Washington's Changing Economy

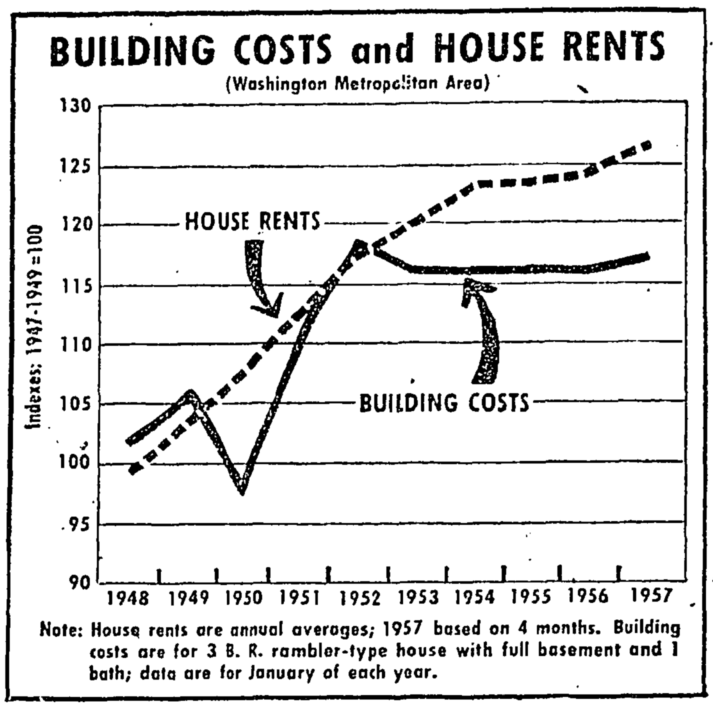
Why New Housing Has Fallen So Sharply

By Philip S. Brown

Brown

RESIDENTIAL building has declined sharply in the past 18 months—much more sharply in the Washington area than in the country at large. Moreover, no immediate upturn is indicated by building-permit figures. In the first four months of this year, 31 per cent fewer housing units were authorized in this area than in the same period last year, and 53 percent fewer than in January-April 1955.

Why this decline in a period of record-high employment? Is it simply because money is "tight" and more costly? Or, is it because building costs have risen more than rents? Or, are there just too many houses and apartments?



Note: House rents are annual averages; 1957 based on 4 months. Building costs are for 3 B. R. rambler-type house with full basement and 1 bath; data are for January of each year.

Few Vacancies

The high rate of occupancy certainly indicates no oversupply of apartments in the area as a whole. Out of 47,854 apartments in rental projects having FHA-insured mortgages, only 1090, or 2.3 per cent, were vacant on April 1. A year earlier, the vacancy ratio was 2.6 per cent. In the Northwest, only 1/3 of 1 per cent of rental units were vacant. On the other hand, in the Southwest and Southeast, vacancy ratios have risen to 3.9 and 4.4 per cent.

Actually there appears to be a shortage of good apartments in areas of highest average income. Out of 10,636 elevator-type apartments, only 67 vacancies were reported. This same low-vacancy situation is typical of other high-grade, well-located rental properties.

In Virginia, the housing demand is excellent, according to most reports. The vacancy ratio for FHA-insured apartments in Arlington County is about 1 per cent. In Alexandria, ¼ of 1 per cent. In Fairfax, where more housing units have been built in the past seven years than existed in the county in 1950, there are not only few vacancies but residential construction is still going ahead rapidly.

In Montgomery County, the vacancy ratio for FHA-insured rental projects was only 1 per cent on April 1, but in parts of Prince Georges County the market is said to be "soft."

The decline in housing starts has been greatest in Prince Georges County, where more dwelling units have been built since World War II than in any other political division of the metropolitan area. Here some 600 apartment units in FHA-insured projects were vacant on April 1, and the vacancy ratio was over 4 per cent. However, one big, poorly located development accounts for a good share of these vacancies.

Oversupply Doubtful

About 225,000 housing units have been built in the Washington area since World War II: over 100,000 in the Maryland suburbs, 75,000 on the Virginia side of the Potomac and nearly 50,000 in the District. Whether this amount of new housing has been adequate to accommodate the added number of households and provide for those involuntarily "doubled up" in 1950 can't be answered by reference population and household data, because the latter are estimated partly on the basis of the increase in dwelling units.

Considering the quality of much of the area's housing, as well as the occupancy ratios, certainly no oversupply is apparent. It is doubtful that the number of dilapidated and overcrowded housing units is any less than at the time of the 1950 census.

At that time, 16,186 housing units were dilapidated and 21,931 additional units lacked a private toilet or bath—many, in fact, being without any running water. Since 1950, some of these housing units—probably 5000 to 10,000—have been demolished or abandoned but in the meantime many others have deteriorated.

Real estate people who specialize in very low-grade rental housing differ in their reports about whether vacancies in this type of housing have increased or decreased. But even if the vacancy ratio for such housing is higher now than it was a year or two ago, this is not indicative of an oversupply of housing at a time when incomes are rising and people demand better housing. Nor would an increase in vacancies of very low-quality apartments and houses explain the drop in residential construction because the two types of housing are not competitive.

Area Housing Accommodations

	April, 1950	Authorized 1950-56	Total*	% Increase Since April, '50
District of Columbia..	229,738	28,106	257,844	12
Maryland:				
Montgomery	47,199	37,215	84,414	79
Prince Georges...	54,394	34,189	88,583	63
Virginia:				
Alexandria	18,753	5,294	24,047	28
Arlington	41,051	14,101	55,152	34
Fairfax	26,558	31,569	58,127	119
Falls Church	2,193	611	2,804	28
Total	419,886	151,085	570,971*	36*

*Without allowance for those demolished or abandoned since April 1950.

Rise in Building Costs?

Building costs rose very substantially in 1945-46-47 and again in 1950-51, but have risen very little in the past five or six years. In fact, one careful survey that is made every 60 days indicates that the cost of building a particular 3-bedroom, rambler-type brick house is almost exactly the same as it was in January, 1952. But even if building costs have risen moderately, as another index indicates, the rise has been less than the rise in incomes of most Washington-area families.

Since the late fall of 1955, when housing starts began to decline in this area, lumber prices have fallen, but building materials, all in all, have changed only slightly. Wage rates in some building trades are higher. The carpenters in their new contract, negotiated this month, got a 12-cent raise and agreement on an additional 15 cents next year, which will bring the local union scale in Washington to $3.50 an hour . . . But builders' profits have been reduced a bit, and some building operations probably have become a little more efficient.

Therefore, it is difficult to see how the drop in residential construction can be attributed, even in part, to changes in building costs.

Cost of Money?

Interest is far and away the major expense that most people incur in buying a house. One who borrows $10,000 at 4½ per cent, to be repaid over 30 years, commits one's self to pay $8242 in interest. At 5½ per cent, the commitment is $10,448.

Actually this isn't quite the way most people look at the matter, but the result is the same. They are concerned with the size of the monthly payments. These payments increase not only with the rise in interest rates but also with the shortening of mortgage maturities. For example, the monthly payment on a $10,000 4½ per cent, 30-year mortgage is $50.70. To borrow the same amount at 5½ per cent payable over 25 years, invovlves a monthly payment of $61.50. This is a 20 per cent increase.

The second major concern of most buyers is with the size of the required down payment. Conventional mortgages predominate today. They are seldom for more than two-thirds of the appraised value of a house, and often less. Consequently, down payments are pretty big, compared with those on FHA and VA mortgages that predominated a few years ago. Some builders will take second trusts, but these really boost financing costs, since builders can sell them for only 70 to 75 per cent of their face amount.

Thus it is that the rise in financing costs, not building costs, has reduced the demand for new houses—and, to some extent, the demand for existing houses. However, in the latter case, high financing costs may be partly offset by a reduction in the sales price. Owners sometimes have to sell, but builders don't have to build.

Cheaper to Rent?

In contrast to the 20 per cent increase in monthly payments on a new house, rents have changed little in the past three or four years, as shown by the accompanying chart.

Consequently, many families figure it's cheaper to rent than to buy a new house. Some may be influenced also by the fact that they now receive 3 per cent or more on their savings and that they would lose $100 to $200, if savings were drawn upon to make a down payment on a house.

Maybe, too, a lot of people think it's safer to rent. With all the controversy about cutting the budgets of Federal agencies in Washington, more families may have concluded that this is not the time to draw out their savings and to put them at risk by buying a house.

How Long?

Eventually, apartments and houses will become scarce and rents will rise. Or, maybe interest rates will fall. Either development would tend to restore the former relationship between rents and monthly payments on new houses.

But this change will not necessarily come soon. One year's addition to the supply of housing is small—only about 4 per cent. Therefore, even a 50 per cent drop in housing starts may not create much of a shortage for a couple of years. Rents aren't that sensitive to market forces. Usually they are raised first for new tenants. Old tenants may get no notice of an increase until several years later, although some may experience greater difficulty in getting the management to redecorate.

If Federal employment in the area should be curtailed, or held steady for two or three years, and if no pay boost is granted classified workers, this too may delay the revival of residential building.

The Bigger Problem

The decline in residential building has affected many builders and real estate people. Some have been hurt. But this is not the major problem with respect to housing. After all, most construction workers are employed—more of them on office and other commercial-building projects than formerly—and most small builders have been able to make out pretty well.

The major problem is the need for decent low-cost housing. This need isn't being met by public housing and it isn't met satisfactorily by the downpricing of old houses and apartments.

No real progress has been made in reducing "slum housing" in the District and now new slums are developing in the suburban areas. It is estimated that 3000 of Alexandria's 8500 Negroes live in crowded and dilapidated dwellings and the situation gets worse each year. There are small, run-down houses in the very center of Alexandria that house 15 to 20 permanent residents. Equally shocking is the fact that bad housing is often expensive.

86,000 Complaints

Why do poor people pay so much for so little? Why can't older properties in less fashionable areas be kept in moderately good condition and rented more reasonably? Why don't rents fall as sharply, with age and condition, as the price of automobiles?

One gets many answers to these questions. One real estate man who handles hundreds and hundreds of low-grade houses claims that too many poor people don't feel any moral obligation to pay rent. This is supported by an estimate that 10,000 D. C. tenants pay on an average only six months' rent a year.

In 1956, some 86,000 complaints involving nonpayment of rent were filed in the District alone, in the Landlord and Tenant Court, and this year the number is running 14 per cent higher. In some cases, of course, two or more complaints are issued against the same tenant in a year's time. Writing up and filing a complaint may cost the landlord $5 or so, of which only $1 is recoverable from the tenant.

Because of nonpayment, the high cost of collection, high turnover of tenants and other added expenses, rents in the least desirable sections of Washington are terribly high relative to the quality of housing. They take a very high percentage of family incomes. The neighborhoods, in turn, take a disproportionate amount of policing and public assistance, partly on this account.

This is the major housing problem in Washington, one that isn't self-corrective. The decline in private residential building, on the other hand, will be reversed, sooner or later, largely as a result of market forces.