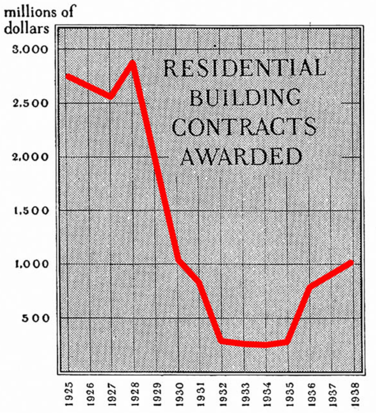
Home Building Set for Boom; Best Year Since 1929 Predicted

Public Agencies Pushing in Drive of Private Interests; High Costs One Obstacle



Newsweek Chart; source, F. W. Dodge Corp.

The position of the residential-building industry at the start of 1939 was unique in at least three respects: (1) it was virtually the only durable-goods industry to report an increased volume for 1938 (the total building volume also gained, owing chiefly to public works); (2) it was the one "heavy goods" line for which observers almost unanimously forecast gains in 1939; and (3) despite the fact that it alone among such lines experienced uninterrupted increases after 1934, the industry even at the peak of 1938 activity was operating at only about half its pre-1930 clip (see chart).

The optimistic year-end forecasts—numerous authorities predicted at least a 25 per cent rise in residential contracts and officers of the Johns Manville Corp. forecast the erection of 400,000 privately financed homes, largest volume since 1929—have been buttressed by several important developments since the turn of the year.

Thus, home mortgages selected for appraisal (representing applications for mortgage insurance by builders or purchasers) by the Federal Housing Administration in January totaled $77,594,000, a 159 per cent rise over the 1938 level. And FHA mortgage business picked up further this month, reaching $21,710,000 in the week ended Feb. 11 alone, around the record pace of last summer and 145 per cent above the comparable 1938 period.

The FHA spurt reflected building upturns in many sections. Mortgage volumes in the Middle West were almost 200 per cent higher than in 1938. A Texas "boom" pushed the Southwest even further above the national average gain, and volumes on the Pacific Coast continued at a high rate.

This rush during a normally dull real-estate season foreshadows a sharp increase in home construction this spring, for FHA mortgage business has proved an unusually accurate barometer of future home-building contracts. Thus, FHA mortgages selected for appraisal began to slacken in April of 1937 and fell rapidly thereafter, and the seasonally adjusted index of contracts declined after July (general business entered a recession in September).

Conversely, FHA's March 1938 business

doubled the February showing and went on to new peaks in ensuing months, while the index of contracts improved slightly in April and soared after June.

A concrete indication of the FHA's confidence in the building outlook came last week when the agency asked Congress to double the current limit of $3,000,000,000 on the value of mortgages it could insure. Officials predicted that the existing authority to insure would be exhausted by June 30, 1940. Stewart McDonald, Administrator of the agency, also asked Congress to eliminate that provision of the law which forbids the FHA to insure mortgages on "old" homes after July 1 (he pointed out that the building trade, like the motor industry, needs a good market for "secondhand" homes); to continue the authority to insure 25-year mortgages on low-cost homes, which otherwise also expires July 1, and to terminate FHA insurance for modernization loans and enact certain "clarifying" amendments. Together, these revisions would make the FHA a permanent and more important factor in the urban mortgage market.

Other Federal agencies also are trying to stimulate home construction. It was reported last week that the Temporary National Economic Committee was investigating building-material prices as part of a New Deal drive to cut building costs. The United States Housing Authority, in charge of slum clearance (NEWSWEEK, Aug. 1, 1938) will help swell the residential construction volume this year. It had 9,956 dwelling units under construction late in January and expects to start 75,000 or 80,000 more during 1939.

Independently of the government activities, the building trades are carrying out extensive promotional programs and researches in cost reduction. Numerous material manufacturers are experimenting with factory-fabricated materials and prefabricated homes. And the National Lumber Manufacturers Association is again sponsoring demonstration low-cost homes ($2,250 to $3,400 including land) in principal cities.

Significance

Fundamental factors pointing to greater home-building volumes include: (1) the potential housing shortage — population has risen steadily; fires and depreciation make many homes unhabitable each year, and yet only 210,000 dwelling units were erected annually during the nine years 1930-39, compared with an average of 675,000 in the 1920-29 decade—and the potential shortage will become a real one if more of the unemployed find jobs and seek better shelter; (2) easier and cheaper financing of home sales. Under the FHA and similar plans, a purchaser need make a down payment of only 10 per cent and can pay interest, taxes, and principal in convenient monthly installments, and interest costs are lower than a decade ago.

Predictions of building gains ranging up to 25 per cent are predicated upon only a modest further rise in business activity. Sharp gains in general business in the months ahead, therefore, would necessitate upward revisions of 1939 building estimates.

It is doubtful that the New Deal can or will do anything about building costs, for the remedy necessarily involves a drive on building wage rates. By the end of 1938, building-craft pay averaged 12 per cent above the 1936 level, while total costs, as measured by the Federal Home Loan Bank Board's index, were only 6 per cent higher.

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p. 40