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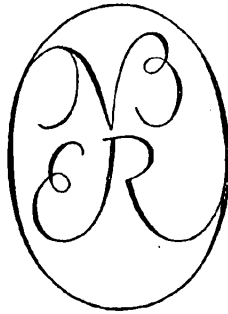
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# Capital Formation in Residential Real Estate

## *TRENDS AND PROSPECTS*

BY LEO GREBLER, DAVID M. BLANK,  
AND LOUIS WINNICK



A STUDY BY THE  
NATIONAL BUREAU OF ECONOMIC RESEARCH, NEW YORK

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IN RESIDENTIAL REAL ESTATE  
*TRENDS AND PROSPECTS*

NATIONAL BUREAU OF ECONOMIC RESEARCH

*Studies in Capital Formation and Financing*

1. Capital Formation in Residential Real Estate: Trends and Prospects

Leo Grebler, David M. Blank, and Louis Winnick

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*This monograph is the result of a joint study by the Institute for Urban Land Use and Housing Studies, of Columbia University, and the National Bureau of Economic Research, Inc. The authors were staff members of the Institute. The study is part of a larger investigation of trends and prospects in capital formation and financing made possible by a grant from the Life Insurance Association of America.*





## 〈 FOREWORD 〉

### I

THIS is the first in a series of monographs resulting from an inquiry initiated by the National Bureau of Economic Research in mid-1950, with the financial assistance of the Life Insurance Association of America. The inquiry examines long-term trends in capital formation and financing in the United States for whatever light these may shed on future prospects. The study is organized primarily about the principal capital-using and -demanding sectors of the economy—agriculture, mining, manufacturing, public utilities, residential real estate, governments, and the foreign sector. The analysis for each sector summarizes the major trends in real capital formation from 1870, and in financing from 1900, and the factors determining those trends; and, so far as possible, suggests the significance of these factors for the future. In addition to the sector studies, the inquiry comprises two others, of somewhat wider scope. One deals with the trends in external financing channeled through intermediate financial institutions and attempts to link the major types of institutions with the various groups of capital users. The other utilizes the results of all the other studies and places them within the broader framework provided by countrywide estimates of national product and relevant components, and of countrywide estimates of assets and debt.

Some of the findings have been presented in part or in preliminary form in a series of Occasional and Technical Papers.<sup>1</sup> This monograph, like the others to follow, presents the full results of a specific investigation together with supporting data. The others, completed or near completion, deal with trends in capital formation and financing in agriculture, mining and manufacturing, public utilities and governments, and the flow of financing through financial intermediaries, and there is to be a summary volume on trends in capital formation and financing for the country.

<sup>1</sup> Leo Grebler, *The Role of Federal Credit Aids in Residential Construction*, Occasional Paper 39, 1953; Daniel Creamer, *Capital and Output Trends in Manufacturing Industries, 1880-1948*, Occasional Paper 41, 1954; Raymond W. Goldsmith, *The Share of Financial Intermediaries in National Wealth and National Assets, 1900-1949*, Occasional Paper 42, 1954; Melville J. Ulmer, *Trends and Cycles in Capital Formation by United States Railroads, 1870-1950*, Occasional Paper 43, 1954; Alvin S. Tostlebe, *The Growth of Physical Capital in Agriculture, 1870-1950*, Occasional Paper 44, 1954; Israel Borenstein, *Capital and Output Trends in Mining Industries, 1870-1948*, Occasional Paper 45, 1954; David M. Blank, *The Volume of Residential Construction, 1889-1950*, Technical Paper 9, 1954; all National Bureau of Economic Research.

Drs. Grebler, Blank, and Winnick report on the longer-term trends in capital formation and financing in residential real estate, i.e. those movements that persist not only through the shorter business cycles but also through the longer swings of some twenty years in duration. Some of the findings are contrary to widely held impressions. The marked retardation in the rate of growth of residential construction, despite the large and continuous rise in national product and the greater facilities for financing, is perhaps the most conspicuous finding. The association of this retardation with a decline in real capital investment per new dwelling unit is another result of considerable interest. Although there has been a sharp increase in the proportion of debt financing in total investment over time, the volume of equity investment in new housing has been high, according to the estimates of the flow of funds into residential construction made by these authors. There are many other findings of note: changes in the housing "mix"; regional shifts; competition of durable consumer goods not included under the conventional definition of residential construction; the changing roles of various groups of financial intermediaries in financing the acquisition of homes; the trend to lower costs and more liberal terms of financing and the like.

The analysis of the factors that have determined the long-term trends in the volume of capital formation in residential construction and in the sources of its financing is of major interest. This account shows how closely these factors reflect the entire growth pattern of our country: the demographic patterns that determine the magnitude of the population increase and the additions of new dwelling units; the adaptation of the population to changing economic and other opportunities which takes the form of internal migration, whether from the country to the city, from the city to the suburbs, or from one region to another; the complex of technological changes which provide new opportunities, either in more effective production processes or in new products, and which affect housing either through changes in housing technology or through encouragement of competing demands for nonhousing products; the change in consumer tastes—partly the effect of changing technology and partly the effect of a general rise in the standard of living and unequal long-term elasticity of demand for various goods. All these and many others are drawn into the analysis of the trends in the accumulation of this important part of the nation's wealth.

The authors' comprehensive account of factors affecting the trends in financing discloses the rapidity with which a complex system of

financial institutions responded to the changing needs of the economy and the success with which these institutions mobilized and channeled savings into directions which permitted the satisfaction of the demand for housing in the particular forms which this demand assumed. The marked growth in the proportion of external financing of new residential facilities was obviously a response to the increased desires of the prospective users for house ownership; and this response, provided by the country's financial institutions, was obviously a major factor in the spread of house ownership, particularly to the income groups below the top. The reduction in the cost of financing, the narrowing of regional differentials in the costs, the increasing variety of types of financing—all these are clear suggestions of the elasticity with which the financial system of the country adapted itself to the changing needs of ultimate consumers. The study also traces the increasingly important role the federal government has played in facilitating and sometimes supplementing the flow of funds into this sector of the economy.

## 3

The monograph is essentially a quantitative study of housing in a long phase of economic growth of an advanced country. If trends in the volume of residential construction are accounted for by forces that are part of economic growth in general and are, therefore, affected by the ever-changing economic and technological conditions; and if trends in the sources of financing are determined partly by forces that govern the disposition of individuals' incomes between consumption expenditures and savings, and partly by the complex and ever-evolving system of financial institutions and of government participation, a definitive "explanation" is clearly out of the question. The present monograph is the product of a full-scale inquiry that extended over a relatively brief period of some three to four years. Rich as its contribution is, much as it advances our knowledge, it is necessarily incomplete; and at several points the authors indicate the directions in which further study and additional data are required.

Singling out any of these several possible directions of further study is a matter of judgment; and the choice may be more revealing of the pattern of interests of the person making it than of a decision fully defensible on purely objective grounds. Yet some broad indications may not be amiss, provided they are viewed as such judgments—of interest as one vote out of several possible.

One, perhaps obvious, direction is further analysis of the demand for housing in the context of a study of long-term trends in the total structure of demand by ultimate consumers, under conditions of

rising per capita income and the kind of changes of technology and patterns of living that distinguish a modern economy. The monograph's stress on the changing scale of consumer preferences, on the possible competition of products other than housing, on the interweaving of the demand for housing with so many aspects of the economic life of the consumers at large, points clearly in this direction. Further study, more explicitly concerned with the analysis of long-term changes in the structure of consumer demand, should enhance our understanding both of the trends and of the significance of the underlying factors for the future.

A second direction would emphasize the analysis of long swings in residential construction and in its financing—a topic only touched upon in the monograph in establishing the underlying long-term trends. While there have been several studies of the long swings in residential and related construction in this country (and in some other countries), it is fair to say that today no full treatment and analysis of the available record exists, perhaps because some of the data have become available only recently—as, for example, the new estimates prepared in connection with the present monograph. But there has been little or no study of long swings in the financial flows connected with residential construction, or consideration of the possible existence of fluctuations in rates of secular growth in many other aspects and sectors of the economy. Moreover, it would be instructive to consider the long swings in residential construction not only for the country as a whole but also for different sections of the country in order to isolate the factors that may be responsible for the timing and duration of the swings. A full-scale analysis of the factors involved in the long swings in the volume of residential construction and in the related financial flows would be particularly timely now, in view of the prolonged upsurge in residential construction since World War II which poses clear and important questions for the future. If there is likelihood that the country is now at the crest of another long cycle in residential construction, it is surely imperative to focus attention once more upon the factors that determine the course of such long cycles, and, more particularly, to explain the long contraction phase—so that any measures that promise to offset such declines and reduce their impact can be considered in the light of more knowledge than is at present available.

Whatever directions further study takes, consideration should be given to extending the study beyond the confines of this country. It is true that much is still to be learned from the records available for the United States: as in all fields of social research, here, too, analysis lags behind the stock of accumulated data. Yet our experiences in the

area of housing construction have parallels elsewhere. As the authors suggest, the slowing in the rate of growth in the volume of residential building appears to be present in some Western European countries; and other studies have revealed the presence of long swings in residential construction in other countries besides the United States. Comparative studies, on an international scale, have been rather rare in this and other fields; and one cannot deny the particular difficulties to which such studies are subject. And yet, perhaps because of its very rarity, such comparative analysis might reveal aspects that are only dimly seen and understood at present; and provide findings and hypotheses that may serve as valuable checks upon studies limited to a single country.

SIMON KUZNETS



## 〈 ACKNOWLEDGMENT 〉

THIS volume is the product of a collaborative enterprise. The authors have benefited greatly from their close association with the staff of the Institute for Urban Land Use and Housing Studies, of Columbia University, and from consultation with the staff of the National Bureau of Economic Research.

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While they gratefully acknowledge the generous aid of economists, demographers, and housing specialists, the authors must relieve all those who helped them from any responsibility for the analyses and interpretations presented in this volume. Their conclusions do not represent the views of any organization with which they have become associated after completion of the monograph.

LEO GREBLER

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LOUIS WINNICK





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