A F F O R D A B I L I T Y

O F   Q U A L I T Y   H O U S I N G

A VITAL YARDSTICK FOR MEASURING WEALTH DISTRIBUTION AND INDIVIDUAL WELL-BEING

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A   C L O S E   L O O K   A T   H O M E O W N E R S H I P

I N   T H E   U N I T E D   S T A T E S

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As youngsters growing up in one of Pittsburgh's then outlying areas, my friends and I observed first-hand the gradual taming of farm and wood lands into what seemed like endlessly rambling suburban bedroom communities. What at age 11 had been a deep and mysterious wooded area beginning at our backyard and continuing for several miles to a country park, became by my senior year in high school a series of contiguous planned unit developments.

In 1957 our family had been among the vanguard of post-war migrants leaving the congestion and deteriorating housing of Pittsburgh's working class neighborhoods. In fact, my father and his brothers, all of whom were in the construction trades, typified the increasingly blue collar members of the middle class whose savings and spending were fueling the housing boom of the late 1950s and 1960s. Most were one-income families, although some women worked part-time in retail stores or restaurants; but raising large families did not allow much time for pursuing advanced education or dedicating themselves careers. The few women in our neighborhood who had careers seemed to be either teachers or nurses.

My father and uncles all built their own homes (with help from one another) and were almost always busy building houses for new arrivals from the city. When demand for new housing was low they shifted to remodeling work or the adding on of additions for neighbors whose families were getting too large for their homes. Our house was built on a wooded lot, just under an acre in size located about 16 miles from downtown Pittsburgh; the land had cost them $700 in 1956. They financed the construction with a $15,000, 20 year mortgage loan at a 5% fixed rate of interest.

In 1979 my parents finally sold their split-level, ranch home and moved to a small, summer home community in northwestern Pennsylvania on the border with Ohio. For $1,500 they purchased a half acre lot about 100 yards from the shore of a large lake on which he put a low-maintenance manufactured home. After adding a double-car garage and a finished sun room in the front, my parents were ready for retirement.

After a lifetime of housebuilding, of raising a family and earning what most Americans would have regarded as a decent living, almost the entire savings my parents brought with them was the net proceeds of the sale of their home of 22 years. As the years passed and expenses increased, my mother had also taken on a full-time job as well. Although the opportunity to adopt a more relaxed lifestyle was certainly appealing, one of the serious considerations behind their decision to sell was that as my father's working years were ending and, as his income fell, rising real estate taxes and maintenance costs of ownership left little enough to live on. Another major cost item they had not thought of -- medical insurance premiums -- was also becoming problematic.

The story of my parents is not unique in our country. Theirs is in fact more positive than most because they had achieved homeownership during a time of low housing costs and gradually rising incomes. The economic expansion of the 1960s made housing more and more affordable for couples whose parents had been renters or who had shared housing with extended family groups. Fully 63 million housing units have been constructed in the United States just since 1946, bringing homeownership to nearly two-thirds of American families. Yet, we are everyday reminded that a growing segment of our population cannot afford any housing at all.

THE CREDIT SYSTEM AND HOMEOWNERSHIP

Prior to the Great Depression most urban families acquired homes only after saving long enough to pay cash. When mortgage financing could be obtained, interest payments were made on a loan amount that was due in full at the end of a period that could be as short as three to five years. If you were unable to refinance the amount due, the lender (or someone else) would end up buying the house at a foreclosure sale. In 1934 the creation of the Federal Housing Administration introduced widespread use of the long-term, fully amortizing mortgage loan by offering to private lenders a Federal guarantee of loan repayment. This guarantee program was combined with very low downpayment requirements to bring homeownership into the reach of families -- removing for several decades any real need for prolonged savings as a condition to securing homeownership.

Armed with the large deposits accumulated during the Second World War, lending institutions possessed the fuel required to feed a homebuilding boom that added more than 5 million units between 1946 and 1950 alone. The pace of homebuilding continued at around 1.5 million each year through 1965. While putting families into new homes, private mortgage debt also rose as well to above $200 billion and has continued to increase at an increasing rate.

Adding so many new potential homebuyers to the marketplace, however, also rapidly shifted to landowners an upper hand and produced a new and higher equilibrium price level for suburban building sites all across the United States. Fortunately, rising land prices were largely offset by increases in family income and significant advances in the technology of housing construction. Americans were getting more house for their money and repaying the debt with dollars whose real purchasing power was slowly depreciating. The mortgage finance system worked against savers and on behalf of existing homeowners, since the interest rates paid to savings account depositors were by law capped to give the savings and loan companies -- the primary mortgage lenders -- a low cost source of funds and an advantage over commercial banks, which were not permitted to pay quite as much on savings accounts. Thus, homeownership was being subsidized by the savings of millions of people who owned no property themselves.

Then came our prolonged period of increasing prices and the rising pressure to remove controls from the financial industry. Whether one directly attributes this to an expanding supply of money and credit or to counterproductive tax policies or irresponsible fiscal policies, the result was a wage/price spiral that rather quickly eroded what had been a steady climb in the purchasing power of American families. For American homeowners, however, there still was a positive side; the nominal dollar value of their homes kept 'appreciating' at the same time that the money used to repay mortgage loans was 'depreciating'. The real cost increases were being shifted to new borrowers and new homebuyers.

PRODUCTIVITY

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For builders, increases in the cost of both materials and labor presented a serious challenge, but one that has been met by a steady flow of increasing productivity. Pre-fabrication, standardization and redesign have brought down the cost of housing construction while giving to homebuyers today a wider variety of amenities without any significant loss gross living space. Where the cost of land made even these efforts unprofitable, builders tried other approaches to make their units affordable.

The choices where land sites are concerned have been three-fold: build up; build attached; or, build farther away. As the cost of land has risen from between 10-15% of total cost per housing unit in the mid-1950s to anywhere between 30-80% today (higher as a percentage on existing home sales), the above changes in development strategies have been employed in response to affordability concerns. Today, the single-family detached home (the type most sought after by American homebuyers) is out of reach for nearly all families who do not already own such a home. Most communities restrict the building density for detached housing to four units per acre, and land acquisition and development costs to a builder are running anywhere between $40-$150,000 for each quarter acre site. As a consequence, the low end price for this type of unit is around $150,000.

AFFORDABILITY

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During the first 5 years of this decade the percentage of American families owning their own homes began to drop. Part of the problem was, of course, the recession and the high unemployment level hitting the country between 1980-83; many families simply did not have the savings or income stability with which to qualify for financing the purchase of a home. Demographics was also reflected in the statistics; many adults in their 20s and early 30s were delaying marriage or children and living in apartments, in part, because they could not afford to purchase the type of home they wanted in the area they wished to live. Some would become urban pioneers and initiate the rebirth of decaying urban neighborhoods, but most remained locked out of their desired housing markets. And, those most seriously impacted by the loss of manufacturing sector jobs were not only priced out of the new housing market but -- because of the rising property values in urban areas -- were finding it more and more difficult to find any place to live, period.

By 1985 the percentage of homeownership for all families in the United States had dropped to 65%. Although this represented a 2.5% slide from 1980, only Australian families had a higher percentage. For those between the ages of 25-34 the percentage dropped from 55% to 53.5%; and, for those 35-44 it fell from 74.4% to 68.1%. Blacks and Hispanic families suffered the worst drops; Blacks falling from 48.6% to 44.1% and Hispanics from 48.4% to 41.1%.

One aspect of the problem was, of course, that after 1979 mortgage interest rates were no longer being controlled by either usury ceilings or caps on interest rates paid for savings deposits. The arrival of money market funds and deregulation meant that money for mortgage lending had to compete with much higher yielding investment opportunities. Banks and other lenders primarily cared about only one thing, their 'spread' between cost of funds and net yield (i.e., return after accounting for loan servicing and other administrative costs). The impact of rising interest rates should not be discounted, even though it is clear that sellers clearly gain when interest rates drop and borrowers can carry a higher total housing payment. That aside, the price of housing is what economists describe as 'sticky downward'. Unlike other commodities and goods, housing is not inventory in the same sense as for most businesses. Existing homeowners are often able to hold out for very long periods in order to get their price. Moreover, builders learned a valuable lesson during the housing recession of 1975-77 when they were caught with large numbers of unsold homes; today few builders will break ground until they have a qualified buyer under contract of sale.

Despite periodic recessions, the median price of housing has gradually climbed at a rate above that of other prices and particularly above the rise in family income. The chart below provides figures for 1970-86.

PRICE OF HOME OWNERSHIP

	Median-Priced Existing Home	Mortgage Rate	Annual Payment*	Median Family Income	Payment as Percent of Income
1970	$23,000	8.35%	$1,680	$9,867	17.0%
1977	$42,900	9.02%	$3,324	$16,010	20.8%
1982	$67,800	15.38%	$8,424	$23,433	35.9%
1986	$80,300	10.25%	$6,912	$29,200	23.7%

*Assumes 20 percent down payment
Source: National Association of Realtors

The statistics are, however, misleading in one material respect. Even as late as 1970 the great majority of American families could qualify for mortgage financing based on the earnings of the primary income earner only. By 1986 less than 10% of working heads of households earned more than $25,000. Thus, in almost all instances two incomes are required in order to meet the income requirements for such a loan. Granting even this, only about 35% of all families in 1986 had sufficient total income ($31,750) to qualify for a $75,000 mortgage loan at an interest rate of 9%. At this writing, interest rates have moved up to nearly 10.5% and the median price for existing housing units has risen to over $88,000 (the average price for both new and existing is now over $120,000). Here in Atlanta the average sales price, at $138,600, substantially exceeds the national average; and, Atlanta is only eighth on the list of major metropolitan markets. (For reasons that Walt Rybeck will, I am sure, describe Pittsburgh is, at $51,300, the least costly of the top 32 market areas.

Even in Houston, where the term 'depression' is well understood, the median price of housing has, rather than fallen, simply not increased as quickly as in other parts of the country. Today, $73,000 will (if you have the savings and job stability) purchase what $47,000 would have bought in 1980.

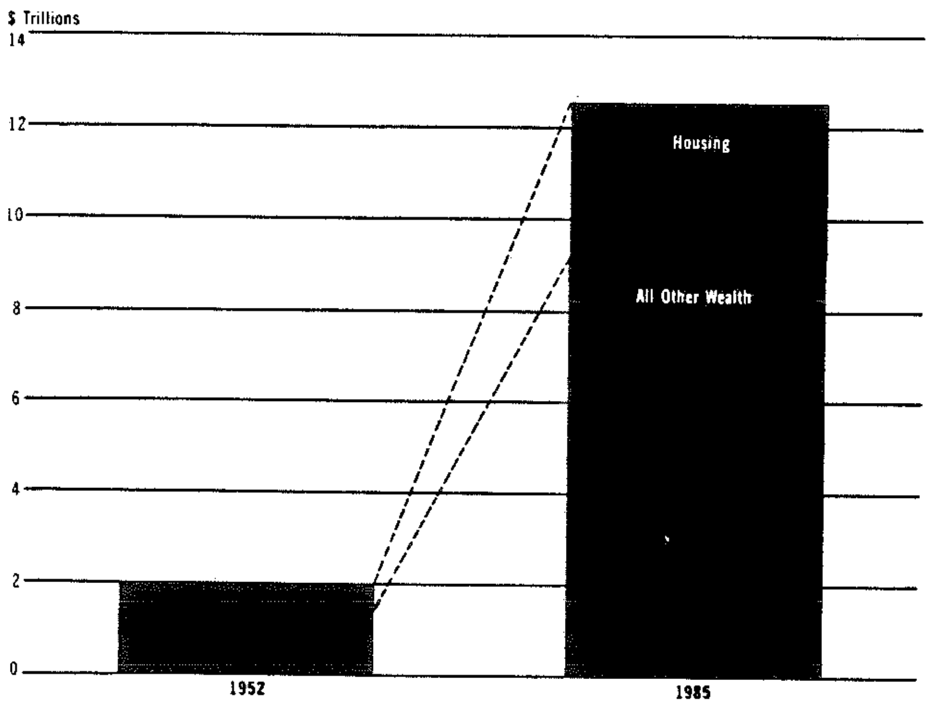
What I have described above are the dynamics and the symptoms of a problem of epidemic proportions. During the conference presentation we will discuss some of the ways the private and public sectors are attempting to meet the challenge of providing decent, affordable housing for all American families.

The Latest National Sale Price Figures

The average price paid for a new or existing home as of January 1, 1988 was $120,300, according to the Federal Home Loan Bank Board. Here is a city-by-city breakdown:

Average Sale Prices
New And Existing Homes

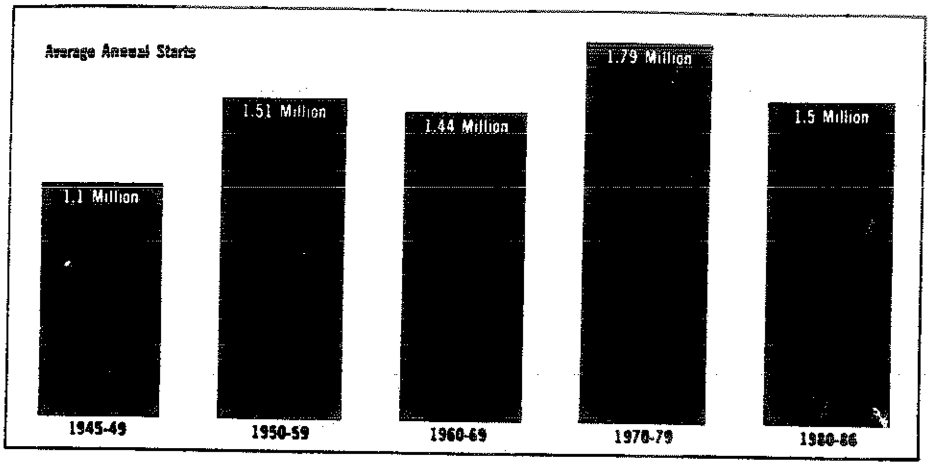
Market	Average Sale Price	Market	Average Sale Price
Boston	$229,300	Philadelphia	$115,900
San Francisco	183,000	Detroit	106,800
New York City	171,700	Tampa/St. Petersburg	106,600
Los Angeles	171,500	Miami/Ft. Lauderdale	104,200
Honolulu	168,600	Kansas City, MO	104,000
San Diego	150,700	Greensboro, NC	100,700
Washington, D.C.	148,000	Columbus	99,100
Atlanta	138,600	Houston	96,900
Phoenix	132,300	Indianapolis	96,100
Seattle	131,000	St. Louis	96,100
Baltimore	124,200	Cleveland	94,400
Chicago	121,900	Louisville	91,900
Portland, OR	118,800	Milwaukee	91,100
Minneapolis/St. Paul	118,300	Salt Lake City	78,400
Denver	117,000	Rochester, NY	75,000
Dallas/Ft. Worth	116,900	Pittsburgh	51,300



The Nation's Wealth—More than $3.4 Trillion in Housing

The nation's housing stock is valued at $3.433 trillion, accounting for 27 percent of the nation's total wealth. Most of this wealth is in the hands of middle-income Americans—the nation's home owners.

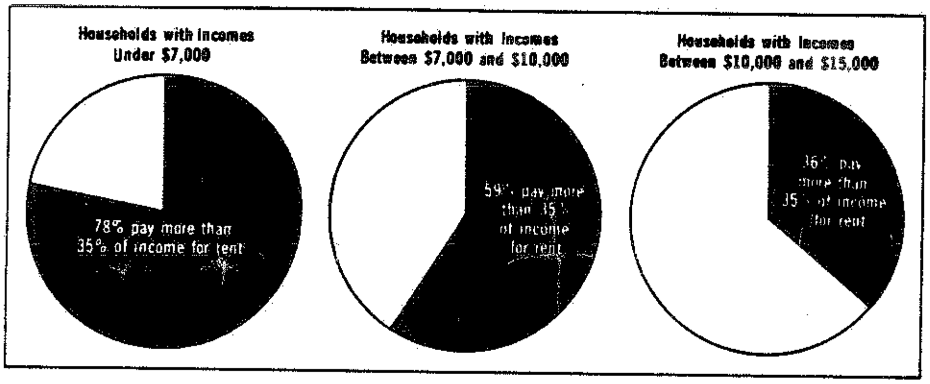
Source: Federal Reserve Board; Compiled by NAHB



Achievement in Housing

The nation's home builders have constructed 63.3 million housing units since the end of World War II. Faced with an enormous housing shortage accumulated during the Depression and war years, the housing industry rallied in the late 1940s and made steady progress in the decades that followed.

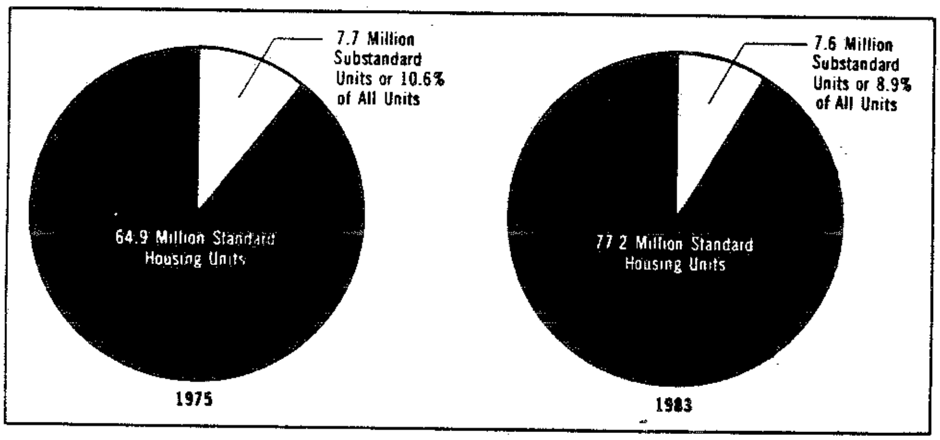
Source: U.S. Department of Commerce



Housing Affordability Problem Hits Nation's Low-Income Households

A substantial majority of households with incomes below $10,000, and more than one-third of those with incomes between $10,000 and $15,000, pay more than 35 percent of their income for rent.

Source: Annual Housing Survey of U.S. Department of Housing and Urban Development



7.6 Million Households Still Live in Substandard Housing

Between 1975 and 1983 the nation made significant progress in reducing the share of the housing stock that is substandard. However, there was little change in the actual number of Americans living in substandard homes.

Source: Annual Housing Survey of the U.S. Department of Housing and Urban Development

Interest Rate	Monthly Principal & Interest Payment	Property Taxes & Insurance	Total Monthly Expenses	Annual Income Needed to Afford	Number of Families w/Income Needed	Percent
9%	$ 616	$125	$ 741	$31,744	21,833,000	35.2%
11	729	125	854	36,586	16,806,000	27.1
13	849	125	974	41,726	12,718,000	20.5
15	972	125	1097	46,995	9,354,000	15.1
17	1094	125	1219	52,222	7,074,000	11.4

Lower Interest Rates Make Housing More Affordable

About 35 percent of all families have the income needed to qualify for a $76,500 loan when the mortgage interest rate is 9 percent, compared to only 20 percent when the rate is 13 percent.

Source: NAHB's Economics, Mortgage Finance and Housing Policy Division

House Prices by Region

Region	1967	1972	1977	1982	1987
Northeast	$17,797	$26,048	$37,000	$58,201	$93,844
Midwest	16,350	20,993	32,700	50,162	56,562
South	15,206	19,958	29,700	48,975	55,142
West	18,318	22,780	42,900	71,386	82,285
All	16,530	21,611	34,800	56,202	66,886

SOURCE: Joint Center calculations based on 1977 Annual Housing Survey data indexed by Department of Commerce Constant Quality Home Price Index.

Household Income and Homeownership

Thousands of 1986 Dollars	Number of Households (In Thousands)		Percent Homeowner	
	1974	1987	1974	1987
Under 5	4,705	7,204	42.8	36.7
5 to 10	8,755	10,984	48.7	45.9
10 to 17.5	11,436	15,326	53.8	51.9
17.5 to 25	11,152	13,063	58.7	60.0
25 to 35	13,277	14,636	69.3	68.3
35 to 50	11,638	14,177	78.6	79.3
50 +	9,891	14,089	86.2	89.1
Total	70,854	89,478	64.7	64.0

SOURCE: Joint Center tabulations of data from the Annual Housing Survey, 1974, and Current Population Survey, 1987.

Homeownership Rates By Region and Age (Percent Homeowner)					
	1973	1976	1980	1983	1987
Region					
Northeast	59.2%	59.8%	60.7%	61.4%	61.4%
Midwest	69.1	69.5	70.3	70.0	67.1
South	66.5	66.4	68.3	67.1	66.9
West	60.6	61.2	60.5	58.7	57.9
Age					
Under 25	23.4%	21.0%	21.3%	19.3%	16.1%
25-29	43.6	43.2	43.3	38.2	35.9
30-34	60.2	62.4	61.1	55.7	53.2
35-39	68.5	69.0	70.8	65.8	63.8
40-44	72.9	73.9	74.2	74.2	70.6
45-54	76.1	77.4	77.7	77.1	75.8
55-64	75.7	77.2	79.3	80.5	80.8
65-74	71.3	72.7	75.2	76.9	78.1
75 +	67.1	67.2	67.8	71.6	70.7
Total	64.4	64.8	65.6	64.9	64.0

SOURCE: 1973 to 1980 from Annual Housing Survey, 1983 to 1987 from Current Population Survey