

A shattered dream

CONSTRUCTION of new houses in the United States started to tail off during the winter after a promising upturn last summer.

Economists attributed the slow-up to rising interest rates on mortgages: the problem of land prices was ignored by the economic forecasters.

Yet the price of land has been at the heart of the industry's problems.

- Between 1977 and 1980, the cost of labour and materials increased by 47 per cent. The price of land increased by 94 per cent, according to the National Association of House Builders in Washington, DC.

- The inevitable happened: the rate of construction of new houses slowed down. Land prices now account for a quarter of the price of a new house (Table III).

- But in 1982, land prices weakened: builders were able to get back to work.

- By the end of 1983, however, land prices had begun to recover: this meant a slow-down in new construction, as prices were pushed beyond the reach of many families.

Now, families are finding it increasingly difficult to buy a home. Increasingly, they are having to rely on a second income to price themselves into the housing market: (Table IV).

THE ESCALATING price of land is the main reason why, in 1982, the proportion of owner-occupied households dropped for the second consecutive year, to 64.8 per cent.

Land prices are also responsible for a reversal in another trend: during the 1970s, homes were getting bigger. They are now getting smaller, as builders try to economise on land and so claw more people into the market.

The "American dream" – priority for home-ownership – has now been wistfully renamed as "the Australian dream". For over 70 per cent of Australian people own their homes, and the figure is rising, much to the envy of American commentators.¹

U.S. HOUSING

The land boom of '83 was foreseen by real estate analysts early in the year, who presented it as "opening the door to astute, small-scale investors, including those with little cash and modest incomes".²

But while the speculators may begin to clean-up, the families who need homes are undoubtedly suffering.

The Reagan Administration has slashed the money for assisted housing from \$26 billion (1980) to \$10 billion this year.

The lack of subsidies, however, is not the problem. The U.S. Congress committed \$363 billion to Federal housing subsidies during the last 50 years. Despite this staggering sum, the *New York Times* pointed out on December 5:

"An estimated 27 million people live in rental housing that is either substandard or too expensive."

Now the Reagan Administration is talking about a new system of housing vouchers, in a bid to help the poor. There is no discussion, in Washington circles, about the possibility of curbing the growth of land prices in a bid to bring house prices into line with people's wages.

REFERENCES

1. Don DeBat, 'Housing Goals Criticised by Analysts', *The Washington Post*, Nov. 19, 1983.
2. Kenneth R. Harney, 'Land Mini-Boom Foreseen', *The Washington Post*, March 19, 1983.

- Interest rates weakened as the housing sector's output began to drop, last autumn. Yet economists single out interest rates as the prime problem for the housing market. In fact, adjusted for taxes and inflation, the true mortgage rate is 2½ per cent, the same as it was 20 years ago when the housing sector was far more vigorous – and land prices, relative to wages, were much lower.

NEW YORK CITY, which operates 18 emergency shelters for the homeless, has begun to solve the problem of its large stock of empty buildings.

It is spending \$300,000 to cover windows with vinyl decals depicting a lived-in look of curtains, shades, shutters and flower-pots.

City officials say the spruce-up is designed to raise the morale of residents, discourage vandals and create a better impression for motorists who drive through run-down areas.

The City plans to provide 2,000 more beds in shelters over the next two years.

PERMITS to build sewers are valuable assets in Houston, Texas. Builders cannot develop land without purchasing the permits from landowners who have not used up their quota.

Sewer rights are being sold for up to \$5,000 a time, but owners are now holding on to their permits . . . speculating on higher prices.

Table III

Costs of new \$70,000 home, U.S.A., 1982: %	
Labour	15
Materials	30
Finance	15
Land	24
Rest (including profits)	16

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So the government has reluctantly agreed to re-examine the provision for land made by planning authorities.

Economic reality, however, had overtaken political action. The recovery of house-building in the first quarter of 1983 turned into a downward slide, as the price of land outpaced other construction costs.

Despite the expenditure of nearly £40m of taxpayers money in reclaiming derelict land at 80 urban sites in the past two years, builders were locked into a process which they called "planning for recession".

Twenty years ago, land accounted for about ten per cent of the cost of a new house. Today, in many areas it has risen to over 30 per cent.

The ratio of house prices to people's earnings moved sharply upwards, thereby shrinking the market and preventing the industry from re-employing the hundreds of thousands of skilled construction workers who were on the dole.

And the government decided that it would be prudent to issue a second draft of its circular on Land for Housing.

REFERENCE

1. 'Warning: Land shortage', *Estates Times*, Dec. 16, 1983.

Table IV: COST OF NEW HOMES, U.S.A.

	1977	1982	% change
Median house price: \$	45,050	74,790	66
Combined incomes of families able to afford a new home: \$	22,500	37,131	65
Percentage of purchasing families with two or more incomes	47	54	—
Median age of buyers	33	34	—

SOURCE: National Association of House Builders.