New Concepts for the Housing Industry

by WILLIAM K. WITTAUSCH

HOUSING, as an industry, collects a fifth of all the money American families spend every year, accounts for a third of all new construction put in place, and has produced half the real wealth of the United States. Even so, the housing industry is not a growth industry.

New concepts are needed to expand the market for housing products and services, and to raise the level of housing consumption to what private industry has achieved with other consumer products. Today, new construction barely exceeds population growth, while obsolete housing is continued in use far beyond its years. We simply do not consume the quantity and quality of housing commensurate with our standards and tastes in other goods.

The "house" is not a very consumable product. It is a large and expensive piece of merchandise, not easily modified. It is tied to a fixed location. Because families move, on the average, only every five years, the industry comes in direct contact with only one-fifth of its consumers during any one year. Moreover, out of every five families that do move in a year, only one moves into new housing; the other four move into housing vacated by other families. During any one year, in other words, new construction satisfies the housing needs of 1 in 25 families, or only four per cent of all consumers. The other 96 per cent either remain in, or move into, used housing.

The opportunity to upgrade and refurbish existing housing every time people move is a far bigger potential market than construction of new housing will ever be. Failure to recognize this has held the industry back more than it realizes. The housing industry persists in thinking of its market primarily in terms of first occupants and only secondarily in terms of repeat sales.

Today, for instance, when we replace a million units worth of worn out housing, we wait until it almost has to be torn down and whole new units built in its place. At an average cost of $15,000 per unit, this adds to the system some $15 billion worth of new housing facilities. If, on the other hand, our housing were such that it could be maintained by installing new parts as needed instead of being replaced by whole new units, we might create an annual replacement market not for $15 billion, but for as much as $35 billion worth of building products each year.

It is here that the introduction of new concepts can help the housing industry. The industry could begin to design the *new* housing entering the market for the first time each year to incorporate easily maintainable and interchangeable features and thereby anticipate and create a built-in replacement market for itself in future years. At the same time, the very fact that such features were available would generate the desire to replace old, worn out, and obsolete parts in existing houses much more rapidly than this is being done now.

As for *product design,* the industry needs to distinguish, conceptually, at least, between the house and the land on which it sits. Since houses wear out, and land doesn't, it needs to identify the optimum life and exact function the various parts of a house perform, establish the dimension and performance standards that apply, and determine the value consumers attach to different elements and ingredients of a house. If industrialized housing is to materialize on any scale to even begin to make a dent, the industry must think of housing as a replaceable product instead of a speculative piece of real estate.

In terms of *production methods,* the industry needs to know what ingredients of a house can best be made in a factory, brought to the site, and installed most efficiently. As to *marketing* we mean the distribution and merchandising of land, materials, money, and services that go into housing; we are examining various concepts for converting new and reclaimed urban renewal land to residential use; for channeling factory-made building products right through to their installation on the site; and for retailing the completed housing facilities to successive owners or tenants of individual dwelling units that are part of a permanent residential development.

As for the way housing is *financed,* the concept of building on leased land is gaining acceptance. It might bring home ownership within the reach of several million families that cannot afford it now. After all, buying one's house and paying for the use of land is no more revolutionary than the concept, first introduced only a generation ago, of buying one's house by making monthly payments for the use of money. Making it possible for home buyers to pay only for the use of land might give the housing industry the same boost today that paying by the month for the use of money did then.

To make it still easier for more families to own their homes, some of the building components could be considered apart from the house and financed separately through a lease-back type of arrangement tailored to go with a plug-in, or snap-on, or service-type of component. Utility cores, climate machines, and even landscaping can already be rented today just as we pay for our telephones. The way we finance housing, in other words, is just as important as the way we build it.

Dovetailing these concepts into a dynamic house marketing system will have its repercussions on the way the industry is presently organized.

One likely change is that large-scale builders will produce entire housing environments, wholesaling their "product," so to speak, to housing investment corporations who, in turn, will retail the individual units to individual families. Such corporations will deal in residential property very much like commercial or industrial real estate is managed today.

Financial institutions will continue to invest in mortgages secured by the individual properties, but they will also finance whole residential parks, or housing corporations, or environment merchants.

Manufacturers of building materials and components that go into both new and existing construction will merchandise and install and also service their products much more than they do today.

As for labor, shifting more of the building operation into factories will result in less seasonality, higher productivity, and more employment. This will make for bigger earnings per man, despite a lower labor cost per unit of output. Labor will thus gain both as producer and consumer of housing.

Building codes will be performance, rather than material, oriented. Housing will be built to satisfy all the scientifically determined physical, psychological, and aesthetic requirements of consumers. These will far exceed today's standards. Industry will be able to deliver more house per dollar than ever before.

How soon all this will happen is anybody's guess. But if the plans of some of the firms we have talked with this past year are any indication, it will be sooner than we think.

The preceding articles are shortened versions of addresses heard at the annual Henry George School conference last month. Valuable assessment suggestions and practices from California and Michigan will be reported in the September HGN.