide figures and the housing cost experience will vary, sometimes sharply, depending on the particular market area studied. Housing markets are local rather than national Nevertheless, there is growing evidence that rising housing costs are a problem in the vast majority of markets in the United States and pose an urgent situation in those high growth regions where more Americans increasingly are choosing to live. In some areas, developed lots are not available at any price, while in others, site availability is not as crucial an issue as access to financing or to skilled labor and needed materials.

There is abundant evidence that the housing cost problem has accelerated in recent years. Some observers have concluded that this means that rising housing costs are but a short-term problem. We have determined otherwise. Certain structural problems, most notably the cyclical nature of the housing industry, have contributed to rising housing costs in both the long and the short term. Since the early 1970s, however, the problem of rising housing costs has been greatly exacerbated by two other factors--growing environmental and land-use regulation and the fiscal difficulties of many American communities. Communities have slowed their growth and new housing development has been restricted. These new factors that have quickened the pace of rising housing costs portend a long-term problem for the future unless major steps are taken.

Scope of Inquiry

The Task Force's mandate has been to analyze and understand the extent to which costs truly have risen for reasons other than general inflation and to develop specific solutions to the problems which HUD and other institutions can act upon. Such other institutions include other Federal agencies, state and local governments, and the broad range of private firms involved in the housing industry.

Our purview has included housing production, renovation, and upancy costs for single-family and multifamily housing, tal units as well as homes for sale. We have considered lter needs in urban, suburban, and rural areas. Although e emphasis in this report is on specific measures to duce or at least to stabilize new housing costs, we also ggest ways to make rehabilitation more affordable. In dition, we include recommendations to reduce operating costs.

We recognize that, in some measure, rising housing costs are a result of demand and supply factors endemic to the national economy. A major portion of the housing cost problem, however, is caused by people and can be solved by people. The recommendations in this report represent a practical and aggressive program for addressing these problems. Most recommendations can be implemented quickly and none requires large budget increases.

There is no single recommendation that alone will solve the problem of rising housing costs even though many will have substantial cost-reducing effects. We believe that the Department should respond positively to all recommendations. When implemented, they will have a very significant, cumulative impact upon housing costs.

There are several major issues which the Task Force has not addressed. The most obvious of these is housing subsidies or income transfers. In large part this is because there are others charged with addressing subsidy issues more directly. Nevertheless, we affirm that subsidy mechanisms are legitimate and should be regarded as complementary to the recommendations contained in this report. The lowering of housing costs overall can help to facilitate the provi- ion of subsidized housing and enable available subsidies to be spread to a greater pool of needy consumers. We strongly support the unique role played by major providers of low-income housing such as public housing agencies, nonprofit sponsors, and entrepreneurs. For many low-income families, subsidies may be the only way decent housing could be affordable under current conditions. But recommendations to deal

6 with the special problems affecting these important sources of housing for the very poor were beyond the mandate of this Task Force.

Similarly, we recognize that the lack of equal opportunity continues to prevent many members of minority groups from living where they choose or in some cases acquiring shelter they can afford. Although we have addressed red-lining by lenders, we have not directly dealt with other issues of equal opportunity. Nevertheless, we strongly believe that vigorous enforcement of fair housing statutes can have a significant impact on reducing housing costs for many members of minority groups by increasing their housing choices.

Finally, we recognize that speculation in both buildings and land may contribute to rising housing costs in many locations. This report does not contain specific recommendations which directly address speculation. In large part this is because speculative activity is viewed by many as a normal marketplace phenomenon, and we do not feel confident in recommending specific measures for nationwide adoption at this time.

In analyzing the housing cost question, the Task Force is acutely aware that many recommendations in this report have their potential debit sides. It would be useful to have the results of cost-benefit analyses. But such data are not currently available. For example, in order to reduce operating costs, it may be necessary to increase initial capital costs. Alternatively, efforts to remove some of the burdens of paying for community services from developers and hence the consumer mean that they will be borne by the community as a whole. Although an awareness of the need for these trade-offs is essential, we believe that the benefits of moving ahead to solve the housing cost problem far outweigh the costs.

Nationwide Policy Problems

In analyzing the housing cost problem, the Task Force has identified several major problems which have nationwide cost impacts and which require national leadership if they are to be solved. The following listing does not imply a ranking of problems. All of the issues are critical and must be addressed if housing costs are to be reduced.

(1) Housing Industry Cycles and National Monetary Policy. The cyclical nature of the housing industry, which is

exacerbated by countercyclical national monetary policy, increases housing costs to the consumer. There is persuasive new evidence, however, that a more stable housing industry would better serve national economic goals. The impact of countercyclical national monetary policy and housing industry cycles pervades every aspect of housing construction and rehabilitation--the inhibition of long-term capital investment, the interest paid on financing, the cost of land, and the cost of equity and working capital--as well as most occupancy costs. It affects stability, availability, and cost of funds in the money market.

(2) National Tax Policy. The Internal Revenue Code has a major impact upon the housing sector and the cost of housing to the consumer. Tax policy affects the flow of equity and working capital; the flow of financing in terms of stability, availability and cost; and the need of investors in volume housing production or renovation for predictable tax treatment of their investments. The threat of proposed changes in the Code has created an unstable investment environment for housing development and renovation. The process of tax policy formulation, particularly with respect to tax treatment, incentives and subsidies for the housing sector, rarely includes HUD at the highest levels of decisionmaking. These issues should be studied and housing concerns must be given adequate consideration.

(3) Increased Government Regulation. Regulation by all levels of government is a major factor in increasing housing costs through both substantive requirements and processing delays. The proliferation of government regulations, many of which are unduly burdensome, affects all areas studied by the Task Force. Increased and excessive standards are a factor in escalating the costs of financing, land development, housing construction and rehabilitation, and the provision of supporting amenities, as well as occupancy costs. Many localities impose burdensome fees and impact taxes on newly developed lots, in an effort to shift the cost of facilities from the community to the new homebuyer. Time-consuming and expensive review procedures and lengthy processing exact a heavy cost in terms of overhead, inflation, reduction in the return on investment, and fees and charges from construction or rehabilitation delays.

(4) Unstable Money Supply. Instability in the money markets affects the flow of financing and causes increased financing

8 costs. A more stable money market is essential. In addition to revised national monetary and tax policies, other measures to stabilize the money market should be implemented.

(5) Constrained Land Supply. A dearth of developable sites is a major factor in increasing housing costs. The problem is not so much a shortage of raw land but a shortage of serviced sites. Inadequate facilities, particularly for water and sewer, seriously restrict land supply. Land-use, environmental, no-growth and exclusionary zoning regulations have also constrained land supply severely, particularly for low- and moderate-income housing. These are regional problems and appear to be most severe now in high growth areas. But because of local slow growth measures and difficulties in funding infrastructure costs, constrained land supply will become a nationwide problem unless these problems and concerns are addressed now.

(6) Resistance to Innovation. In every area studied by the Task Force--building, land, and financing--resistance to new ways of doing business may impede the use of new techniques to reduce or stabilize housing costs. Innovations in regulatory processes, materials, financing procedures, and technology all offer great potential But the nation lacks adequate mechanisms to test, demonstrate, and market feasible new ideas. The housing consumer suffers higher costs as a result.

(7) Special Housing Needs. Many Americans, such as large families, the handicapped, migrant workers, and rural nonfarm households will not have access to marketable housing designed and financed to meet their needs unless specific actions beyond those recommended for general housing cost reduction are initiated. A major portion of the population will be denied access to decent housing at reasonable cost unless special remedial steps are taken.

(8) Utility Charges, Taxes, and Hazard Insurance. Occupancy and operating costs in general have risen even faster than the production cost of new housing in recent years. Particularly burdensome are escalating utility charges, local property taxes, and hazard insurance. With the energy crisis and rising costs confronting utility companies, the fiscal incapacity of many local communities, and growing risks to property, these elements of operating costs appear especially intractable and are cause for major concern.

(9) Inadequate Basic Research. The Nation is losing many opportunities for housing cost reduction because of a lack of support for basic research. Scientific data are not available for many issues of hardware and materials, fire and life safety, and standards for land development and building. 9

Major Solutions

The Task Force urges immediate action upon the following recommended solutions to the national policy problems described in the previous section:

(1) An immediate and comprehensive review of national monetary policy and the economy, researching the impact of countercyclical policy both upon the housing sector and costs to the housing consumer, and upon the entire national economy, so as to resolve a needless conflict between the needs of the economy generally and the needs of the housing sector specifically. New econometric research suggests that this is feasible and desirable. The Secretary should be a forceful and effective advocate at the Cabinet level for HUD to play a major role within the Administration with respect to setting national monetary policies that include stabilizing the housing sector among national economic goals.

(2) An immediate and comprehensive review of national tax policy with special emphasis on ensuring stability and predictability of funds for housing under the Internal Revenue Code. Again, HUD through the Secretary should be a forceful and effective advocate at the highest levels of government in setting national tax policy that takes into account the needs of the housing sector. The use of tax incentives and indirect subsidies for the housing sector should be examined.

(3) A blunt attack on poorly conceived and cost-inducing regulation to eliminate unnecessary standards and cut down on time-consuming processing. Regulations that deal with financing, land development, housing construction and rehabilitation, and the provision of supporting amenities should be streamlined. There should be a concerted effort at all levels of government, with HUD playing a leadership role, to make the regulatory framework efficient, fair and rational. This includes timely publication of regulations and better coordination at all levels.

(4) An increase in the flow and stability of funds for housing and a reduction in the cost of such funds through various

10 other measures such as increased secondary market support and an expansion of sources of funds for housing finance infrastructure purposes.

(5) Intergovernmental advice, assistance, and encouragement for local governments to help them provide an adequate supply of land for housing development, supported by the potential partial or total withholding of Federal urban development funds from communities that do not voluntarily make a reasonable effort to remove regulations with an unjustified, cost-increasing, or exclusionary impact.

(6) Mechanisms for creating new techniques, and for the testing, demonstration, and, where viable, the adoption and encouragement of promising new methods--whether they be in building technology, land development, or financing. A capability and mechanism at HUD for fostering new building technology and codes policies, and for appropriate testing and demonstration should be established and adequately funded through the creation of a major Office of New Technology and Codes Policy.

(7) A concerted effort to develop mechanisms to meet the housing needs of those Americans for whom housing costs are an especially intractable problem, including modified design and financing techniques to support the development or renovation of marketable housing for them.

(8) A broad attack on the high cost of utilities, local taxes, and hazard insurance, three major factors in operating costs, through analysis of the potential benefits of energy conservation, study of the cost impact of local property taxation and hazard insurance fees, and exploration of innovative utility, property tax, and insurance practices.

(9) A major research agenda to provide the necessary scientific data on aspects of housing construction and rehabilitation, such as materials and hardware, fire and life safety, the many standards now in use but unsupported by basic research analyses, and other critical land, building, and financing issues.

The Need for Action

The housing cost problem is really two problems. The first is the obvious problem confronting millions of Americans who cannot now afford reasonable shelter. The second problem is much more basic. It is a crisis of leadership.

The housing cost problem is everybody's problem and every-one must be part of the solution. Nothing less than a joining together by the Nation's leaders at all levels--government, industry and the general public--in a concerted attack on housing costs will solve the problem. 11

Government alone cannot solve the problem. Nor can the private sector working by itself. Very simply we must all work together The catalyst for involving the Nation's leaders should come from the Federal Government and in particular HUD.

The Federal Government cannot expect state and local governments to improve their methods of operation, nor can it hope for massive private participation until HUD and its companion agencies sweep their houses clean of excessive requirements, dilatory processing, and inefficient management. Immediate implemention of the recommendations in this report will be a signal to others to act equally forcefully and expeditiously.

The issue of housing costs will be a recurrent one for America unless the steps recommended in this report are taken. The Task Force believes the benefits of moving ahead with such a program are considerable and could have an impact well beyond the housing sector--in terms of increased employment, reclamation of urban areas, and expanded tax revenues, to cite a few of the benefits. Thus, these measures could not only reduce housing costs; they could have a vast and salutary impact on many areas of American life. We challenge the Nation's leaders from all walks of life to work together to solve our housing cost problem.

Chapter Two

Land Supply and Development

Much of the increase in housing costs is directly attributable to a steady rise in the cost of the serviced site. 13 A survey by the Urban Land Institute of developer members in seven metropolitan areas found an average increase in urban land prices between 1970 and the spring of 1974 of 100 percent. This is an average annual rate of increase of 20-30 percent for the period, compared to an increase of 8-10 percent between 1958 and 1970. The Department of Agriculture found that the average value per acre of farmland--a prime source of developable lots--had almost tripled between 1967 and 1977. Nationally, the developed lot now accounts for about 20 percent of the cost of a typical single-family house with FHA mortgage insurance, compared to about 15 percent in 1960. In areas with stringent land use regulations, ratios of 30 percent are not uncommon for conventionally financed development. Discounting inflation, consumers are getting less housing for their dollar because they are paying proportionately more for the site.

There are three major reasons for this increase in the cost of sites:

(1) Constraints in the supply of developable land;

(2) High site development costs; and

(3) Procedural delays.

In many areas the supply of developable land has been constrained in part by limitations in the capacity of public facilities--especially water and sewer--and by restrictions on the use of land through zoning and related controls. Rapid increases in site development costs have been caused by higher governmental standards and fees. Procedural delays have resulted from the proliferation of governmental regulations affecting land development. Each of these problems is discussed in greater detail in a separate section of this Chapter.

There are many reasons for the governmental policies which have been a major cause of increased land costs. Much Federal, state, and local regulation stems from strong environmental protection grounds. Similarly, there is a desire to give citizens and other public agencies the opportunity to comment on publicly assisted developments.

14 It would be easy to characterize many local regulations as purely exclusionary. Many communities, however, are responding to the reality of fiscal strain and environmental degradation. Unfortunately, whether the intent is exclusionary or not, the impact is the same. The excluded are no longer only low-income families and racial minorities. In more and more communities, they include many first-time homebuyers, elderly residents looking for apartments and an increasing number of middle-income families. Says John Goldsmith, editor of House and Home, "Self interest is what we are talking about here. The last guy in wants to be the last guy in."

A choice of housing types and locations can bring substantial economic and social benefits to individual communities. Shutting out such development creates major economic, environmental and social inequities. It exacerbates urban sprawl by pushing development further into exurbia, it hinders the development of a balanced property tax base, and it prevents the housing consumer from exercising choice as to where he or she will live.

There is a national interest in achieving a balance between necessary environmental and fiscal concerns on the one hand, and adequate housing at a reasonable cost on the other. A more rational, efficient and fair system of regulation and infrastructure investment will have enormous impact on lowering land costs. That will be translated into lower housing prices for the consumer and greater locational choice.

Federal, state and regional programs all have an influence on land use. Their impact is small, however, compared to local regulations which stem from state authority. Nevertheless, as the involvement of all levels of government increases, so does the opportunity for a viable nationwide partnership to exert a salutary impact on those regulations which have been increasing housing costs. Most of the recommendations in this chapter follow a two-phased approach.

Phase 1. In the first phase, which would take one and one-half to two years, HUD would undertake the following actions immediately.

(a) Develop brief, minimal standards for use by HUD field staff in evaluating local land-use controls.

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This recommendation is specified later on in the section on Land Supply, although such standards may pertain to land development requirements as well.

(b) Develop technical information and advisory guidelines to assist local, regional and state entities in planning for an adequate supply of developable land, setting reasonable standards for land development, and administering the regulatory process efficiently. Specific recommendations for this element of the approach are provided in all three sections of this Chapter This effort must be supported by research.

(c) Seek to minimize cost inducing impacts of Federal environmental and land-use programs, such as those administered by the Environmental Protection Agency (EPA) by identifying and measuring such effects and developing alternative approaches which would minimize cost impacts without compromising national objectives.

(d) Sponsor multi-state regional conferences, in cooperation with the states to focus the attention of elected and top appointive governmental officials on the cost of land-development regulation. States should be recognized as the source of land-use regulatory authority. They should be urged to examine the cost impacts of enabling legislation and regulatory practices. These conferences should be held while HUD is developing information and advisory guidelines and investigating Federal programmatic problems. A specific recommendation for this element of the overall approach is included below in the Land Supply section, although it pertains to the objectives of all three sections.

Phase 2. In the second phase of the overall approach proposed in this Chapter, HUD would:

(a) Encourage and where possible require substate regional councils to develop regional standards on land supply and land-use regulations and to make findings of local compliance or noncompliance with such standards. Substate regional councils should provide technical assistance to local governments to foster voluntary compliance with these standards. States should be invited to participate in standards setting and technical assistance and should be informed of findings of compliance and noncompliance. Specific recommendations are provided in later sections of this Chapter.

16 (b) Support these compliance efforts by partial or total withholding of Federal urban development grants from noncomplying communities if all voluntary efforts at compliance fail Other Federal agencies should be encouraged to participate in this enforcement effort. A process should be established whereby a finding of local compliance or noncompliance can be challenged and reviewed.

The Task Force realizes that the proposed strategy calls for some increase in bureaucratic authority at a time when skepticism about the effectiveness of big government is widespread, but there is no satisfactory alternative.

The information and advisory guidelines are intended to be advisory, and they will have significant impact by themselves, without direct implementation. When it comes to the development and enforcement of standards, we look to the only existing institutions with the appropriate information, planning expertise, and geographic jurisdiction: substate regional councils. The Federal Government has long supported these organizations to plan and program on an areawide basis for housing, transportation, sewer and water and other functions, and to review and comment on applications for Federal grants. It is natural and appropriate to turn to them now.

We recognize that regional councils are in most cases creatures of their member local governments and that therefore we are actually calling on local governments to police themselves with Federal encouragement. There is much to be said for this approach. We recognize that state governments provide the statutory authority for local control of land use and therefore encourage state involvement in this process. Such involvement, however, must be at state initiative.

The need for reform of policies and procedures at the Federal level is fully recognized. We do not expect state and local governments to accept Federal leadership in land-use matters unless the Government takes significant steps to put its own house in order.

Land Supply

When an item is in scarce supply in relation to demand, sellers will tend to ask higher prices. This law of the market is driving up land prices in many areas of the country. A recent report by Advance Mortgage Corporation notes that one-third of the major metropolitan markets in the United States will suffer a severe shortage of developable lots in 1978. In the Chicago area, it is predicted that a dearth of improved lots will raise the price of developable sites by 20 percent this year alone. Constrictions in the supply of developable land may result from a complex interaction of factors. For example, natural features of the terrain and concentration of ownership both limit the supply of potential building parcels.

But it is governmental action--through regulation and investment decisions--which, more than any other factor, has constrained land supply. Limitations in the capacity of infrastructure, such as sewers and roads, can preclude development in certain areas. Supply can also be limited by zoning or other special ordinances which effectively prohibit development in designated areas. In addition, property tax practices, either by design or inadvertence, sometimes work to keep raw land off the market.

This problem is likely to get worse, not better. Fiscal problems of local government as well as higher environmental standards will continue to restrain the expansion of sewage treatment capacity and other infrastructure vital for opening up developable sites. Local governments are dependent on Federal matching funds for the construction of sewage treatment facilities, but the source of such moneys is finite and the need is great. Furthermore, the Environmental Protection Agency (EPA) is placing restrictions on the extent to which the Federal Government will fund sewage treatment capacity beyond existing needs, a factor which could further inhibit supply. Moratoria on new sewer connections put a premium on lots with hookups. In Montgomery County, Maryland, where a moratorium covering large areas of the county existed for several years, a quarter-acre lot with a hookup would sell today for more than $40,000. In the early seventies, before the moratorium, it would have brought $10,000-$12,000.

In addition to the problem of the overall supply of developable land, there is the specific problem of finding desirable sites for higher density housing which could be developed for families of low, moderate and middle income.

Many local zoning ordinances severely restrict the variety of housing within their community's boundaries. A recent

18 report by an American Bar Association commission notes that in the New York metropolitan area 99.2 percent of the undeveloped land zoned for residential use is restricted to single-family housing. In Connecticut, the ABA report observes, more than half of all vacant land zoned for residential use is for minimum lots of one to two acres. Such restrictions make the development of housing for low and moderate-income families very difficult if not prohibitive and also contribute to excess costs for middle-income residents.

In addition to outright restrictions on the use of sites, the process of administering zoning itself has had a constraining effect and has contributed to cost increases. In theory, local governments are supposed to maintain sufficient amounts of suitable land in zoning districts for various uses and densities to accommodate development needs at any time. In practice, however, many local governments have not been able to do this. Suburban jurisdictions often have a scarcity of small-lot and multifamily zoning; older cities often have an excess of high density zoning. Thus, there is a mismatch between the demand and the availability of sites zoned at various densities. As a result, the zoning process is usually dominated by a series of rezoning actions in which developers, not the planning authorities, request amendments to the zoning map. Many communities have zoned their residential land for large-lot, single-family detached homes, assuring that the cost of the houses will be relatively high. The rezoning process is often made sufficiently difficult to discourage or deny the availability of adequate amounts of land at higher density.

It is generally acknowledged that vacant land in growing areas is often underassessed for property tax purposes. This reduces the owner's cost of holding the land in an undeveloped state in the hope of receiving a larger capital gain on the parcel at a later time. From the perspective of government, the underassessment of vacant land does tend to retain sites for temporary open space but is a deterrent to its use for housing.

Also, in response to taxpayer complaints, some state governments are placing artitrary restrictions on the growth of local property tax levies. Unless this is done very skillfully, it can drastically reduce local capacity to meet capital and operating needs (including the construction of facilities needed to support new or revitalized neighborhoods), and it can cause inequities in assessments among existing and new properties.

Most of this discussion has focused on issues most commonly found in suburban areas. Considerable land exists within our cities and older suburbs which has not been developed or which could be redeveloped. Most of these properties are already provided with the costly public investments to support residential development--sewer, water, roads and often community facilities.

In the urban core the problem is often that the areas available for redevelopment are considered unattractive for residential use or are difficult to develop. The urban centers and older suburban areas often share another problem which stymies development. The owners of vacant or undeveloped land are unable or unwilling to develop or sell the property. Thus, the land remains unavailable even though it is designated for residential use and large sums of public funds have been spent on its development. The result is to restrict housing opportunities in the urban core and to push development further out into suburban areas.

Federal surplus land in urban areas is often suitable for housing for families of low-and moderate-income. However, it has rarely been used for this purpose because the law requires that when housing is the new use, the property must be purchased for value rather than transferred for use, as is the case with parks, schools or airports. In addition, the housing must be provided through a Federal program for housing subsidy.

Findings:

The Task Force finds that in many market areas the supply of developable land for a range of housing types and densities is being constrained by governmental policies. As a result, land costs are being driven up.

We recognize that efforts of local governments to control the timing, location and character of development often derive from such worthy goals as fiscal responsibility and environmental protection. Clearly, the challenge is to strike a reasonable balance between these valid community objectives and the provision of enough opportunities for housing development.

20 Recommendations:

HUD should act now to:

A. Develop and promulgate brief, clear, minimal standards for the residential elements of local land-use regulations. These standards should be designed to assist Departmental staff in easily identifying land-use controls having cost-increasing and exclusionary effects which are clearly contrary to Federal housing and community development policies.

1 While some variations may be appropriate among communities of differing degrees of urbanization, such standards should require in the text of zoning ordinances or related development controls (as opposed to requiring it in the map) the following:

a. A minimum lot size for single-family detached houses which is at least as small in square feet as has been used typically for small-lot development in the relevant market area.

b. Provision for housing at a density commonly associated with row houses or garden apartments.

c. Interior dwelling size requirements which are no greater than those in the state health, building, or housing code.

d. Elimination of requirements for garages.

The above requirements are not exhaustive. Resulting HUD standards should be confined to those aspects of land-use regulation that are very straightforward and easily interpreted.

2. The primary burden of administering these standards should be on HUD staff. HUD should notify applicants for Community Development Block Grant funds that such standards exist and will be used by HUD in monitoring performance under the program. The standards should leave little room for argument. If a problem arises, however, its resolution should not hold up approval

3. The Department should promulgate these minimal standards no later than December 31, 1978.

B. Sponsor, in cooperation with state governments, multi-state regional conferences to focus the attention of elected and top appointed government officials on the cost of land-development regulation. These conferences should discuss ways to provide an adequate supply of developable land, set reasonable standards for site development, distribute the burden of public facilities costs equitably, and manage the regulatory process efficiently. The states should be encouraged to examine the effects of their respective enabling statutes and regulatory mechanisms on the cost of housing. 21

C. Undertake a phased intergovernmental effort as outlined in the introduction to this Chapter to advise, assist and encourage local governments in the provision of an adequate supply of land for housing development. This effort should include the following elements:

1. Immediate development and dissemination by HUD, after appropriate research, of information and advisory guidelines on:

a. The following four aspects of local land-use regulations as they affect the supply of developable land.

(1) The variety of types and densities of housing which should be provided for in the text of zoning ordinances or other land-use regulatory mechanisms.

(2) The amount of vacant land which should be developable at any time for different types and densities of housing by virtue of designation on a zoning map or other geographic delineation.

(3) The relative locational characteristics and other qualitative characteristics of land which should be developable for various types and densities of housing, including such considerations as distribution throughout the community; proximity to existing or planned facilities; and environmental suitability of the site. (Existing HUD criteria may be used.)

(4) The characteristics of the process which local governments should use to make land developable under land-use regulations for various types and densities of housing.

22 b. Planning for facilities to support an adequate supply of developable land (including coordination with regional sewer and water planning under EPA's Section 208 program) in locations where the demand exists, and monitoring and interpreting trends in land prices, locational choices of developers, type and quality of product, and industry characteristics.

2. Investigation by HUD of Federal programmatic issues affecting the supply of developable land, e.g., policies of EPA on water and sewer facilities, and HUD flood-plain management policies.

3. Development by substate regional councils of regional standards based on the advisory guidelines called for above but sensitive to local conditions. Regional councils should then make periodic findings as to the extent to which each municipality meets the standards. The setting of such standards and the findings of compliance or noncompliance should be required of all regional agency recipients of grants under the HUD 701 Comprehensive Planning Assistance Program. Where there is no appropriate multi-jurisdictional regional council, counties or states should be encouraged to develop the standards. If the standards developed and adopted by a regional body (or county or state) address the principal issues stressed in the advisory information and guidelines developed by HUD, they should be presumed by HUD to be legitimate.

4. Partial or total withholding of funds for urban development from noncomplying jurisdictions by HUD and other Federal agencies with such programs if all voluntary efforts at compliance fail. HUD should establish a process under which a finding of local compliance or noncompliance can be challenged and reviewed.

D. Encourage local governments to use Community Development Block Grant funds to acquire, in advance, sites for subsidized housing for the purpose of reducing the cost of such housing. Sites should be made available to private developers of subsidized housing as well as public authorities. If the law of any state impedes this practice, HUD should seek change or clarification of the relevant law.

E. Assist cities in the development of passed-over or surplus land by taking the following actions:

1. Make resources available to central cities to redevelop underutilized land for new or expanded residential communities. Funds will be required to overcome environmental or social detractions in these areas, to subsidize the price of housing to attract middle-income persons and to limit the risks of housing developers in these areas. A redefined Title VII new communities program could be used as a vehicle to accomplish this effort, as could Community Development Block Grants and Urban Development Action Grants.

2. Undertake research into alternative means to encourage and possibly require that land serviced at public expense and designated for residential use be made available for development. The research could focus on taxing policies, penalty payments, use of eminent domain powers and any other appropriate public action. With regard to taxing powers, local governments should be encouraged to assess vacant, passed-over sites at the required percentage of full market value.

3. Develop a program to assure that information on surplus property suitable for low- and moderate-income family housing is made available to appropriate governmental and private groups in a timely fashion to enable them to secure the necessary financing and the HUD commitment which will allow them to obtain the property. The Federal law should be amended to permit the transfer of surplus property on the same basis as is now provided for parks, airports and educational uses.

Land Development

Site development costs have been one of the most steadily increasing components of housing costs generally over the past ten years. This has happened because higher, more costly standards have evolved and because costs formerly the responsibility of local government and not included in the purchase price of housing have now been shifted to the developer, who passes them on to the housing consumer. Site development may include the costs of grading and clearing; construction of on-site and off-site streets; installation of on-site or off-site utilities (water, sewer, gas and electricity); storm water management; dedication of land for on-site community facilities, such as schools and parks; payments in lieu of dedication; and various fees, charges, and other assessments.

24 Many standards are outmoded and excessive. They include unnecessary access road requirements, sidewalks, and unduly wide streets. Virginia now requires a 7 percent grade on residential streets instead of the previous 10 percent. This means more cutting and filling and the removal of more trees. The regulation was intended for highway development and is totally unnecessary on local streets. Yet it applies uniformly to both. Measures such as these have increased housing costs by thousands of dollars. Many of these requirements have little justification in terms of health, safety or general welfare and are on the books largely for reasons of value and amenity. Standards such as these may be more than the general public can afford.

In addition to the cost of complying with high standards, the developer is often subject to a host of fees and assessments, which have been steadily increasing over the past few years. In 1972, water and sewer fees were $1530 for a new single-family house in Fairfax City, Virginia. In 1978, they were in the $2600 range.

Some of these charges are keyed to local governmental costs of processing applications, conducting inspections, or performing necessary on-site mechanical work. Others, however, are designed to finance capital costs normally borne by the community at large.

In a national study of state and local governmental capital demand, George Peterson of the Urban Institute found that "as much as $4 to $5 billion per year is probably contributed to the public capital stock by developers who must install community facilities at their own expense." He estimates that this breaks down on an average to a cost of $4652 per housing unit and includes minor subdivision roads, half of the cost of collector roads, sanitary sewage collection systems, storm drainage collection systems, water distribution systems and park and recreation space.

Increasingly the newcomer is being asked to bear a disproportionate share of the cost of local growth. Although local taxes may be kept down, the result is to increase the cost first of new housing and then, through the market, of existing housing as well.

Unquestionably growth imposes a cost on communities. But new housing also creates social and economic benefits, and it is in the interest of communities to encourage reasonable growth and opportunities for all segments of the population when possible. It may be fair for the consumers of new housing to pay the cost of site improvements internal to the site which are necessary to protect their basic health, safety and property, but it is not fair for new development to bear all the costs of growth, including the cost of new community facilities and higher standards which will benefit property values in the community at large.

Some have argued forcefully that the community as a whole should pay for all the streets, sewers and water lines internal to a subdivision. Indeed some local governments do this and others are considering it. This is a laudable practice where feasible, but impractical as a national policy because most communities simply could not afford it. Pressure to do so would fuel anti-growth attitudes.

Many of the costs discussed in this Chapter could be reduced through more cost-effective site planning. In a handbook on this subject, the National Association of Home Builders estimates that street pavement would cost $521 a dwelling unit in a cluster development as compared to $831 a dwelling unit in a conventional subdivision; clearing and grubbing would cost $175 per dwelling unit in a cluster configuration, compared to $250 a dwelling unit in a conventional project; and storm sewers would cost $381 a dwelling unit as compared to $659 for their conventional subdivision counterpart. Communities could encourage cost-effective site planning through more flexible ordinances, especially those that encourage compact land-use configurations. Developers and government have a mutual interest and responsibility in encouraging such practices.

<u>Findings</u>:

The Task Force finds that governmental standards for internal infrastructure and environmental-control requirements during site development have increased steadily over the past several years and have raised the cost of site development substantially. In some areas these requirements and standards are above and beyond what is necessary to protect basic health, safety and general welfare. Although there is a need for government to specify reasonable standards, government requirements which exceed such minimums should be reduced.

We find that local governments are steadily transferring

26 from the community at large to the developer, and thence to the new housing consumer, a greater share of the public capital costs of growth. This is being done through the imposition of fees and charges as well as through requirements for construction and dedication. In many areas this trend has proceeded beyond what is equitable and reasonable. There is a need to specify and enforce a fair allocation of costs.

Recommendations:

HUD should act now to:

A. Undertake a phased intergovernmental effort, as outlined in the introduction to this Chapter, to advise, assist and encourage local governments to address the problems of high site development costs. This effort should include the following elements:

1. The immediate development and dissemination by HUD of information and advisory guidelines for use by local governments in setting requirements, fees and charges relating to site development. This material should contain:

a. Specific minimum requirements for the protection of basic health, safety, and environmental quality. Additional information should show the cost of amenities beyond these minimum requirements. Performance standards should be encouraged where explicit criteria exist and where their implementation would facilitate substitution of materials and innovative design without contributing to procedural delays and undue local staff discretion.

b. Criteria for those requirements, costs, fees and charges which may fairly be charged to the new home buyers or renter (via costs passed on by the developer) versus those which should be borne by the community at large through taxes or other forms of governmental revenue. These guidelines should reflect the following policy:

(1) The consumer of new housing should be required to bear no more than the cost of site improvements internal to the site which can be justified as necessary to protect the basic health, safety and property of future residents of the site, protect environmental quality of the community and ensure that only normal maintenance will be required over the generally accepted economic life of

streets or utilities to be dedicated to the government. 27

(2) The community at large should bear the cost of:

(a) Governmental requirements which are of a standard higher than the minimums specified by HUD to protect health, safety, property, air and water quality, and assure reasonable maintenance costs;

(b) Extra-sized pipes or streets on the site, or off-site streets, sewage treatment capacity and interceptor lines needed to serve primarily existing and future residents living off the site; and

(c) Schools, parks, libraries and fire stations.

2. Investigation by HUD of Federal programmatic issues affecting site-development costs, e.g. HUD Minimum Property Standards and EPA policies for funding sewer collectors.

3. Development by substate regional councils of regional standards for local requirements, fees, and charges related to site development. Such standards should be based on the HUD advisory guidelines and be sensitive to local conditions. Regional councils should then make periodic findings as to the extent to which each municipality meets the standards. The setting of standards and findings of compliance should be required of all regional councils receiving funds from the HUD Comprehensive Planning Assistance (701) program.

4. The partial or total withholding of funds for urban development from noncomplying jurisdictions by HUD and other Federal agencies with such programs if all voluntary efforts at compliance fail. HUD should establish a process under which a finding of local compliance or noncompliance can be challenged and reviewed.

B. Encourage recipients of Community Development Block Grants to use such funds to provide internal infrastructure and other community facilities for housing developments serving families of low- and moderate-income. If the law of any state impedes this practice, HUD should seek change or clarification of the relevant law.

C. Work to remove legal impediments to the use by communities of locally raised revenue to provide internal

28 infrastructure and other community facilities for housing developments serving families of low- and moderate-income.

D. Develop and publish guidelines on ways local governments can facilitate and encourage cost-effective site planning without imposing counter-balancing costs of procedural delay and administrative burdens. HUD should also review its own standards and practices with the objective of facilitating and encouraging cost-effective site planning.

The Process of Governmental Review and Approval

The American developer is confronted with a bewildering and time-consuming proliferation of regulations at virtually every level of government. The cost of meeting the myriad requirements a developer now faces is less in preparation of the documenting materials and more in the cost of delay itself. These costs are passed through to the consumer in the form of higher housing prices.

Costs to the developer as a result of unscheduled regulatory delay can include increased carrying charges for land, increased overhead cost, increases in the cost of labor and materials due to inflation, and a loss of sales from changes in the market. Researchers at the Rice Center for Community Design and Research estimate that "at a 12 percent interest rate, a six-month unscheduled delay increases interest payments on a $1 million loan for a parcel of land by as much as $60,000--and many developments face 18 to 24 month delays."

Every level of government is involved in the processing maze. At the Federal level, Federally-assisted housing projects above a certain threshold size must be reviewed for potential environmental impact. HUD Noise Assessment Guidelines, Army Corps of Engineers dredge and fill permits, and various EPA requirements and permits are among the other Federal regulations which affect development. The impact of programs such as EPA's 208 areawide water quality management planning and the Department of Commerce's coastal zone management program is yet to be felt, for these programs are just entering the implementation stage.

On the state level, coastal zone management acts, critical area legislation, environmental impact requirements, marshland protection laws, and special siting statutes are common new features in the regulatory structure. Regional controls, such as Federally-mandated A-95 review and comment procedures, are among the hurdles a project must clear. And those are in addition to the myriad local permits and reviews which have been standard for developers. These regulations are by no means limited to suburban areas or fragile lands. They apply equally to urban areas and have prevented or slowed down as much construction in the inner city as they have in suburbia.

Many of these regulations have protected the public from significant environmental degradation and development on inappropriate sites. Environmental impact statements have given the public a much needed opportunity to comment on project impacts. Local development can have important regional, state, and national impacts which might not be considered by local reviewers. But the process has gotten out of hand. The objectives of government should be to develop and administer review processes efficiently, fairly, and in a manner which encourages rather than discourages the development of less expensive housing by private enterprise. By any reasonable standard, this is not being done now in many, if not most, jurisdictions.

There have been some efforts to simplify the regulatory maze. For example, Washington State has passed the Environmental Coordination Procedures Act which makes an optional procedure available to applicants seeking coordinated state review of their proposals. Dade County, Florida, encourages pre-application negotiation between the developer and the permitting agencies to iron out difficulties before the developer expends costly funds on plans and applications. A similar process is followed under the New Jersey coastal zone management program. Significantly lacking, however, has been major regulatory streamlining at the Federal level

Findings:

The Task Force finds that the entire multi-level system of regulating residential land development is becoming extremely complex and time consuming. This has measurably increased holding costs, the costs of risk, and the potential for unfair treatment. To ameliorate this problem, top government officials should continually insist on efficient management of the regulatory process. Review requirements and procedures should be rationalized, clarified, and streamlined. Multi-level and interagency reviews should be coordinated and where possible eliminated. Staff should have the capacity to perform in a timely manner.

30 Recommendations:

HUD should act now to:

A. Undertake a phased intergovernmental effort, as outlined in the introduction to this Chapter, to advise, assist, and encourage local governments to address the problems of procedural delay and their related costs. This effort should include the following efforts:

1. The development and dissemination by HUD of information and advisory guidelines for use by local governments in rationalizing and streamlining regulatory procedures. This activity should include:

a. Research, carried out by HUD, to clearly define and analyze procedural problems related to land development by type, source and context of problem, cost impact, and potential for ameliorative action. The core approach to this research should be case studies of the processing histories of actual developments which are representative of national experience.

b. Draft advisory guidelines, developed by HUD, for the local review and approval process as it relates to land development.

2. Investigation by HUD of Federal programmatic issues affecting the governmental review and approval process.

3. Development by substate regional councils of regional standards for local and regional review processes. Such standards should be sensitive to local conditions and should be based on the HUD guidelines. Regional councils should then make periodic findings of the extent to which each municipality meets the standards. The setting of standards and findings of compliance should be required of all regional councils receiving funds under the HUD 701 program.

4. The partial or total withholding of funds for urban development from noncomplying jurisdictions by HUD and other Federal agencies with such programs if all voluntary efforts at compliance fail. HUD should establish a process under which a finding of local compliance or noncompliance can be challenged and reviewed.

B. Adopt new recommendations on the "thresholds" for a full Environmental Impact Statement--the number of housing units

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in a project above which a full Environmental Impact Statement is automatically required. The new regulations should be based on the concept that the threshold should vary with the population of the urban area or the county in which the project is located. Thus, counties with a resident population of over one million would have a much higher threshold (perhaps 2,000 units) than counties with only 50,000 residents (for which the existing 500-unit threshold might be retained) Also, to discourage so-called "leapfrogging," higher thresholds in more populous counties might only apply within a perimeter of a certain distance (perhaps two miles) from the edge of the "urbanized area" as delineated according to Census Bureau criteria. 31

C. Urge the Council on Environmental Quality to take the lead in having uniform procedures and standards for environmental reviews adopted by the three Federal housing agencies: HUD, the Veterans Administration, and the Farmers Home Administration. Each of the agencies should agree to accept prior reviews by the others. This should be accomplished no later than January 1, 1979.

D. Join with the Veterans Administration and the Farmers Home Administration to establish uniform policies and procedures with regard to those aspects of subdivision analysis not covered under environmental reviews, so that processing by one agency will be fully acceptable to the others. The Congress should require a single set of regulations for the three agencies within a specified period of time.

E. Cooperate, to the maximum extent possible, with state and local governments to avoid duplication and delay in environmental and site-design reviews of all relevant housing and land development programs. To this end, HUD should:

1. Urge the Council on Environmental Quality to propose an amendment to the National Environmental Policy Act (NEPA) permitting HUD and other Federal agencies to accept, for the purposes of NEPA, environmental reviews prepared by state agencies which follow standards and procedures concurred in by the Federal Government.

2. As an interim measure, pending the amendment of NEPA, join with other Federal housing agencies to prepare and publish by January 1, 1979, guidelines for field staff and state and local officials on ways to facilitate the joint, Federal-state or Federal-local preparation of Environmental Impact Statements, the sharing of information, the holding

32 of joint hearings, and other methods of curtailing wasteful intergovernmental duplication and delay in environmental reviews. HUD should actively invite state and local governments to participate in such cooperative efforts. Joint preparation of an Environmental Impact Statement with a state or local agency would only be acceptable provided the Federal agency is involved in such essential phases as identifying critical issues, determining analytical methods, specifying data, and interpretation.

3. Disseminate guidelines and procedures whereby HUD can accept an environmental review prepared by a local government in conjunction with a project financed in part under the Community Development Block Grant program. This should be done pursuant to Title I of the Housing and Community Development Act of 1974 whereby the Secretary of HUD delegates to the Block Grant recipient her responsibility for reviewing the environmental impact of projects assisted with Block Grant funds. If a housing project has been adequately reviewed (according to the guidelines) under this procedure, HUD should not have to duplicate the effort when it receives a request to subsidize the project.

4. Encourage local governments and regional agencies to prepare an "areawide EIS"--an environmental review of expected development in a large area, such as a central business district, an entire municipality, a growth corridor, or an entire metropolitan area. If HUD were a partner in the process and issued the areawide EIS itself, environmental reviews of large housing projects within the area could be done at a much less time-consuming level of clearance than a full EIS. If HUD were not a partner and if the areawide EIS were not issued by HUD or another Federal agency, under existing law, an EIS would still be required for large projects, but it could be done very quickly by using information from locally prepared areawide reviews.

5. Develop and promulgate guidelines and procedures for certifying the standards, procedures, and capability of local governments for local review of proposed subdivisions; and, after certifying a local government, eliminate all affected subdivision-analysis and environmental-review requirements for that jurisdiction. Such certification procedures should be followed by the Veterans Administration and the Farmers Home Administration as well as HUD.

F. Cooperate to the fullest extent possible with developers who may wish to prepare an environmental review either jointly with HUD or independently. Issue guidance material by January 1, 1979, explaining how such efforts by developers can be most effective in eliminating procedural delay. This guidance material should be similar in content to that prepared for cooperative efforts with state and local governments but should be directed at developers. 33

G. Amend regulations no later than October 1, 1978 to eliminate the requirement that environmental assessments be conducted for single-family mortgage insurance applications in existing subdivisions, i.e. subdivisions with streets and utilities already in place. Normal underwriting procedures are adequate in such situations. Minor deficiencies in, for example, streets or storm drainage in a subdivision for which a local government has accepted internal infrastructure for maintenance, can simply be reflected in lower HUD valuations.

H. Develop, by January 1, 1979, standard documents and formats to speed up the preparation of EISs. This could save up to 30 working days in preparing a full EIS.

I. Take the necessary action to make trained staff or adequate contract funds available to field offices to assure that when an EIS is necessary, it is done promptly.

J. Establish guidelines for optimal environmental processing in field offices, monitor processing times, and identify and eliminate bottlenecks.

K. Join with the National Science Foundation to conduct research designed to evaluate the benefits and costs of environmental reviews of those Federal actions directly affecting housing costs, establish better guidelines on differentiating between significant and trivial issues, and generally devise better ways to achieve the purpose of NEPA. One objective should be to experiment with different formats to determine how simple they can be without resulting in serious deficiencies.

L. Accelerate HUD processing of subdivisions by maintaining current lists of developers with demonstrated capabilities and waiving certain reviews of qualifications for such developers. Once a developer has successfully completed the HUD process, he should not have to establish his credibility again unless he has not followed through on his commitment. The purpose of this recommendation is to reduce paperwork. It is not intended in any way to exclude participation in HUD

34 programs by any builder or developer or to favor anyone. Such lists must be updated frequently. They must be published and be subject to challenge and prompt review.

M. Identify one or more affirmative action plans as acceptable in an immediate neighborhood marketing area and allow developers and builders working in that area to adopt such a plan. The objective should be to reduce the frequency with which a developer/builder must develop a new plan and obtain HUD approval.

Chapter Three

Building and Technology

Material and labor costs are the largest portion of the price of housing, and also affect operating and maintenance costs. These costs are primarily the result of consumer expectations, building techniques, supply processes, and government regulations. The Task Force estimates that improving these major components of the building process could reduce the cost of housing construction by as much as $6000, and twice that amount over the term of an average mortgage. This estimate is based on cost-saving measures recommended in this chapter, none of which is large, but all of which add up to a cumulative impact that is significant. 35

Many of these recommended measures are at hand now to reduce the cost of housing. The use of what we already know, however, is hampered by the lack of any conscious effort to encourage the voluntary acceptance of proven cost-reducing housing techniques that are based upon satisfactory experience and wide use. The balance of these measures must await willful efforts to improve building techniques, supply processes, and government regulations. Government regulations in particular have increased sharply in recent years and continue to vary unnecessarily.

Such regulations are primarily imposed in the form of state and local building regulations such as zoning, subdivision and environmental controls, many of which are dealt with in Chapter Two. In this Chapter, state and local building regulations are defined as those codes that regulate building, electrical, plumbing, heating, mechanical, energy, fire safety and gas installations, as well as other codes such as housing, maintenance, rehabilitation, and fire prevention codes that regulate existing structures and that affect processes of renovation. We estimate that half of the approximately 20,000 jurisdictions with code authority now have such codes and that the majority of all housing must meet such requirements. This uncoordinated system of differing and increasing regulation is slowing down the building process and making the adoption of current and new potentially cost-saving ideas more difficult and expensive.

Although some contend that the building industry has gone as far as possible towards reducing housing costs through product substitution, mechanization, and industrialization, it seems probable that increased use of such techniques could also produce additional cost savings if Federal, state, and local regulatory systems allowed the creation of volume markets for fabricated housing components. Through added research and development, it should be possible to demonstrate

36 cost savings to the housing consumer from existing or new technology, methods, and materials.

In considering past efforts and future needs, we have concentrated on excessive costs associated with present building and technology processes, improvements in those processes to better serve objectives of consumers, and new methods and materials that could better serve the marketing of housing. These are discussed in the following sections: (1) State and Local Building Code Requirements and Administration; (2) HUD Minimum Property Standards and Procedures; (3) Support for New Technology and Building Codes; (4) Materials and Labor Costs; and (5) Operating and Maintenance Costs.

State and Local Building Code Requirements and Administration

State and local building codes are increasingly based on one of the four nationally recognized codes. Three of these nationwide model code organizations are made up of state and local building officials, and the fourth is an insurance trade association. Few jurisdictions can afford to write and keep current locally authored codes. For example, a recent National Bureau of Standards study shows that two states have adopted unmodified model codes as a mandatory code. There is a general need, however, throughout the code system for better coordination, basic research, education, certification programs,and dissemination of information at the national level.

It is clear that model codes provide variety in building code requirements to accommodate regional differences. In addition, local control over the model code change process suggests that local code changes, which in most cases are cost excessive and inhibiting to developers who build in more than one jurisdiction, are unnecessary.

In part, model codes reflect the state of the art of building rather than scientific engineering data and are therefore easily amended by localities with differing views on the state of the art. The model codes for the most part lack funds to support all their provisions with sound engineering data, and in some cases even urge local deviations. A report by the National Association of Home Builders observed that "instead of accepting these model codes intact, many communities began making revisions, additions, deletions, and amendments which in an overwhelming majority of cases are restrictive in nature." One Task Force member has noted that about 30 percent of the present provisions in model codes lack substantiating research. Evaluation of these provisions may support their continued use, but the study has yet to take place. However, funds to undertake such research and coordination with the National Institute of Building Sciences do not yet clearly exist

The Task Force has discussed the need for such study and the need for the model code organizations to be recognized as an institution which, if improved to maximum effectiveness, could significantly assist in the reduction of housing costs. We have also given special attention to a companion need for a regular and accredited curriculum for codes administrators, as well as a need for an inter-jurisdictional program to certify their competence.

Findings:

The Task Force finds that housing cost increases attributable either to excessive and differing code requirements or to maladministrative practices are more likely to occur in communities which have developed and promulgated their own building codes. By contrast, localities which have adopted a modified model code and have acted periodically to assure that their version of the model code is up-to-date, appear less likely to cause unjustifiable cost increases in housing through code requirements or reviews. We do not recommend that Congress and the Administration act to pre-empt states and localities in the building codes area by Federally requiring a national building code. But we do find much that all levels of government can do, together and in concert with major private codes organizations, to assure that housing costs to the consumer are not increased needlessly as a consequence of state and local building codes.

We further find that incentives are lacking at the present time to encourage uniformity in state and local building code requirements and administration, and that prior national commissions' recommendations for reducing housing costs through code uniformity and coordination have not been fully implemented. HUD's programs relating to state and local building codes have been discontinued, and new programs that could use HUD's experience have not been substituted. Although the model codes organizations have cooperated in jointly developing a single nationwide building code for one- and two-family dwellings, differences between it and HUD Minimum

38 Property Standards need to be resolved to achieve more uniform nationwide standards. Efforts to resolve differences among model code standards for multifamily housing and other types of buildings have proceeded about as far as possible without basic research. Finally, we find a need to support more vigorously programs to train codes administrators, technicians, and inspectors. There is also need for their competency to be reviewed and certified by appropriate public bodies.

Recommendations:

HUD should act now to:

A. Promote consistency of requirements and administrative procedures among the principal model building codes, and should strongly encourage states and localities to adopt model codes and keep them updated. HUD should implement this recommendation through actions such as the following:

1. Work with the nationally recognized model codes organizations, the Council of American Building Officials, and the National Conference of States on Building Codes Standards, as well as with other interested institutions such as the National Institute of Building Sciences, to support the preparation of a revised One- and Two-Family Dwelling Code as a nationally recognized consensus code.

2. Offer funding incentives for mandatory state code systems that adopt unmodified and promulgate for state-wide use the proposed revised One- and Two-Family Dwelling Code and an updated version of one of the other nationally recognized model codes for multiple dwellings and other buildings.

3. Offer funding incentives for code systems that (a) train, certify and license code administrators, technicians, and inspectors, and (b) administer codes in a consistent and rapid manner.

4. Support basic research in the areas of life and property safety requirements to determine the costs and benefits of such requirements when included in building codes.

5. Work with the model codes organizations, industry and other interested bodies to study the principal model building codes now widely used and to prepare recommendations for the elimination of cost-increasing requirements that are not justified in terms of sound data and technical information derived through basic research.

6. Work with and support the National Academy of Codes Administration's efforts to create and implement an accreditation program for certifying organizations at the inspector level, and a certification process for codes administrators, using both institutions of higher learning and non-degree granting institutions as sponsors. 39

7. Support the development and promulgation of rehabilitation codes for single-family and multifamily housing, using a consensus mechanism involving the model codes organizations, the National Institute of Building Sciences, the National Conference of States on Building Codes and Standards, and other interested parties. These new nationally recognized rehabilitation codes should be written so as to permit unlicensed and nonskilled persons to perform rehabilitation work that complies with life and property safety requirements. HUD should offer funding incentives to states and localities that adopt these nationally recognized consensus codes.

B. Amend the Community Development Block Grant and Urban Development Action Grant regulations to require that communities applying for entitlement and discretionary grants demonstrate that their local building codes support the proposed "comprehensive strategy" for meeting "identified community development needs." Specifically, the applicants' Housing Assistance Plans should show that:

1. Local building codes are unmodified versions of the latest nationally recognized model codes;

2. Administrative procedures are in effect to uniformly and effectively administer code provisions; and

3. Any local provision does not unnecessarily increase the cost of housing to the consumer.

C. Join other Federal agencies and the National Institute of Building Sciences in encouraging the use of nationally recognized model codes and standards procedures for the rapid review and approval of new technology, methods, and materials for building and housing codes and standards.

D. Join with or otherwise support the Federal Trade Commision in investigating whether contractor licensing practices restrain trade and unnecessarily add to the cost of housing to the consumer.

E. Expand opportunities for qualified HUD representatives

40 to participate in consensus efforts leading to model codes and standards development.

F. Staff field offices with personnel qualified to provide limited technical assistance to localities with respect to the maintenance and administration of building and housing codes.

HUD Minimum Property Standards and Procedures

The Minimum Property Standards (MPS) were developed by the housing industry and the Federal Housing Administration (FHA) to assure that FHA-assisted housing is decent, safe, and sanitary, and that the mortgage is protected by continued marketability. For many years these pioneering housing standards served FHA and the industry well, because there were few conflicting local standards and 50 percent of all housing starts were FHA-assisted. The MPS still apply to thousands of jurisdictions without codes, as well as to the 10,000 or so jurisdictions with codes. Many of these codes excuse one- and two-family dwellings from their purview or are archaic.

In the last 20 years, however, many jurisdictions have adopted variations of the MPS as local regulations applicable to all housing. Subsequently, the national model codes organizations developed a model One- and Two-Family Dwelling Code. Concurrently, Federally assisted housing starts declined to only 10 percent of the market. In 1973, FHA published revised MPS. In many cases, the MPS now differ from local codes, and subject the builder to the problem of meeting at least two sets of regulations.

At a minimum, the MPS should be reconciled with a revised nationally recognized consensus version of the One- and Two-Family Dwelling Code. Furthermore, a housing unit which is structurally and mechanically sound and which conserves energy, can be more basic in terms of space and amenities than current MPS allow. Such a modest home, which could also immediately offer shelter measurably superior to other housing options, cannot be built under current MPS as administered.

Restrictions at both the Federal and local level also impede housing conservation and rehabilitation. In most localities, if the cost of proposed structural rehabilitation is more than 50 percent of the current value of the unrehabilitated building, the entire building after completion of rehabilitation must comply with local codes for new construction. This is a significant cost increasing factor and an unnecessary one. Similarly, Federal, state, and local requirements still inhibit the use of self-help housing techniques for housing construction, conservation, or rehabilitation when the Nation's attention is turning to citizen initiatives in neighborhood preservation.

Findings:

The Task Force finds that HUD itself is responsible for imposing building requirements and review procedures for both new construction and rehabilitation that increase costs and cause unnecessary delays.

We further find a widespread though not universal belief that the design requirements imposed through the Minimum Property Standards (MPS) are excessive or inflexible. It is clear that the MPS, as currently written and interpreted, do not enable developers to construct or renovate housing to meet the marketable shelter needs of all possible consumers. The MPS should allow housing designed to accommodate broad variations of custom and taste that is otherwise marketable to qualify for HUD financing. We also find it desirable for HUD to explore ways of adjusting the MPS to the provisions of a revised One- and Two-Family Dwelling Code as well as to the multiple dwelling requirements that are common to all of the national model codes. It is also desirable that HUD support housing rehabilitation more vigorously, particularly in older neighborhoods of the Nation's cities and towns.

Recommendations:

HUD should act now to:

A. Revise the MPS to allow the design and construction or renovation of otherwise marketable low-priced basic, starter, unusual or different types of housing, both single-family and multifamily. Such homes could be constructed or renovated with the use of various techniques including self-help methods, for purchase or use by young families and first-time buyers of limited means, as well as by others. As so revised, the MPS should be implemented flexibly so as to meet the market needs of a broad segment of the American people.

B. Work with the model codes organizations, the Council of American Building Officials, and other interested parties in

42 order to recognize in the MPS, to the maximum extent consistent with the national interest, the requirements of a revised One- and Two-Family Dwelling Code and any national consensus requirements that may be developed for multifamily dwellings or other buildings.

C. Adopt national consensus requirements for single-family and multifamily housing rehabilitation to be developed through a national consensus mechanism, for inclusion in the MPS and for application to all housing rehabilitated with HUD loan insurance or financing assistance.

D. Encourage the conservation and rehabilitation of existing housing, both by professionals, owners and other occupants, and by nonprofit organizations created for this purpose.

E. Study the feasibility of revising the MPS so that cost-increasing requirements for energy conservation and other items will be justified in terms of initial capital cost, amount of downpayment, and life cycle cost.

F. Encourage informed and competent self-help construction and rehabilitation of single-family and multifamily housing through amendments of design, inspection and other MPS review requirements, and through programs of education, training and technical assistance.

G. Revise MPS provisions that appear to approve local ordinances, codes, and regulations pertaining to single-family and multifamily housing construction and rehabilitation that are not justified by nationally recognized standards.

H. Establish mechanisms to assure similar contents, enforcement and reciprocity of MPS by FHA, the Farmers Home Administration and the Veterans Administration.

I. Study current MPS requirements and immediately remove unjustifiable cost-increasing technical and design requirements from the MPS.

J. Explore ways of revising the MPS requirements and review procedures through examination of completed new construction and rehabilitation efforts, using such techniques as post-occupancy evaluation procedures, so as to eliminate unnecessary cost-increasing requirements.

K. Reduce planning and design processing time by relying on architects and engineers to certify that plans, drawings, and specifications meet HUD's MPS requirements for single-family or multifamily construction or rehabilitation.

L. Reduce duplication of construction and rehabilitation inspections by field office personnel through reliance upon the architect or engineer for inspections of work in progress, and by encouraging the use of Home Owner's Warranty inspection services in place of HUD inspections.

M. Identify and encourage the use of technically sound ways of making site improvements at less cost, without impairing health, safety, and marketability of housing sites.

N. Modify the MPS requirements for planned unit developments and subdivisions to authorize types of housing such as apartments and townhouses that permit greater density, land-cost savings, utility savings, and the conservation of heating and cooling energy.

O. Consider the size and amenity level of the lower-cost and expandable homes of the 1950s and early 1960s to determine whether this type of home has a place in today's lower-income or "first-home" market, and if so, whether HUD should orient its housing programs to provide incentives to builders to encourage higher production of marketable homes in this category.

P. Modify current regulations to assure the elimination of double charges to the homebuyer for utilities, water and sewer services for any homes financed with HUD-insured or assisted loans. Currently such service charges often may be imposed both during site development and later during housing construction.

<u>Support for New Technology and Building Codes</u>

Many proposals to cut housing costs over the last several decades have focused on American technological ingenuity. New concepts, ideas, products, and production processes could lower housing costs through less costly materials and methods, reduced work time, and enhanced durability.

What is often forgotten in discussions of new technology is how mechanized the housing industry already is. Many of the components of the house are now produced by highly sophisticated assembly lines. Large segments of the bathroom and the

44 kitchen, for example, are often fabricated off-site. Industrialized production is a fact of life in the homebuilding sector. Yet structural, enclosure, and mechanical components that exist are not adequately integrated. Such integration is a prerequisite to developing new processes of manufacture and erection.

There is room for improvement in housing construction and rehabilitation processes, whether in the production methods now being developed by the housing industry or through the use of promising technologies which are evolving out of other areas. The extent to which such new technologies could cut housing costs is a controversial question. There is a need to test and demonstrate the cost implications of such innovations.

At the moment, responsibility within HUD for the promotion of adequate building codes and advanced housing technology in housing construction, conservation, and rehabilitation is diffused among several program offices. The Department's codes policy as implemented through the Workable Program, Operation Breakthrough's effort to test and market industrialized housing, and the short-lived Office of Advanced Housing Concepts are all no longer operational.

The developer of an innovative product or production method can take his idea directly to the consumer via the marketplace only with difficulty. This is obviously the test which all such ideas have to pass and which many have already failed. Nevertheless, the constraints can be enormous, with front-end capital and building code approval just two of the most obvious.

Findings:

The Task Force finds that, at present, responsibility within HUD for the promotion of new technology and building codes policy is diffused among several program offices. There is no one office to which public and private codes and building process organizations can relate for assistance and the identification, development, and improvement of building codes and technology. We also find that new building technology may offer major ways of reducing housing costs to the consumer, particularly if the Federal Government, after being convinced of its potential, were to promote the acceptance of new technology by government agencies and promote its use throughout the country by the housing industry. We find a strong need for the

Department to provide a cohesive, coordinated focus to Federal Government efforts to promote the use of worthy new building technology in the American housing industry, and for the use of cost-effective procedures, methods and materials in place of or to complement conventional technology in housing construction, conservation, and rehabilitation. 45

Recommendations:

HUD should act now to:

A. Implement Section 2 of the Housing Act of 1949, as amended, by establishing a major Office of New Technology and Codes Policy, using existing HUD personnel as much as possible, to:

1 Sponsor, guide and coordinate Departmental building codes policy, and to identify needed basic codes related research.

2. Promulgate a program through which worthy new technology, methods, and materials can be fostered throughout the country in reducing housing costs to the consumer.

3. Work with the codes organizations and other institutions such as the National Institute of Building Sciences to assure that new technology and codes policies are recognized by other governmental agencies that regulate housing construction, conservation, and rehabilitation.

B. Work aggressively to explore ways of determining and adapting worthy new technology, methods, and materials, and other techniques from commercial and industrial sectors, in housing construction, conservation, and rehabilitation; devise a program for promoting the use of such innovations by the American building and renovation industry; and work with the National Institute of Building Sciences, Federal agencies, state officials, and private organizations to legitimize the use of new technology and innovations throughout the country.

C. Expand current levels of funding for research and demonstrations of worthy new technology, methods, and materials in housing construction, conservation, and rehabilitation.

D. Institute a program to encourage the voluntary acceptance of proven housing technologies, methods, and materials at all levels of government based upon satisfactory experience and wide use. The program should demonstrate lower costs in housing construction, conservation, and rehabilitation without sacrificing sound standards or value.

E. Amend the 701 and Community Development Block Grant programs so as to offer funding incentives for program activities that establish building code procedures for the acceptance of building technologies, methods, and materials, whether factory-built or conventional, that are approved by nationally recognized organizations and the National Institute of Building Sciences. Such approved building technologies, methods, and materials would be deemed acceptable for housing construction, conservation, and rehabilitation.

F. Study the impact that metrication of the American housing industry can have on the cost of producing and marketing housing.

G. Support added research and demonstrations of improved techniques for small-scale and large-scale housing rehabilitation, with particular emphasis upon developing low-cost means and procedures for housing rehabilitation condition analysis and cost-estimating purposes.

Materials and Labor Costs

The cost of materials, as a share of the total average new house price, has dropped since 1945. It is now about 30 percent, whereas at the end of World War II materials accounted for around 45 percent of the share of a new dwelling. Items such as paint, plumbing fixtures, heating equipment, water heaters, and clay tiles have increased at a slower rate than average for all commodities over the last 20 years, according to Michael Sumichrast, Chief Economist of the National Association of Home Builders. Concrete products, millwork, and asphalt roofing have increased at about the average rate. This is in contrast to plywood, brass and fittings, and brick which have all increased about one-third more than other types of materials, says Sumichrast

In the summer of 1977, the housing industry faced severe problems in buying critical building materials. From July to October 1977, lumber price increases varied nationally from 12-28 percent, according to HUD. During the same period, increases in the price of insulation varied between 5-15 percent nationally. Together they raised the cost of a new home between $700-$1500. On August 26, 1977 the Secretary

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of Housing and Urban Development requested the Council on Wage and Price Stability to investigate and report the reasons for the rapid increase in lumber prices. According to the report published in October 1977 by the Council, lumber prices are victim to the alternating periods of high and low demand which characterize the homebuilding industry more generally. Furthermore, the report asserts, "lumber demand has been sharply influenced by the shift in the composition of homebuilding toward single-family units which require approximately three times the amount of lumber as a unit in a multifamily housing complex." The report also notes that since 1975, lumber prices have been affected by constraints to logging on Federal timberlands controlled by the Bureau of Land Management and the U.S. Forest Service.

As with building materials, direct labor costs also have decreased in the last four decades. Today the labor share of direct construction costs is only 16 percent, roughly half of what it was forty years ago. Increased productivity and wide-spread use of industrialized methods in construction and rehabilitation have helped to lower labor's share of on-site costs. Factory labor and mechanization have reduced the need for on-site labor in such processes. Unfortunately, no good data exist to show the cost of factory or other offsite labor used specifically for the production of building materials and related components either alone or as reflected in the price of materials delivered to the site.

For approximately eight years, HUD has been performing residential wage payment data surveys as an assist to the Department of Labor in making Davis-Bacon wage determinations properly reflective of residential wage practices. Prior to HUD's involvement, most wage decisions for residential construction were commercial (or union) in nature. Following HUD's involvement, most are now residential (or open shop) in nature--much closer to the actual wage practices in the industry and in consonance with the purposes of Federal legislation.

Despite the success of this effort, HUD's survey activity has fallen off sharply. The resultant impact has been construction start delays, imposition of inappropriate wage determinations, and increased contractor/consumer complaints.

Some of the Occupational Safety and Health Administration's rules also have a cost-increasing effect upon housing, especially when the rules for one class of commercial structures are applied to a different class, such as low-rise housing.

48 Findings:

The Task Force finds a need to monitor price trends for critical building materials, fixtures, and applicances. In particular, the impact of otherwise legitimate Federal timberlands policies upon the cost of wood products should be studied.

We also find that it would be useful to study the way residential wage surveys are conducted, wage determinations are made, and the resultant impact on the cost of housing developed under HUD programs. Such a study should include labor productivity in the housing sector, and ways to expand job opportunities for minority youth, women, the unskilled, and others employed by minority owned and small business firms.

Recommendations:

HUD should act now to:

A. Support continued monitoring by the Council on Wage and Price Stability of price trends in critical building materials.

B. Work with the Forest Service and the Bureau of Land Management, within the framework of comprehensive programs of renewable resource planning, to ensure a perpetual and, where possible, increasing supply of timber for lumber and wood products. Among the actions that might be taken to increase the long-term supply of timber are: (1) evaluation of the effect of current harvest level policies, (2) full funding and staffing of Federal resource programs consistent with applicable environmental and economic objectives, and (3) encouragement of greater production from presently under-managed private timberlands.

C. Study the pricing of housing-related materials, fixtures, and appliances to determine if trade practices are occurring that cause increased housing costs to the American consumer.

D. Cooperate with the Department of Labor in a study to analyze the HUD/DOL data-sharing arrangement to assure that wage-rate determinations properly reflect housing industry wage payments.

E. Study the methods and means of improving productive and efficient use of labor in housing construction, conservation, and rehabilitation.

F. Study the impact of the Occupational Safety and Health Administration's work rules on costs of site development, housing construction, and rehabilitation to support recommendations for the modification or elimination of work rules that increase costs without safety and health justification. 49

G. Increase the access of minority owned and small business firms to housing construction and rehabilitation work, particularly those that employ large numbers of younger minority workers and others, through liberalized credit, bonding, and capitalization requirements.

Operating and Maintenance Costs

The operating and maintenance costs of owner-occupied and rental housing have increased sharply in recent years. For example, between 1972-1976, operating expenses for the new median-priced, single-family house increased 56 percent. In particular, fuel and utilities rose by 52 percent during this period. Costs associated with hazard insurance against fire, burglaries, and vandalism have also increased at a rapid rate. Local property taxes have also increased sharply, as is discussed in Chapter Four.

The consumer obviously feels the impact of increased operating and maintenance costs most sharply in monthly housing outlays. But there is another more subtle impact on the consumer, the loss of housing choice. Rising trends in abandonment, foreclosure, and apartment conversion are in large part the result of burdensome increases in operating and maintenance costs.

Reducing operating and maintenance costs is not an insurmountable problem. The technology to reduce such costs already exists in many instances. Nevertheless, lower operating and maintenance costs will require an in-depth analysis of tradeoffs and the rendering of difficult policy decisions. In almost all instances where operating and maintenance costs have increased sharply, these trends could have been reversed, but not without increased construction costs in some cases.

Furthermore, building regulations have focused correctly on standards for fire protection and structural hazard mitigation. It is time now for such regulations to give adequate consideration to operating and maintenance costs associated with building techniques and materials to enable consumers to judge and afford the construction, rehabilitation, and continued use of housing.

50 Findings:

The Task Force finds that increases in operating and maintenance costs have imposed heavy burdens on the consumer and diminished available housing choices. We believe that there is potential both in the present regulatory system and in the technological state of the art to reduce such costs. What is lacking is the requisite leadership to define and advance consumer needs in reducing maintenance and operating costs. We think the Department should develop policies to help control the costs of utilities and hazard insurance.

Recommendations:

HUD should act now to:

A. Propose and support the development of a nationally recognized system for determining the short- and long-term operating and maintenance costs of alternate design, materials and techniques used in housing construction, conservation, and rehabilitation. Such support should include a continuing public information program.

B. Revise HUD regulations for housing construction, conservation and rehabilitation to include a system for user selection of appropriate design, materials, and techniques in terms of operating and maintenance cost benefits.

C. Support an early revision of all housing regulations in terms of operating and maintenance cost criteria.

D. Institute new policies to help control increases in utility charges and hazard insurance, and sponsor applied research to develop water and energy conservation techniques, and acceptable independent utility systems.

Chapter Four

Financing, Money Markets and Marketing

The Task Force has studied problems of financing the costs of acquiring and occupying single-family and multifamily housing, including newly constructed, rehabilitated and existing housing. Financing for land development, housing construction and rehabilitation, and supporting community amenities, is a major component of the cost of housing to the consumer. Effective mortgage interest rates have risen from approximately 6.5 percent in 1967 to about 9.0 percent in 1976, an increase of 38 percent. Obviously, it costs far more to finance the purchase of housing today than 10 years ago. The renter of housing also pays more than in the past since investor-owners pass increased interests costs through to the renter. Thus, many middle-class families that could have afforded then to buy or rent homes of a given size in 1967 are unable to afford today's higher costs.

Financing costs to the consumer include not only the direct borrowing charges paid by the housing producer but also indirect costs--what suppliers, subcontractors and other businesses involved in homebuilding or renovation must pay to borrow. Inflation is only one reason why financing costs have increased. Other factors are equally significant.

The cyclical nature of the housing industry is well known. It appears that construction cycles, themselves in great part a reflection of national countercyclical monetary actions, have a significant impact on housing costs. They affect costs and activities associated with land acquisition and development, housing construction and rehabilitation, privately developed community amenities, and housing acquisition and occupancy. Construction cycles and countercyclical monetary policies have effects that cut across every issue studied by the Task Force. The consumer pays an enormous price for the cyclical nature of the housing industry--higher land costs, higher wages, more expensive building materials and higher interest rates. In order to stabilize the housing economy, certain modifications in national monetary and tax policies must be addressed.

There is a need also for basic reform in the Nation's lending and financing programs to make them more efficient and effective. The flow of financing to support housing-related activities must be stabilized, with an increase in mortgage and interim loan funding, at lower costs to the

52 borrower. Streamlined loan processing procedures and expanded secondary mortgage market activities must be implemented.

Some special housing needs can only be met through innovative financing approaches. These include the development or renovation of marketable housing in rural locations as well as in urbanized areas to meet the needs of large families and of households just entering the homebuyer cycle. Special financing is needed both to spur residential construction in older urban areas where conventional lending resources appear insufficient and to encourage the conservation and rehabilitation of our vast existing housing stock.

The impact of consumer regulations upon housing costs to the consumer should be studied. Such regulations include the Real Estate Settlement Practices Act, foreclosure laws and usury statutes. Where warranted, changes to streamline such rules should be sought. Their complexity should be reduced and increased competition in the marketplace among firms that provide services to the housing consumer should be stimulated.

We have identified ten major problems in the areas of financing, money markets and marketing for which solutions are of critical importance. Some of these were highlighted in Chapter One. In addition, there are other major problems. All of these are treated at greater length in later sections of this Chapter. The ten problems and a capsule description of their solutions are:

(1) National Monetary Policy's Impact on Housing Costs: New evidence presented by Arthur Solomon, Director of the MIT-Harvard Joint Center for Urban Studies and a Task Force member, supports an immediate public review of the relationship of national monetary policy to the economy and particularly the housing sector, with expanded research into the impact upon housing costs to the consumer, so as to resolve a needless conflict between meeting other economic goals and helping to stabilize the housing sector. The Secretary should have, as a matter of right, a major role at the Cabinet level in helping to set national monetary policy.

(2) National Tax Policy's Impact on the Money Market: Frequent changes in the Internal Revenue Code create an unstable investment climate and affect the flow of financing in terms of stability, availability, and cost. HUD and its Secretary should be forceful and effective advocates of national tax policy that takes the needs of the housing sector into account.

(3) Unstable Money Supply: Instability in the money markets affects the financing flow. Apart from modifications in national monetary and tax policies, it is desirable otherwise to stabilize the money supply and to increase the flow of funds to make more money available for the financing of land development, housing construction and rehabilitation, supporting community amenities, and housing acquisition and occupancy.

(4) Financing First-Time Home Purchases: The first-time homebuyer of limited means has difficulty financing the pruchase of a home. Families returning to the home-purchase market after a long absence may face similar difficulties. HUD should encourage the expanded use of graduated payment mortgage loans and request increased Federal and state support for their use to alleviate this problem.

(5) Costly Loan Processing Requirements and Delays: The substantive and procedural aspects of loan processing add to financing costs. HUD and other agencies should simplify, improve and coordinate the procedures for processing loans relating to housing.

(6) Escalating Settlement and Transaction Costs: These costs are increasing to the detriment of the homebuyer and the renter who pays higher monthly rental bills as a result. HUD and other agencies should encourage price competition and innovation in brokerage, settlement and transaction services to make them more efficient and less costly.

(7) Financing Special Housing Needs: Many Americans have especially intractable financing problems. HUD and other agencies should revise financing requirements to expand financing opportunities for such families.

54 (8) Large-Scale Financing: Particularly in older urban neighborhoods, housing construction and rehabilitation on a small-scale basis may prove costly to the consumer HUD and other agencies should support large-scale land and housing development and rehabilitation activities including the creation of new-towns-in-town and satellite communities, whose scale results in economies of planning, development and financing so as to produce housing at lower costs and prices to the consumer.

(9) Need for Uniform Financing Techniques and Instruments: The lack of uniformity of financing documents and techniques adds to the cost of preparing loan applications and may cause disparate treatment of otherwise meritorious loan requests. HUD and other agencies should develop and promote the use of uniform mortgage loan processing instruments and forms for use by all lenders involved in housing-related financing.

(10) Constrained Interest Rates: Federal and state restrictions on mortgage loan interest rates impede the flow of financing for housing purposes and may add to the cost of financing. HUD should deregulate the FHA interest rates on housing-related financing and encourage states to repeal or modify state usury laws applicable to housing mortgages and home improvement loans.

National Economic Policies and Financing

Housing has been held hostage to the growth in real Gross National Product (GNP) the diminishment of unemployment and the lessening of inflation--all national economic goals which the Task Force affirms are essential to the national economy for reasons that are evident. It is well recognized that housing construction is one of the most cyclically unstable sectors of the United States economy. There have been seven major cycles since World War II, and in the most recent one, housing starts fell from a peak annual rate of 2.5 million units in the first quarter of 1972 to a low of 953,000 in the second quarter of 1975.

Given the oresence of Regulation Q and the imbalance in the maturity structure of thrift institutions, whenever the Federal Reserve Board restricts the money supply in order to restrain inflationary pressures, short-term interest rates rise. Depositors take advantage of the competitively higher yield from Treasury Bills and other short-term debt instruments by withdrawing their savings deposits. This outflow of funds (disintermediation) leaves the thrift institutions, the nation's primary residential lenders, with fewer funds to support mortgage loans. With fewer funds available, housing starts decline. Although the recent growth of longer-term certificates of deposit and expansion of the secondary mortgage market have mitigated this problem somewhat, residential construction still remains the roller coaster of the economy.

The housing sector has been cast in the role of leading the nation's countercyclical monetary actions throughout the postwar period. Because construction responds quickly to the cost and availability of credit, housing starts are choked off during cyclical expansions and are chosen to lead the way out of recessions. This constraint has been deemed by policy-makers to be inevitable, yet new evidence indicates that this is not necessary and may further increase housing costs to the consumer. While it is universally accepted that a reliance on monetary policy to promote general economic stability leads to severe housing construction cycles, the conventional wisdom is grounded upon the view that these sharp fluctuations in housing starts are a necessary cost that our economy must accept in order to promote more stability in output and employment for the general economy.

The prevailing economic view, however, has not taken sufficient account of the cost to society of the excessive burden assumed by the housing sector. First, the sharp cyclical fluctuations in housing starts increase housing costs because of their pervasive effect on the efficiency of the construction industry. Moreover, the presumed conflict between the housing sector and other macroeconomic objectives is grossly overstated, and possibly incorrect.

The impact of the residential construction cycle on housing costs should be examined. The underlying instability in housing production has a pervasive effect on the basic technology, structure, and organization of the industry. The extreme cyclical instability that characterizes housing production raises the cost of all real and financial factors--land, labor, building materials, financing, and profit. In the short run, housing slumps lead to idle plant and construction equipment, to underutilized material

56 manufacturing capacity, to homebuilder bankruptcies, and to unemployment of construction workers. But it is the long-run effects of the housing cycle that create the inefficiencies in homebuilding which are so costly to the American homebuyer. The constant need to adapt to wide fluctuations in production levels leads homebuilders and building material producers to use less efficient technology so that they can minimize their fixed costs in plant and equipment over a wide range of output levels. Builders and producers are also less capital intensive so as to minimize the cost of underutilized plant capacity during slack periods. Lumber prices and other building materials follow these cyclical ups and downs, and the industry invests less in job training to cut down on the cost of uncertain demand and labor turnover.

Also government and the unions are forced to adopt restrictive jurisdictional and other industrial relations rules in order to provide more job security for construction workers, who similarly bargain for relatively high hourly wages to assure a reasonable income when averaged over periods of intermittent unemployment. Land developers and builders, moreover, require a relatively high rate of return on their equity in order to compensate for the risk and uncertainty associated with their investments. Finally, financial institutions set higher prices for items such as construction loans, title insurance, and settlement charges to offset the risk and to attain the flexibility required to adapt to cyclical swings in business volume. Although it is difficult to quantify these costs, it is clear that the price that Americans pay for their housing is far higher than would be necessary under more certain production output levels. Because more housing is built during the peak of the cycle, when prices are at their highest, new homebuyers have to pay much of the premium for what is, in effect, instability insurance. By having to spend more income on housing acquisition and occupancy costs, households have less to spend on goods and services. The general economy may thus suffer as well

These high housing costs might be justified if it were clear that the sharp fluctuations in residential construction are necessary to achieve more stable output and employment in the overall economy. While this alleged conflict between the housing sector and monetary stabilization policy is generally accepted, there has been little systematic evaluation of the historical record and minimal analysis of the impact of a more stable housing sector on other national economic objectives such as the growth in real GNP, the rate of inflation or the aggregate unemployment rate.

In what is probably the most important study* of this issue to date, it was found that stable housing and a stable economy are not necessarily competing goals. Through controlled experiments with the large-scale quarterly econometric MPS model** two earlier housing cycles, in 1969-1971 and 1974-1975, were studied. The results indicate that with less severe swings in housing starts (a reduction in the amplitude of the fluctuations) real GNP would have been higher and the unemployment rate would have been lower Under the optimal control policies inflation would have been slightly higher, but this seems a small price to pay for a far more significant improvement in real economic growth and employment. The major finding of this study is that stabilizing the housing sector does not include additional "costs" to society in terms of the other goals of national economic policy. In fact, one can contend that not only does instability in residential construction add to the cost of housing, but its presumed benefits in terms of other economic objectives are questionable.

While the conclusions regarding the role of housing in economic stabilization policy must be regarded as

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* Thomas Cooley and Carol Carrado, "Competing Goals of Stabilization Policy: A Reassessment of Policies Toward Housing," MIT-Harvard Joint Center and National Bureau of Economic Research, December 1977.

** The MPS model is an abbreviation for the MIT, University of Pennsylvania, and Social Science Research Council Model

58 tentative,*** the results are so strong that further study of this important issue is clearly warranted. If additional investigation corroborates these results, then there are several approaches that may be taken by the Federal Government to moderate the most extreme fluctuations in residential construction.

There probably always will be cycles in the business economy. However, if the burden of countercyclical policy were to be shared by a number of business sectors instead of primarily by the housing sector, housing costs to the consumer should be reduced. It is not possible to predict the distributional effects of sharing the countercyclical policy burden. It will probably be spread unevenly, with state and local investment affected more than corporate plant and equipment investment. But even without such predictability, it seems clear that having most of the economy share the burden means that housing costs would increase at a lower rate. With a stabilized housing industry, everyone would pay less for housing in the long run.

Just as Federal monetary policy has had a major impact upon shelter costs paid by the consumer, so has Federal tax policy. Uncertainty over tax policy can dampen the willingness of developers and investors to undertake multi-family housing construction or rehabilitation. Such lack of predictability affects the use and cost of both equity capital and borrowed funds for single-family production and purchasing as well as for multifamily development and

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*** The results of the Cooley/Corrado study place the standard view of the relatinship between the housing sector and countercyclical stabilization policy in serious doubt. As the researchers indicate, however, the results are conditioned by the specific characteristics of the MPS model, the cycles studied and the planning horizon chosen. Accepting these caveats, the results of this systematic analysis are so important to national economic policy that they strongly suggest the need to reconsider the standard view of this relationship.

occupancy. Some argue that HUD's record in addressing the impact of Federal tax policy under housing shows a need for its role within the Administration to be strengthened. HUD should be prepared to demonstrate an understanding of the legitimate financial requirements of housing producers and homeowners, and of the need for predictability of tax results in processes of housing construction and rehabilitation, including local property tax effects as well For too long, national tax policy has been formulated with little regard for meeting the needs of the housing sector or the housing consumer. HUD has been excluded from a policymaking role. It is essential that more research be initiated on the effects of Federal, state and local taxation upon housing investors and owners including the use of tax incentives and subsidies offered through taxation processes.

Findings:

The Task Force finds that the conflict between the cyclical nature of the housing sector and economic stabilization goals may be unnecessary--a conflict that imposes disproportionate burdens on the housing sector and severe costs on consumers as well as the rest of society. The economy will always suffer fluctuations, but it is reasonable for the burden of national monetary countercyclical policy to be shared by all sectors of the economy and not imposed primarily upon the housing sector. The Cooley/Corrado study cited above must be treated as a preliminary though apparently authoritative review of the relationship between national monetary policy and the housing sector. We find an immediate need for further study of this important issue. Many policies have been advanced to moderate extreme fluctuations in residential construction and rehabilitation. These include secondary market support, revisions in financial institution regulations, innovative mortgage instruments, expansion in sources of funds, and deregulation of interest rates. All of these approaches should be reappraised in the light of this new evidence from the Joint Center study, if after additional review and study a shift in monetary policy is warranted. Moreover, we believe that the Secretary should join with the Federal Home Loan Bank Board (FHLBB) and the Federal Reserve Board in helping to set national monetary policy.

We further find a need for HUD to strengthen its capacity to assess and to respond to the implications of proposed changes in Federal tax policies for the housing sector.

60 We take no position with respect to the appropriateness of using tax incentives and tax subsidies. But since the Internal Revenue Code contains them, we believe they should be studied. It would be useful for HUD to examine the effects of local property taxation upon the housing consumer and to take appropriate action to inform localities and the general public of the results of such an examination. The impact of taxation upon housing investors and owners, through incentives and subsidies, also should be studied.

Recommendations:

HUD should act now to:

A. Urge the Administration with HUD participation to conduct an immediate public and comprehensive review of monetary policies employed in the past 40 years and their relationship to the housing sector and to shelter costs to the consumer. The research underway at the Joint Center for Urban Studies should be examined and expanded, and additional studies should be initiated to test the thesis that holding housing starts reasonably constant nonetheless enables other economic goals to be attained (an acceptable growth in real GNP, lower aggregate unemployment and an insubstantial increase in inflation) while lowering the cost of housing to the consumer. If this thesis is proven valid, the Administration should invite HUD to join with the Federal Reserve Board and other agencies to review the implications of Federal actions to moderate the most extreme fluctuations in residential construction in terms of revised monetary posture that such study could suggest. In any event, the Secretary of HUD should be a forceful and effective advocate at the Cabinet level for HUD to play a major role within the Administration with respect to setting national monetary policies that include stabilizing the housing sector among national economic goals. The Secretary should have the opportunity to strongly indicate the effects of the national monetary policies on housing productivity and costs. HUD and the FHLBB should meet with the Federal Reserve Board to determine such policies. The Task Force takes no position here with respect to the merits of possible Federal actions (some of which are addressed in later sections of this Chapter) except to note that the following suggestions appear to warrant additional scrutiny during this review.

1. Expanded Secondary Market Support: The private secondary mortgage market is in the process of considerable expansion. This activity could be encouraged, and the government's financial institutions (FNMA, FHLMC, GNMA, FHLBB) could reinforce the countercyclical activities of the private secondary markets. 61

2. Altered Financial Institutional Regulations: This approach assumes that the basic cause of cyclical instability in the mortgage and credit market is the inability of thrift institutions to compete for funds when short-term interest rates go up. Thus, Congress has been considering reforms that would allow the thrifts to diversify their assets and liabilities structure, so that the asset and liability maturities would match. The lending powers of the thrift institutions could be expanded to include construction loans, community development loans, commercial paper, and some corporate debt, while expanded services could include checking accounts and consumer loans. Consideration has also been given to the elimination of the Regulation Q ceiling on the interest rates for passbook accounts.

3. Nonstandard Mortgage Instruments: Thrift institutions rely on short-term liabilities as their major source of funds for long-term, fixed interest rate investments, but they often cannot earn a return that allows them to be competitive with other short-term market instruments. To alleviate this problem, the long-term, fixed interest standard mortgage could be supplemented by one that allows a maturity, interest rate, and/or outstanding principal to adjust in response to changes in the cost of funds. Possibilities include rollover variable rate and graduated payment mortgages.

4. Expansion in Sources of Funds: This approach assumes that the most effective method to stabilize the flow of mortgage credit for housing is to increase the participation of pension funds and life insurance companies in the residential mortgage market. Thrift institutions must compete for household savings on a continuous basis, but the net flow of pension fund and life insurance reserves comes in on a contractual basis and is therefore more stable. The Federal Government could also use tax incentives and modified regulations to increase the funds that these institutions supply to the mortgage market.

5. Deregulation of FHA Interest Rate: This approach assumes that settlement and transaction costs such as discount points charged by lenders would be reduced if HUD were to deregulate the FHA interest rate for insured mortgage loans.

B. Urge the Administration with HUD participation to conduct an immediate and comprehensive review of national tax policy with emphasis upon ensuring stability and predictability of tax treatment of funds for housing-related purposes under the Internal Revenue Code. HUD should create a mechanism to coordinate HUD's response to proposed changes in the Internal Revenue Code, and to address the implications of Federal, state, and local income taxation for housing production, conservation, and occupancy costs. HUD should study particularly the housing cost implications of current tax shelter provisions under the 1976 Tax Reform Act, and the effectiveness of employing tax incentives and subsidies for the housing sector. HUD should review the impact of growing local property taxes upon shelter costs and upon the elderly and others of limited means, and devise a program for publicizing innovative local tax-sharing approaches. HUD and the Secretary should be forceful and effective advocates at the highest levels of government in setting national tax policy that takes into account the needs of the housing sector.

C. Support revised monetary, tax, and fiscal policies at the national level to increase the flow of funds for the financing of land development, housing construction and rehabilitation, and supporting community amenities, to stabilize the flow of such funds, and to reduce the cost of such funds imposed through interest rates, discount points, fees, and charges.

HUD Loan Processing

HUD's loan insurance, financing, and assistance programs, born out of the needs of the sixties, must be reoriented to the needs of the seventies and eighties. Today's priorities include helping to solve the problems of cities and towns, supporting the provision of increased housing opportunities for everyone but particularly the disadvantaged, and financing activities to support the production of a major amount of newly constructed or rehabilitated housing, both single-family and multifamily.

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Many housing cost increases under HUD's loan insurance, financing, and assistance programs result from delays and processing inefficiency. The time-consuming nature of HUD loan processing is not really news, but the potential dimension of economies to developers as well as to HUD itself, should loan processing be streamlined, is sobering.

It also appears desirable for additional support to be given to the reorganized field offices involved in various facets of loan processing. It would be useful, too, for substantive requirements in published regulations affecting processing to be modified. We have originated many of the recommendations in this section. Many others are the result of comments and suggestions originally proposed by HUD field office personnel

Findings:

The Task Force finds that HUD's own loan processing procedures are a factor in raising the cost of housing to the occupant of housing developed or rehabilitated under HUD's loan insurance, financing, and assistance programs. By streamlining processing to eliminate red tape, standardizing documentary requirements, and encouraging complete loan submissions, field offices could speed the processing of applications under these programs. Increased efficiency in the utilization of scarce technicians and judicious reorganization of program and management elements (in part now contemplated by the Department's pending field reorganization) could lead to reduced processing time and hence to savings to the housing producer, the consumer, and the Department itself.

We also find that one of the problems HUD faces is a general public perception that the effectiveness of the Federal Housing Administration and its programs has declined. While we do not agree with this perception, we note that the addition of housing subsidy programs to FHA's other mortgage insurance programs may have imposed additional burdens upon already overworked technical field staff. Members of the Task Force note that current staff levels, particularly in large field offices serving rapidly growing communities, appear inadequate and that the technical staff is spread thin. Thus, we find a need for the number of certain technicians in field offices to be increased, in addition to the contemplated reallocation of field office personnel

64 proposed in the Department's pending field office reorganization, if this public perception is to be modified or reversed.

Though each of the steps recommended below may seem small when viewed individually, their cumulative effect could have a major impact on a large portion of the housing produced in the Nation. Furthermore, many of these steps can be implemented expeditiously by HUD without major new legislation merely through modest changes in published regulations and operating procedures.

Recommendations:

HUD should act now to:

A. Add substantially to field office technical staff to enable the reorganized field offices to handle increased program loads and added processing requirements, and modify and streamline administrative procedures and furnish supporting facilities to promote the expeditious processing and review of applications for loan insurance, financing, and assistance. In implementing this recommendation, HUD should act now upon the following supporting changes in staff and administrative procedures:

1. Implement a complete review of all facets of underwriting now to update currently used approaches for assessing the condition of housing and financial markets, and to revise principles and integrate procedures to include consumer protection, equal opportunity, and environmental concerns, so as to eliminate multiple reviews that cause processing delays.

2. Continue efforts to combine Section 8 subsidy analysis and underwriting reviews under insuring programs in a streamlined, coordinated single-track processing and review procedure (e.g., Section 8/Section 221(d)(4) applications)

3. Place additional computer terminals in the underwriting section of each local office to enable technical staff to use computer underwriting processing more effectively (the terminals often are located within spaces controlled by the Administrative Division and are inaccessible to others) and assure that field office technicians

with a demonstrable need have access to hand-held calculators 65
to expedite the performance of routine underwriting calculations.

4. Review procedures for allocating subsidy funds or contract authority under the Department's operating plan to field offices to give them more lead time to plan their 12-month workload.

5. Implement nationwide HUD/FHA training programs for technical personnel in field offices.

6. Reduce the use of fee-paid consultants by hiring additional full-time staff appraisers, inspectors, and mortgage credit examiners, to reduce processing time and to save HUD administrative costs, but authorize the employment of temporary fee-paid professionals for these services when work load peaks occur or for special needs (to service outlying areas, to handle peaks of loan applications and building cycles, and during vacation seasons) Field office technical staff should be increased to the point of being able to process most of the current and projected case load if properly managed.

7. Achieve HUD/FHA savings and reduce processing and review time and costs to housing producers by developing a functional, detailed index to HUD statutes, regulations, and handbooks which can be updated periodically with ease, and by reviewing forms and required exhibits to eliminate redundancy.

8. Develop model application submissions for various programs to assist sponsors and applicants to make complete submissions and to reduce processing and review time now consumed in requesting and reviewing additional exhibits piecemeal.

9. Have field office staff provide increased technical assistance to developers at the proposal stage concerning required exhibits, to eliminate the need for costly revisions of completed exhibits.

10. Accelerate procedures to publish, correct and revise HUD handbooks and manuals, and streamline HUD's internal clearance and issuance system for such publications, to

66 eliminate confusion about instructions and to reduce delays of up to a year in resolving technical and administrative problems.

11. Help to reduce housing costs attributable to processing delays or errors of HUD staff as a consequence of inept management and inadequate competence by supporting proposed changes in the Federal civil service system insofar as they promote greater efficiency and productivity from a better-managed HUD staff.

B. Amend and simplify current processing and underwriting requirements, collaboratively prepare and distribute model mortgage and loan instruments and forms, and negotiate their acceptance by various Federal, state and local financing and secondary market agencies. In implementing this recommendation, HUD should act upon the following supporting changes in processing requirements and lending techniques:

1 Eliminate current methods for calculating professional fees as a percentage of construction costs or mortgage amount and substitute different bases for professional fees, such as per dwelling unit compensation or fixed fees subject to an upset amount set through negotiation, with savings to be reflected in the mortgage amount.

2. Study the implications of introducing fast-track multifamily processing for use by sophisticated developers, when the site or property is straightforward, by eliminating Feasibility and Conditional stages from AMP, substituting a preapplication conference and an application for Site Appraisal Market Analysis/Conditional Commitment (SAMA/CC) determination. Have one application based upon the field office comments at the preapplication conference, which the field office can respond to with a SAMA/CC letter that gives the applicant/sponsor expense and maximum mortgage calculations. Costly exhibits not relating to the SAMA/CC determination would be deferred until the Firm Commitment application. Change the filing fees from current $2.00 per $1000 to $1.00 per $1000 of mortgage amount at SAMA/CC application. At Firm Commitment application the fee paid would be $2.00 per $1000 of mortgage amount. Use this approach for both new construction and rehabilitation of multifamily housing developments.

3. Prescribe a general certification form that the mortgagor and contractor will use to evidence compliance with

all existing regulations rather than separate documents (similar to IRS tax form certification) 67

4. Simplify previous participation clearance procedures, perhaps by having the Central Office issue and withdraw clearances annually.

5. Issue reasonable and workable guidelines for approving financing plans and for controlling costs of Section 8 housing to be constructed or rehabilitated without FHA insurance (e.g., by state or local housing finance agencies or local public agencies, financed with proceeds of tax-exempt bond sales; or by private lenders with or without private mortgage insurance)

6. Change statutes and regulations to permit single-family processing for projects containing eight or fewer dwelling units (instead of current one to four units) if justified by market analyses, but for more than three units held for rental, enable the use of the standard exculpatory clause to remove personal liability.

7. Provide for preapplication review of project drawings and specifications when the architect does not have experience in designing HUD projects, to enable field office staff to provide guidance and to reduce the possibility of later required revisions attributable to ignorance.

8. Encourage the Veterans Administration to accept conversion of the commitments made by FHA as FHA does for Veterans Administration CRVs (Certificates of Reasonable Value), thus reducing Veterans Administration processing time and costs.

9. Develop uniform mortgage and loan processing instruments and forms, for use by all lenders (public and private) for all financing transactions involving land development, housing construction and rehabilitation, and supporting community amenities. Negotiate their acceptance by various Federal, state and local financing agencies, private lenders, and secondary market agencies (i.e., as with the FNMA/FHLMC forms)

10. Modify FHA mortgage insurance processing of all rehabilitation loans by using appraisals to special rehabilitation code or housing code requirements (not to Minimum Property Standards for new construction) with such

68 appraisals to include detailed condition analyses, and by permitting a HUD-approved negotiated agreement about the nature, extent, and timing of repairs scheduled for completion after closing, with escrows in appropriate amounts and with enforcement procedures providing for release of escrowed funds only upon inspection.

11. Eliminate permission-to-occupy procedure and accept certificates of occupancy where issued.

12. Continue the new policy to increase Section 235 subsidy amounts by further lowering the maximum interest rate charged to the homebuyer. Implement effectively Section 106(a)(2) of the National Housing Act providing for counseling to homebuyers as a means of preventing losses to uninformed homeowners.

13. Make nonprofit multifamily projects "lump sum" by elimination of cost certification by "arms length" contractors. For all multifamily projects other than such nonprofit projects which have an arms length relationship among principals, revise processing to use a simplified cost certification procedure that preserves BSPRA (Builders Sponsors Profit and Risk Allowance) as an identifiable item in the estimate of mortgage value.

14. Encourage the combination or consolidation of interim and permanent financing for single-family housing construction and rehabilitation as one transaction, and encourage the use of "take-out" commitment procedures to eliminate professionals' fee featherbedding for such items as recording fees, survey fees, appraisal fees, and attorneys' fees.

15. Revise Accelerated Multifamily Processing (AMP) to eliminate the mandatory requirement that field offices, at HUD's expense, order all personnel and commercial credit reports and instead revert to requiring the mortgagees to supply credit reports, paying the costs out of their 2 percent Initial Service Charge. However, allow field offices to order additional credit reports at HUD's expense if the need for such reports is warranted by the mortgage credit examiner.

C. Support legislative amendments to streamline the processing of housing loan applications, with particular attention to the following:

1. Eliminate the requirement under Section 213 of the Housing and Community Development Act of 1974 for local government approval of construction of subsidized housing consistent with the community's Housing Assistance Plan in locations with current zoning and codes approvals, to preclude politically motivated disapprovals.

2. Make Section 235 more workable by allowing use of the program for up to 100 percent of the units in a new subdivision rather than for only 40 percent, in areas where concentration problems are minimal and where justified by market analyses, and by raising mortgage limits to reflect real estate acquisition costs.

Financing and Money Markets

The consumer ultimately pays for all the developer's financing costs, including the interest and fee payments on the land development loan, the interim or construction loan interest, fees and charges, the commitment fees and charges for permanent mortgage financing, and special financing charges at settlement. The consumer also pays for permanent mortgage loan interest, sometimes accompanied by term insurance on the mortgagor's life, for the life of the mortgage. The consumer pays for these costs at the time of settlement and during the mortgage if the consumer is a buyer, or in a portion of each rental payment if a renter. Some of these financing costs are affected by Federal and state supervisory agencies that regulate lending activities. Others may be affected by secondary finance market agencies' requirements, notably those of the Government National Mortgage Association (GNMA), and the Federal Home Loan Mortgage Corporation (FHLMC) Some can be affected through HUD's general financial requirements.

Findings:

The Task Force finds a need for HUD to take action to modify certain of its general financial requirements with respect to various classes of loans, and to induce changes in requirements imposed upon lenders by secondary market agencies. We also find that HUD should explore statutory and regulatory changes in the Department's authority to support innovative financing techniques and to provide last resort insurance for performance and payment bonds where private insurers will not do so.

70 Recommendations:

HUD should act now to:

A. Consider the marketing, cost, and investment implications of requiring nonprofit and entrepreneurial developers to fund or collateralize the developer's share of the financing risks of multifamily rental housing construction and rehabilitation in an amount to be based upon the developer's management track record and upon the mortgage amount.

B. Support state and metropolitan housing finance agency efforts to require nonprofit and entrepreneurial developers to share the financing risks of multifamily rental housing construction or rehabilitation through a funded or collateralized obligation in an amount based upon the developer's management track record and upon the mortgage amount.

C. Cause GNMA regulations to be modified, and encourage FNMA and FHLMC to change their rules, to enable all three agencies to purchase all types of secured loans relating to land development, housing construction and rehabilitation, and supporting community amenities, including subdivision and planned unit developments. By expanding the market for such secured loans, including uninsured loans and those publicly or privately insured, the availability of capital to public and private lenders originating such loans would be increased. With an increased supply of funds, the interest rates charged for such loans might drop.

D. Study the implications of broadening statutory authority under Section 245 of the National Housing Act and of encouraging greater use of existing authority to establish special insurance for experimental financing loans to be tested or demonstrated on a pilot basis prior to national adoption. FHA loan insurance could be provided to public and private lenders willing to experiment with new financing techniques (e.g., that involve unusual security, credit, amortization, payment, and other features) to augment other forms of security for loan repayment, and to induce the conduct of a valid marketplace test or demonstration.

E. Request statutory and regulatory authority to expand the mandate of HUD's Federal Insurance Administration so that it could insure performance and payment construction bonds for the development of newly constructed or rehabilitated housing, in situations when the private insurance industry will not do so.

F. Encourage rapid acceleration of the use of graduated payment mortgage loans, and request increased Federal and state support for their use through the Federal Home Loan Bank Board (FHLBB) and other Federal lender regulatory agencies, so as to increase access to capital for home mortgage purposes available particularly to first-time homebuyers of limited means.

G. Deregulate the FHA Interest Rate on all insured mortgage and other loans for any housing-related purpose, including loans for land development, housing construction and rehabilitation, supporting community amenities and other activities involved in single-family and multifamily housing development, renovation and acquisition.

Financing for Special Housing Needs

Even with changes in Federal monetary and fiscal policies, with revisions in HUD's loan processing and with increased secondary market support, certain special housing needs will continue to be unmet. Particularly critical are the shelter needs of large families in both urbanized and rural locations, and others, such as the handicapped, migrant workers and rural nonfarm households.

A major and highly visible unmet need is that of young families, especially those with limited means, who desire to obtain financing for the purchase of their first home. It is clear that even currently experimental innovative financing techniques may not help the first-time homebuyer who lacks sufficient savings to afford a downpayment and to defray settlement costs and furnish the new home within a reasonable time after occupancy.

The Task Force is aware of considerable concern that the design and space requirements of all these families be met. It seems equally clear that unusual financing techniques must be evolved to support specially designed housing which meets those needs in a marketable way.

In addition to the need for financing to meet these special housing needs, there are large areas of American communities where conventional lenders cannot or will not provide financing for reasons other than "red-lining." Promising techniques to revitalize these areas such as infill rehabilitation, large-scale development and rehabilitation, and "new-towns-in-town" so as to provide housing at reasonable costs to current residents will require special assistance.

There is strong evidence that homebuyers who want to obtain financing for home purchases in red-lined areas can get loans. This financing appears to be from nonconventional sources and at greatly increased interest rates. Red-lining, thus, not only contributes to urban decay, it also contributes to increased housing costs for certain homebuyers. The Federal agencies regulating lender activities can help ameliorate this situation by modifying their regulations to require lenders to provide financing to credit-worthy borrowers at interest rates reflecting the real risks of housing loans in high-risk locations.

Another dimension of special urban housing needs is that posed by efforts to conserve viable neighborhoods through such programs as Urban Homesteading and Neighborhood Housing Services, as well as other renovation and substantial rehabilitation activities. There is a large and valuable housing stock in older communities, much of which is suitable for recycling and reuse. A Task Force member active in volume rehabilitation writes:

> An owner/developer interested in restoring his currently occupied multifamily building to code complying, decent housing is victimized by the historical difficulty of obtaining financing which will allow him to treat his tenants as human beings. He must first obtain a building loan which requires the completion of all specified improvements within an arbitrary limited time, following which the loan will convert to "permanent" financing. The failure to complete the improvements creates a default under the building loan, the inevitable result of which is foreclosure.

Large-scale development and the creation of "new-towns-in-town" are other promising mechanisms for reducing shelter costs in urban as well as rural areas. HUD estimates that site planning savings attributable to a reduction of street, sidewalk and utility rights-of-way amount to 3 to 5 percent of land development costs alone, or 1 to 3 percent per dwelling unit. Many cities have vacant land condemned for urban renewal, highways or other purposes. HUD's Title X land development insured loan program and Title VII new community program both with some revisions provide tools to support large-scale development activities where useful and marketable. These programs provide for cost savings through economies of scale.

Findings:

The Task Force finds an urgent need for financing techniques to be specially expanded or evolved to support the provision of new and rehabilitated housing for persons and families with special housing needs. It is particularly important to assist the first-time homebuyer with limited means to finance the purchase of housing, and to provide financing for marketable housing designed to accommodate the special housing needs of large families, the handicapped, migrant workers and rural nonfarm households. Some of these needs can be met through an expansion of current state and metropolitan housing finance agency programs. Others require an expansion of HUD program assistance such as that afforded by a revised Title X land development insured loan program and a revised Title VII new community program, as well as through special financing provisions for large-scale housing development and rehabilitation.

Recommendations:

HUD should act now to:

A. Support amendments to statutory and regulatory requirements to enable the development, pilot testing or demonstration, and operational implementation of viable new financing approaches to support the provision of housing for families with special needs in both urbanized and rural locations, such as large families, the handicapped, migrant workers and rural nonfarm households.

B. Modify current loan processing regulations to enable the provision of insured loan financing with appropriate underwriting and marketability criteria for basic, starter, unusual or different types of homes which have been determined to be marketable in the areas in which they are located. Such homes could be constructed or rehabilitated with the use of various techniques including self-help methods, for purchase or use by young families and first-time buyers of limited means, as well as by families with special housing needs.

C. Modify FHA statutes to permit the option of 35-year, no downpayment mortgage loans for single-family home purchases

74 by creditworthy borrowers, to improve financing for first-time homebuyers as well as for those returning to the home purchase market.

D. Support expanded use of innovative financing techniques through alternative mortgage instruments such as graduated payment mortgage loans coupled with sharply reduced down-payments to enable younger families with lesser incomes to finance their first home purchase in an affordable manner.

E. Streamline its own processing of land development, subdivision and planned unit development loans insured under Title X and other HUD programs, and to assure that FNMA makes funds available for Title X loans on a realistic basis.

F. Create a permanent mechanism to process and support large-scale land and housing development applications for locations in high density urban centers and in other marketable locations. The financial and technical assistance required to plan, design and support the development of large-scale communities, whether conceived primarily as large housing projects with ancillary commercial facilities or rather as complete satellite communities or new-towns-in-town, entails special training, sophistication, and innovative methods to assure that such communities are viable. This mechanism could use such programs with some revisions as the Title X land development insured loan program and Title VII new community program, as well as grants-in-aid under Community Development Block Grants (CDBG) and Urban Development Action Grants (UDAG)

G. Support an increase in the loan limits for large-scale developments that are newly constructed or rehabilitated in major urban and other locations with critical unmet market needs to $100,000,000 to assure that, if otherwise marketable, such developments can be planned, designed and developed in a manner which passes on savings from economies of scale to the housing consumer.

H. Revise regulations to enable large-scale developments with insured loans to include increased commercial spaces to generate perhaps as much as 50 percent of the gross rental income. Rents from such commercial facilities should be utilized to (1) assure the success of the development as a whole; (2) reduce the apartment rents charged; and (3) support the service amenities which otherwise would become an additional burden which local government could only meet through increased taxation. 75

I Develop a special program of insured loans for site acquisition and development by the small homebuilder/ developer.

J. Expand the use of short-term home improvement financing under available programs such as Title I home improvement loans, to enable moderate income homeowners and the owners of small rental properties to finance major repairs, replacements and alterations other than those involved in substantail rehabilitation. Such financing could be expanded through currently proposed programs utilizing Title I Community Development Block Grant funds through participating state and local agencies to subsidize interest rates on such loans to lower-income borrowers.

K. Establish a program of secondary financing for the cost of moderate rehabilitation of larger multifamily properties in cases that do not require substantial rehabilitation.

L. Explore the implications of implementing special rehabilitation financing programs to be used by investor-owners to finance the rehabilitation of multifamily rental properties which are fully or substantially occupied, in a manner that reduces relocation problems and costs, with long-term secured financing loans to include immediate advances for the major structural and common areas of rehabilitation and deferrable periodic advances for the rehabilitation of individual apartment units as they become available through tenant invitation or vacancy, with such programs to include the following:

1. Immediate rehabilitation of "nonpossessory" items such as roofs and exterior wall surfaces, interiors of common spaces, boilers, burners, furnaces, site work, elevators, wiring, plumbing, and other shared facilities. At the conclusion of this nonpossessory mortgage rehabilitation, amortization of the permanent mortgage loan would begin, with rents set to cover the owner's nonpossessory rehabilitation costs as advanced by the lender.

2. Deferrable rehabilitation of "possessory" items that are located within the confines of individual apartments such as bathroom fixtures, kitchens, individual heating and cooling units, and interior walls, ceilings and floors, to be accomplished periodically as apartment units become

76 available through tenant invitation or vacancy. The funds for such deferrable possessory rehabilitation would be included in the overall mortgage commitment, to be advanced as needed. Upon the conclusion of any possessory apartment rehabilitation, additional amortization of the funds advanced for its financing would begin, to be added to the owner's monthly amortization payments under the mortgage and covered through appropriate increases in the rent of the unit rehabilitated.

3. Financing charges to the investor-owner for a special fixed-rate, long-term mortgage loan would be equal to those for more conventionally styled rehabilitation loans except for any additional commitment fee(s) required by the lender to compensate for the uncertainty of when the possessory rehabilitation funds would be drawn down. Alternatively, the permanent mortgage financing commitment could be fixed for the funds required to finance the nonpossessory rehabilitation activity, and variable for those funds committed for possessory rehabilitation expenses.

4. Since the fluctuating market cost of money could make lenders unwilling to make an unlimited commitment for the possessory rehabilitation portion of the mortgage amount, the mortgage would contain language for a maximum term for all amortization (25-40 years) and a shorter term for drawing down and amortizing the possessory rehabilitation funds (5-7 years) In addition to special commitment fee(s) for the latter, and the more conventional financing charges imposed by the lender, it may be desirable for HUD to insure and/or subsidize this special rehabilitation financing approach to assure lenders of their required yield.

5. Any local rent control powers would be modified to allow the lender to enforce rent control guidelines so that rents would rise or fall in valid economic balance with the investor-owner's financing costs.

M. Expand support for financing programs offered by state and metropolitan housing finance agencies, and sponsor or induce the increased secondary market activities by FNMA, GNMA and FHLMC to increase the flow of affordable funds for financing to meet special housing needs.

N. Extend Title II financing to mobile homes situated on occupant-owned sites, with appropriate underwriting judgment of market feasibility.

O. Seek Administration encouragement for all Federal agencies 77
regulating the lending industry with respect to red-lining to (1) establish uniform rules and procedures to assure that lenders give creditworthy borrowers access to affordable housing mortgage and construction or renovation funds; (2) study the real risks and marketability issues of loaning such funds in locations currently considered high-risk and non-marketable; and (3) require that the costs of such financing be commensurate with the real risks perceived.

Consumer Protection: Marketing, Settlement and Transaction Costs

Consumer protection efforts have played an important role in enabling the homebuyer to receive fair treatment in the marketplace. Consumer legislation has been enacted to deal with settlement costs, foreclosure proceedings and usury ceilings. Despite their legitimate objectives these statutes, either because of substantive requirements or because of administrative interpretations, may have imposed unnecessary housing costs.

Settlement costs--including real estate sales commissions, loan-related fees including points, attorneys' fees, title search, examination and insurance fees and recordation fees--can aggregate about 10 percent of the selling price of a one to four-family residence, according to informal HUD staff estimates. Real estate sales commissions normally constitute 5 to 7 percent of the sales price. Although paid by the seller, it is assumed they are factored into the sales price. Loan-related fees and charges, normally shared between the seller and buyer, and attorney's fees constitute the next largest component of settlement costs and equal anywhere from 3 to 5 percent of the sales price. Title search, examination, insurance and recordation charges make up the remainder. Informal experience in some locations where local real estate professionals have offered to reduce commissions if sellers undertake some of the sales work, and similar impressions from the impact of limited lawyers' advertising, appear to support a premise that both real estate sales commissions and attorney's fees can be reduced with substantial savings to the homebuyer and seller.

Title search, examination and insurance charges are generally considered to be susceptible of reduction to produce a further saving to both the homebuyer and seller even though these fees constitute the smallest share of total settlement costs. The techniques involved in the process of searching

78 and examining titles coupled with the issuance of title insurance have undergone a great deal of evolution since World War II. In many parts of the country it is still the custom for a practicing attorney to search and examine the title from the public record on behalf of the seller or buyer, lender, or all of them. In other parts of the country there has been a strong trend toward the use of mass-production techniques by commercial title companies. These techniques, encouraged by the pressures of the marketplace, have functioned to hold title search and examination costs down with savings to homebuyers and sellers.

The Task Force believes that extending the use of mass-production techniques in the title search and examination process can reduce these costs where such techniques now are not used and can stabilize these costs throughout the country. In addition, state regulation of the pricing of title insurance has markedly increased in recent years and further growth can be anticipated. State regulators can be very effective in assuring that the rates charged by commercial title insurers are justified and held to reasonable levels based on their operating costs and fair return on their investment.

The Real Estate Settlement Procedures Act (RESPA) of 1974 and its 1975 amendment require full disclosure to the homebuyer of settlement costs on many types of mortgages. Although the law has redressed some major abuses, some complain that compliance with its administration has been burdensome and time-consuming. HUD is now studying the impact of RESPA, and both HUD and the Federal Trade Commission are investigating ways to further reduce settlement costs.

Mortgage foreclosure is currently a matter of state law and procedures vary considerably from state to state. A 1969 survey by the American Bar Association found that foreclosure time might then vary from 21 days to 20 months and that its cost then could range from $35 to more than $1900. The cost of foreclosure is largely a function of time necessary to complete the process. Foreclosure practices have an indirect but important bearing on housing costs. Quicker and cheaper methods of foreclosure could be a cost-saving factor and would possibly make lenders more eager to make loans under certain conditions. Currently, for example, GNMA and other forms of mortgage-backed securities are less attractive to investors when secured by mortgages in states with complicated foreclosure laws.

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The revival of the concept of the Uniform Federal Mortgage Foreclosure Act and the adoption of an appropriate Uniform Act by Congress should be supported. Any such act should be applicable to all one- to four-family residential mortgages to the extent legally and reasonably possible. In addition it should provide for a speedy completion of the foreclosure process and elimination of unrealistic redemption rights, all within the framework of the applicable provisions of the U. S. Constitution. A uniform approach to foreclosure practices should have a significant positive effect on the availability of mortgage money in jurisdictions now requiring complicated foreclosure procedures. It should also result in reducing lender and title processing charges over the long term.

State usury laws also may have had a housing cost impact upon the consumer. Usury laws place a ceiling on the allowable interest rate which can be charged on mortgage loans and as such are commonly perceived as a valuable protection for the homebuyer. However, to the extent that usury ceilings cause less mortgage money to be available, they work to the detriment of the consumer. Depending upon the state, the marketplace may substitute points and discounts or impose special fees and charges for mortgage loan commitments to replace that portion of yield denied the lender by the impact of usury legislation. Such extra charges impose a heavy burden upon the homebuyer and, as in the case of VA or FHA-insured mortgage loans, sometimes upon the seller as well. There is very little evidence that mortgage interest rates are higher in states without usury laws than in those with such regulations.

Findings:

The Task Force recognizes the legitimate desire to protect consumers but also acknowledges an equally valid need to encourage and enhance actions by investors to make funds available for the benefit of consumers. We find that some lenders may be confused or deterred from making loans to homebuyers by the number of recent consumer protection pronouncements at various levels of government. Therefore, we find a compelling need for the Federal Government, states and localities to avoid the development of more complex consumer legislation and to simplify statutory and regulatory requirements so that more effective protection can be provided to the consumer without interfering with the flow of affordable financing for home mortgage financing purposes.

80 We further find a need for HUD and other Federal agencies to accelerate efforts to reduce settlement and transaction costs. It is similarly desirable to support more uniform mortgage foreclosure laws at the state level, and to consider the implications of possible Federal legislation in the foreclosure area. Finally, while not recommending Congressional action to address state usury laws, we note that the adoption of new usury legislation or the extension of existing usury laws by the states is not desirable unless such legislation demonstrably benefits the consumer and enhances the flow of affordable funds for home purchase mortgage loan purposes.

Recommendations:

HUD should now act to:

A. Support current efforts to develop an efficient land and property title recordation system for permissive adoption by all states and jurisdictions.

B. Encourage and support current Justice Department and Federal Trade Commission efforts to promote vigorous enforcement of laws relating to illegal real estate sales and marketing practices.

C. Follow the negotiating process previously used by HUD with the title insurance industry to induce lower fees for the professional services of attorneys and real estate brokers involved in the sale of HUD-acquired properties.

D. Accelerate current research pursuant to the Real Estate Settlement Procedures Act to find ways of reducing loan-related fees and charges, title search and recordation charges, title insurance charges, realty brokerage commissions, attorney's fees and other settlement costs, and ways of improving the efficiency of existing land recordation practices in the absence of a model national land and property title recordation system.

E. Participate actively in the recently created joint staff task force with the Federal Trade Commission to assure cooperation in inquiries to examine real estate brokerage practices and develop appropriate regulations if needed.

F. Support current research efforts to yield data about the "lender-pay" concept envisioned by RESPA and its impact upon housing costs to the consumer of one to four-family residential properties. Study also the implications for such housing consumers of encouraging "seller-pay" activities with the seller paying the cost of title evidence establishing the validity and marketability of seller's title, with the buyer paying only a small charge for title evidence to satisfy the buyer's mortgage lender.

G. Revive the concept of the Uniform Federal Mortgage Foreclosure Act by developing a new bill for support in and adoption by Congress. Any such model Act should be applicable to all one- to four-family residential mortgages to the extent legally and reasonably possible. It should provide for a speedy completion of the foreclosure process and elimination of unrealistic redemption rights, all within the framework of the applicable provisions of the U. S. Constitution.

H. Research the impact of existing state usury legislation upon housing costs to the consumer.

Chapter Five

A Nationwide Housing Cost Reduction Program

This report advises the Department where to direct its attention, identifies key roles for other Federal, state and local government agencies, and indicates ways for government to work with private firms and the general public to assure that housing is available and affordable to American families. Members of the Task Force have worked carefully to ensure that all of the recommendations in this report are real, relevant, and politically feasible. They are concerned lest anyone think that HUD alone can solve the housing cost problem. They wish to acknowledge the innovative steps already taken by other government agencies at all levels and by the housing industry to help control escalating housing costs.

The logic and organization of this report reflect the structure of the housing industry rather than the Department's institutional perspective. The Task Force has taken its broad mandate seriously, necessarily focusing upon problems that are industrywide and that affect most housing consumers. This extensive inquiry has led to some startling findings and major recommendations for action. Some recommendations cut across virtually every area of HUD activity. They range from national policy concerns to be addressed by the Administration, through important interagency and Departmental policies, to program-level recommendations that could be implemented readily by existing program offices in HUD. They involve action by state and local governments and by private organizations and firms.

The sheer number of immediate steps which HUD and others can take to help reduce or stabilize housing costs to the consumer is almost overwhelming. In fact, part of the housing cost problem--at least from the Department's vantage point--is that to act as an effective leader of a national cost reduction effort HUD must create an administrative process capable of dealing with the great bulk of these recommendations.

The valuable work of many task forces and commissions was lost or ignored in the past after initial publicity had faded, simply because programs and mechanisms to implement their recommendations were lacking. This Task Force would be sorely disappointed--in fact, we would consider our work to be of little avail--if the Department appears indifferent and does not act to implement these recommendations soon. We urge the Department to initiate and lead a nationwide housing cost reduction program that involves other levels of government in cooperation with the housing sector and with broad public support. We also urge the Department to create an effective mechanism within HUD to coordinate the many policy and program initiatives contemplated by these recommendations.

The Need for Cooperative Action

It cannot be overstressed that this proposed nationwide housing cost reduction program cannot be implemented by only one segment of American society. The support of all elements is required for a national effort to be successful The private sector alone cannot reduce or stabilize housing costs, particularly in the older urbanized and more industrialized communities of the Nation. Too many factors are beyond the control of any one firm or part of the housing industry. Much of the problem results from government regulations and policies created to address national goals other than the country's housing goals.

Many of the factors contributing to higher housing costs are directly or substantially under the control of Federal, state, or local government. No agency or level of government alone has the resources to ameliorate the impact of such factors, though each has unique strengths at its disposal At the least, government agencies should modify their own policies and programs that increase housing costs. If all levels also cooperate and channel their activities, their combined assets may prove sufficient to resolve those problems attributable to government actions.

Other factors are influenced by the private sector as a whole. While no individual firm can take much action alone, by working together business and industry can act responsibly to solve problems they currently cause. To be effective their concerted actions require the informed support of government and of the American people. Private interests must join with public agencies to attack other problems which long have resisted their individual efforts at resolution. With support from the public, a nationwide housing cost reduction program could be highly effective.

Leadership and Coordination

It will take time to implement these many recommendations. Yet it would be folly either to move too timidly or to delay further. There must be action and leadership at the Federal level. To be effective, a nationwide housing cost reduction program must be sensitive to and administered through existing agencies, with the cooperation of business and industry firms active in regional and local marketplaces, in a manner supportable by the average citizen.

The agency to lead and coordinate a nationwide housing cost reduction program most logically is HUD. In the Housing Act of 1949, as amended, Congress directed that HUD assume this role by acting to reduce housing costs without sacrificing sound standards. Some argue that after the mid-sixties the national impetus for housing cost reduction lapsed. However accurate such accounts, this Task Force believes that it is timely for HUD again to assert this leadership.

In addition to HUD's national role, many of these recommendations require coordination within the Department. Some can be effected immediately by existing program offices, but many cut across current institutional and programmatic lines. One of the major challenges confronting HUD is that of assuring coordination of HUD's programs with the activities of others outside the Department.

To administer a nationwide housing cost reduction program effectively, HUD must act now to create an internal mechanism to coordinate the use of all Departmental resources in support of the program. We do not attempt to advise the Department about the form of such a mechanism, in part because there are several approaches which could work and also since issues of overall Departmental organization are internal matters. But we do believe that to overcome indifference an implementation mechanism is absolutely necessary, however structured or organized.

Findings:

The Task Force finds that active HUD leadership of a national cost reduction effort is essential to the implementation of these recommendations. Such an effort should take the form of a nationwide housing cost reduction program, with all levels of government acting in concert with the business community and the general public. To initiate and lead such a program, HUD should create an implementation mechanism capable of providing coordination within the Department and for other agencies and firms active in the program.

We believe that a nationwide housing cost reduction program, in addition to being anti-inflationary, supports the Administration's national urban policy. As the recommendations in

86 this report are implemented, their impact would be apparent in central cities and suburbs, older and younger communities, and towns and villages throughout the country. These recommendations assume current budgetary projections and build upon currently announced reorganizational changes within the Department.

We recognize that in the foreseeable future many low- and moderate-income households will not gain access to acceptable housing at affordable prices. Therefore, we find a strong need for housing subsidy mechanisms to be continued and perhaps even expanded.

Recommendations:

HUD should act now to:

A. Create and lead a nationwide housing cost reduction program in coordination with other agencies of Federal, state, and local government, and in cooperation with the business community and the general public, to reduce or stabilize the costs of new, rehabilitated and existing housing to the consumer. This national program would implement the recommendations in this report.

B. Create an implementation mechanism within the Department to initiate and administer HUD's participation in a nationwide housing cost reduction program, to coordinate internally the needed policy and program changes to assure that all HUD program resources are made available to the program, and to coordinate with the other government agencies, housing sector firms and members of the general public active in the program.

C. Revise Departmental policy goals and program objectives to assure that the recommendations in this report are implemented, to include specific reference to reducing or stabilizing housing costs for the benefit of all Americans, using language similar to the following:

> Reduce or stabilize the costs of new, rehabilitated, and existing housing to the American consumer in coordination with other Federal, state, and local agencies and in cooperation with the business community and the general public, using the resources of all HUD programs which affect financing, land development, housing construction and rehabilitation, supporting amenities, housing conservation, and housing acquisition and occupancy costs.

D. Institute appropriate procedures to amend Departmental regulations to assure that program administrators set management targets for achievement with respect to operational measures to reduce or stablize housing costs to the consumer.

E. Continue to support subsidy mechanisms for low- and moderate-income households to help them afford decent, sanitary, and safe housing.

F. Implement a program of supporting research and studies in the following areas:

1. <u>Land Supply and Development Inquiries:</u>

a. Develop techniques for regional planning for an adequate supply of developable land including the monitoring and interpreting of regional land supply, land prices and related trends.

b. Create regional standards for zoning and related controls as they affect the variety of housing allowed, the amount and location of land for various types of housing, and the process of administering such controls.

c. Study effects of various Federal policies, programs, and procedures on land supply, land development costs, and the costs of government reviews. Particular attention should be given to the activities of the Environmental Protection Agency.

d. Examine alternative means to encourage the development of underused land already serviced at public expense and designated for residential use. Research should consider taxing policies, penalty payments, eminent domain powers, and other appropriate public actions.

e. Develop acceptable, minimal governmental requirements for site development standards and fees in market areas with various physical conditions. This research should emphasize site development standards for street width and construction; storm water management, residential water distribution systems, residential sewer systems, and other utilities. This should include analysis of the issue of what share of the governmental costs of growth should be borne by consumers of newly developed or rehabilitated housing versus the community at large.

88 f. Study laws that affect the ability of local governments to acquire sites for private as well as public development of subsidized housing and to provide internal infrastructure and facilities for such projects.

g. Examine governmental processing of land development applications. Research should define and analyze procedural problems by type of development, source of problem, cost impact and potential for ameliorative action and should identify ways localities can improve the management of the governmental review and approval process.

h. Determine the benefits and costs of environmental reviews of Federal actions directly affecting housing costs. Research should establish better guidelines on differentiating between significant and trivial issues, and should generally devise better ways to achieve the purpose of national environmental policy.

i. Develop ways to minimize the cost impacts of land-use policies and procedures by holding multi-state regional conferences in cooperation with state governments, to foster the exchange of information among federal and state officials, business representatives, and civic groups, and to produce cost-reducing strategies for demonstration and evaluation.

2. Building and Technology Inquiries:

a. Provide basic research to identify and inaugurate the most effective program for continuing public information that will support the objective evaluation and local acceptance of sound building standards which can reduce the cost of housing. Proven materials and technology already in wide use should be given immediate priority.

b. Conduct research and demonstration of worthy new technology, methods and materials in housing construction, conservation and rehabilitation.

c. Sponsor basic research to identify all procedures used to develop, adopt, accept, and administer state and local building codes and standards; and suggest ways to eliminate those procedures that unnecessarily increase the cost of housing. Such research should include suggestions, for example, to reduce time delays caused by multiple permit and approval processes.

d. Sponsor basic research in the areas of life and property safety requirements to determine the costs and benefits of such requirements when included in building codes and standards.

e. Foster applied research to develop rehabilitation codes for single-family and multifamily housing, using a consensus mechanism involving the model codes organizations, the National Institute of Building Sciences, the National Conference of States on Building Codes and Standards, and other interested parties. These rehabilitation codes should be written so as to permit unlicensed and nonskilled persons to perform rehabilitation work that complies with life and property safety requirements.

f. Perform research and demonstrations of cost effective techniques for small-scale and large-scale housing rehabilitation, with particular emphasis upon developing low-cost means and procedures for condition analysis and cost estimating.

g. Sponsor basic research to develop a nationally recognized system which can be incorporated in state and local building codes and public information programs that will promote choices of design, materials and techniques in terms of operating and maintenance cost criteria.

h. Sponsor applied research to develop cost effective site improvement techniques, such as foundation designs for by-passed difficult building sites with expansive clays or other adverse environmental conditions.

i. Undertake applied research to develop water and energy conservation techniques that reduce costs. Such research should include reclamation and recycling, and heat and moisture transfer associated with building contacts with the soil.

j. Sponsor applied research to develop acceptable independent utility systems for an individual residential building or small developments, including water supply and sewerage disposal systems that do not need municipal services.

k. Study the pricing of housing-related materials, fixtures and appliances to determine if trade practices are occurring that cause increased housing costs to the American consumer.

90 l. Study in cooperation with the Department of Labor the HUD-DOL data-sharing arrangement to assess whether wage-rate determinations properly reflect housing industry wage payments.

m. Study the methods and means of improving productive and efficient use of labor in housing construction, conservation and rehabilitation.

n. Study the impact that metrication of the American housing industry can have on the costs of producing and marketing housing.

o. Study the Occupational Safety and Health Administration work rules' impact on costs of site development, housing construction and rehabilitation to support recommendations for the modification or elimination of work rules that increase costs without safety and health justification.

3. Financing, Money Markets and Marketing Inquiries:

a. Initiate and participate in an Administration study of the relationship of national monetary policies to the housing sector and to shelter costs to the consumer. The Cooley/Corrado research underway at the Joint Center for Urban studies should be examined and expanded, and additional studies shold be initiated to test the thesis that holding housing starts reasonably constant nonetheless enables other economic goals to be attained (an acceptable growth in real GNP, lower aggregate unemployment and an insubstantial increase in inflation) while lowering the cost of housing to the consumer. If warranted by such study, review the implications of possible Federal actions such as:

(1) Expanded secondary market support,

(2) Altered financial institution regulations,

(3) Nonstandard mortgage instruments,

(4) Expansion in sources of funds, and

(5) Deregulation of FHA interest rate.

b. Initiate and participate in an Administration review of national tax policy with emphasis upon ensuring stability and predictability of tax treatment of funds and for housing-related purposes under the Internal Revenue Code. Study the housing cost implications of current tax shelter provisions, and the effectiveness of employing tax incentives and subsidies for the housing sector. Review the impact of growing local property taxes upon shelter costs and study innovative local tax-sharing mechanisms. 91

c. Develop a new Uniform Federal Mortgage Foreclosure Act and support its adoption by Congress.

d. Research the impact of existing state usury legislation upon housing costs to the consumer.

Appendix I

Background

History of the Task Force on Housing Costs

Three consecutive steps, representing a broad spectrum of experience and views, resulted in the series of recommendations contained in this report.

Interim Task Force and Working Group:

The first step was accomplished by an interim Task Force established in the spring of 1977 at the request of Secretary Patricia Roberts Harris by Under Secretary Jay Janis to develop specific recommendations on what the Federal Government in general and HUD in particular could do to reduce or stabilize housing costs to the consumer. The interim Task Force consisted of Donna E. Shalala, Assistant Secretary for Policy Development and Research; Lawrence B. Simons, Assistant Secretary for Housing-Federal Housing Commissioner; Geno C. Baroni, Assistant Secretary for Neighborhoods, Voluntary Associations, and Consumer Protection; and William J. White, General Manager of New Community Development Corporation, who served as Chairman. A Task Force staff and a Central Office Working Group, under the leadership of Edward J. Cachine, Staff and Working Group Chairman, were assembled to evaluate cost-reducing ideas. The staff compiled a list of some 80 cost-reducing ideas, including suggestions made by working group members and recommendations derived from the general public and the literature. After the working group evaluated these ideas in four meetings, the Task Force Chairman transmitted conclusions and 65 preliminary recommendations in an Interim Report to the Secretary in July 1977.

Field Comments:

The second step of the process was to distribute the Interim Report to HUD field personnel for their review and comments. The Task Force staff received several hundred additional cost-reducing ideas from HUD Regional and Area Offices as a result. These recommendations came from people who represent a wide variation of professional disciplines and experience. Equally important, they reflect the major regional and local issues affecting housing costs and the working relationship that HUD field personnel have with local public and housing officials. The Summary of Field Comments reviewed by the Task Force contains 204 specific recommendations.

Task Force on Housing Costs:

The third step of this inquiry was the creation of this Task Force. On August 31, 1977, Secretary Harris filed the

94 Charter creating the Task Force on Housing Costs to explore ways of reducing housing costs to the consumer. The Task Force on Housing Costs includes 39 distinguished representatives of the private sector, consumer interests, and state and local government. It also includes 12 members of the Department and other Federal institutions, and is balanced in terms of women, minorities, and geographical representation. The Secretary requested William J. White to serve again as Task Force Chairman. The Scope of Inquiry states that the Task Force will

> attempt to define the problems themselves, more specifically to analyze and understand the extent to which costs truly have risen for reasons other than general inflation and to develop specific solutions to such problems

The Task Force divided into three committees, each of which had a specific scope of inquiry: (1) Land Supply and Development; (2) Building and Technology; and (3) Financing, Money Markets and Marketing. The land committee agreed to examine "the elements that influence the availability of land or properties for housing construction or rehabilitation," as well as the "relative cost impact of various factors affecting land-related costs for each step of processes of land supply, acquisition and development." These include land-use and environmental controls, tax policies, the provision of infrastructure facilities and services, and public fees and charges. The building committee agreed to identify "constraints to the building process, including both construction and rehabilitation." These include "ways of making building and housing codes, including HUD's Minimum Property Standards, more responsive to housing needs and to the capabilities of the industry in different locations of the country" and "ways of increasing the use and acceptance of cost-effective new technology by the housing industry and the public." The finance committee agreed to study the "availability, stability and cost of financing in the marketplace" as well as specific tax, processing, and money market policies which affect the cost of housing.

Between October 1977 and May 1978, the Task Force and its committees held 17 public meetings. They reviewed comments from the general public, the recommendations in the Interim Report, the Summary of Field Comments, and numerous cost-reducing suggestions generated by the Task Force members themselves. The Task Force members also received and

96 were avoided by the locality, with some cost savings to the developer or consumer. Under the program more than 30,000 Breakthrough housing units were produced in 36 states. The development of this housing was facilitated in most instances by this landmark legislation. A 1976 report on the Impact of Operation Breakthrough on the Nation's Housing Industry, prepared by the Real Estate Research Corporation, observes that

> greater uniformity of building code acceptance (of manufactured housing) procedures exists today because of the increased use of model codes by states and cities over the past five years.

From 1968 to 1974, HUD staff continued to monitor urban renewal applicant building codes, but required that costly deviations from model codes which could not be supported with sound engineering data be replaced after 1971 with nationally recognized provisions found in model codes.

These reviews ceased after enactment of the Housing and Community Development Act of 1974, Title I of which established the Community Development Block Grant program. There is language in the conference report that states that the HUD Secretary retains no authority to impose specific code requirements on jurisdictions. However, there is nothing in the Act which requires HUD to accept local code provisions without question. Nor does the 1974 Act require HUD to refrain from exercising its responsibility under the 1949 Act to encourage code or land-use control revisions which cut the cost of housing.

With respect to granting or withholding Community Development Block Grant funds under Title I of the 1974 Act, Section 111 provides that the Secretary shall terminate, reduce, or limit the availability of payments to a recipient if, after reasonable notice and a hearing, the Secretary finds that the recipient has failed to comply substantially with any provision of Title I. Such partially or totally withheld payments may not be reinstated until the Secretary is satisfied that there is no longer any such failure to comply.

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Appendix II

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TASK FORCE ON HOUSING COSTS

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discussed cost-reducing ideas in recent research documents, including several as yet unpublished manuscripts. This report and its recommendations are the results of this process. 95

HUD's Authority

HUD has ample authority, dating back to the Housing Act of 1949, as amended, to take strong, positive action to reduce housing costs. Section 2 of the Housing Act of 1949 requires the Secretary to encourage and assist "the reduction of the costs of housing without sacrifice of sound standards." FHA developed the Minimum Property Standards (MPS) in part to encourage the use of cost-saving materials and methods. Section 101(a) of the 1949 Act, as amended, which created the Urban Renewal Program, requires the Secretary to consider, in any contract for advances under this title,

> the extent to which local public bodies have undertaken positive programs (through the adoption, administration, and enforcement of housing, zoning, building and other laws, codes, and regulations .) for encouraging housing cost reductions through the use of appropriate new materials, techniques and methods and the elimination of restrictive practices which unnecessarily increase housing costs.

Subsequently, Section 101(c) of the 1949 Act, as amended in 1954, established the Workable Program for Community Improvement and provided the Secretary with a mechanism for considering and reviewing the housing and other codes of local jurisdictions. This proved to be effective, especially in the codes area. From 1949 to 1968, HUD staff reviewed the codes of local jurisdictions and encouraged those jurisdictions to amend and update their codes in accordance with the nationally recognized model codes. As a result, 4000 jurisdictions modified their code provisions to conform to national standards or explained why local deviations were needed in particular instances.

In addition, HUD created the Operation Breakthrough Program in 1969. Under that program, HUD sought to create mass markets for factory-built housing. Before the program was terminated in 1975, HUD persuaded 31 states to enact legislation providing for state review and approval of such housing systems. After such state reviews, developers could use these systems throughout the state, notwithstanding local building codes. As a result, in many instances local processing time was substantially reduced, and expensive distance inspections

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SPECIAL CONTRIBUTIONS

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We also thank the several members who provided firm and inspired leadership for Task Force Committee meetings: Mary C. Neuhauser and David G. Fox of the Land Supply and Development Committee, Ralph J. Johnson and H. Ralph Taylor of the Building and Technology Committee, and Lawrence B. Simons and Edward L. Lashman, Jr. of the Financing, Money Markets and Marketing Committee. We wish as well to thank the Task Force staff people who supported the work of these committees, and to acknowledge the contributions of several liaison observers to committee discussions. We are pleased to record the dedication of Roger Halle, an architect in Pound Ridge, New York, who presented an unpublished paper to the building committee and who attended and participated in all Task Force and Committee meetings at his own expense.

We recognize also the extraordinary response from more than 200 staff personnel in HUD's Regional, Area and Insuring Offices, who submitted more than 350 specific cost-reducing ideas for our consideration. We also thank the members of the Interim Task Force and Working Group whose efforts last summer produced the Interim Report which formed the basis of our initial discussions.

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