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CHAPTER 3

The Market for Homes in Fee

BEFORE discussing the market in which homes are bought, sold, or exchanged, it will be useful to examine the data indicating how the proportion between owner-occupied and rented homes has varied from time to time and from one part of the country to another.[1]

PERCENTAGE OF HOMES OWNER-OCCUPIED [2]

Comprehensive data on home tenure in the United States were compiled for the first time in the Census of 1890. Periodically since that time, notably in 1920 and in 1940, much information on home tenure has been collected by the Bureau of the Census, and in connection with the 1940 Census a complete enumeration was made of home financing, rents, occupancy, vacancy, and housing conditions. The 1940 Census, in fact, constitutes a landmark in the development of information on these features of the real estate market.

In 1890, 36.9 percent of the homes in nonfarm areas were occupied by their owners; and this percentage increased at each succeeding census, up to and including 1930, when the figure was 46.0 percent (Table 2). By 1940, it had declined to 41.1 percent, but estimates by the Bureau of the Census, based on a sample census, indicated that by 1947 it had risen to an all-time high of 52.6 percent.

Table 2 also shows some interesting variations by census region in the percentage of nonfarm homes owner-occupied. In New England, the percentage of owner-occupied homes declined from 35.1 in 1890 to 32.6 in 1910. Thereafter, it rose to 44.3 in 1930, declined in

1 There are two areas, Baltimore and Philadelphia, in which a ground rent system of tenure is common. In these areas many families are classified as homeowners and many homes as owner-occupied, notwithstanding the prevalence of the ground rent system. Under this system, the parcel of land is leased on long term and the dwellings are constructed by the lessee. In lieu of owning a home *in fee*, therefore, the family owns a *leasehold estate;* but inasmuch as the leases are for a long term, and the ground rent is a relatively small sum, payable annually, there is little practical distinction between this tenure and ownership in fee.

2 In this and subsequent discussions on owner-occupancy, the data are based on all occupied nonfarm homes reporting tenure in 1890, 1910, 1920, 1930, and 1940, and on all "ordinary dwelling units occupied by residents" in 1947 (exclusive of units in trailers, tourist cabins, shacks, riverboats, warehouses, and the like).

TABLE 2 — PERCENTAGE OF NONFARM HOMES OWNER-OCCUPIED, BY CENSUS REGION, AT CENSUS DATES, 1890-1947 [a]

Census Region [b]	*1890*	*1900*	*1910*	*1920*	*1930*	*1940*	*1947*
New England	35.1%	33.8%	32.6%	35.4%	44.3%	39.5%	46.0%
Middle Atlantic	32.2	29.9	30.6	33.7	42.8	34.9	
East North Central	46.7	44.5	45.8	47.7	51.5	45.9	58.2
West North Central	45.5	46.6	50.4	52.2	53.1	47.5	
South Atlantic	26.9	27.3	31.5	36.7	40.2	37.3	
East South Central	27.5	28.6	32.9	35.6	40.1	36.5	52.2
West South Central	31.6	35.2	38.4	40.9	42.9	42.1	
Mountain	49.1	47.1	46.8	44.9	48.0	48.5	56.2
Pacific	40.8	40.0	46.7	43.4	47.5	45.1	
All regions	36.9%	36.2%	38.4%	40.9%	46.0%	41.1%	52.6%

[a] Bureau of the Census, *Mortgages on Homes in the United States, 1920,* Monograph No. 2 (1923), Table 5, p. 39; 15th Census: 1930, *Population,* Vol. 6, Table 42, p. 35; 16th Census: 1940, *Housing,* Vol. 4, Part 1, Table 14, p. 63; and *Current Population Reports, Housing,* Series P-70, No. 1 (October 1947) Tables 3 and 22, pp. 10 and 24, respectively. Data are based on occupied nonfarm homes reporting tenure.

[b] States included in the census regions are as follows: New England: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut; Middle Atlantic: New York, New Jersey, and Pennsylvania; East North Central: Ohio, Indiana, Illinois, Michigan, and Wisconsin; West North Central: Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, and Kansas; South Atlantic: Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, and Florida; East South Central: Kentucky, Tennessee, Alabama, and Mississippi; West South Central: Arkansas, Louisiana, Oklahoma, and Texas; Mountain: Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, and Nevada; Pacific: Washington, Oregon, and California.

1940 to 39.5, and rose in the New England and Middle Atlantic states to 46.0 in 1947. In the Middle Atlantic and East North Central states, the percentage declined only in 1900 and in 1940. In the West North Central, South Atlantic, and East South Central states, there was no decline until 1940; and in the Pacific states the decline in 1900 was almost imperceptible, and in 1920 it was 3.3 percentage points. Changes in the Mountain states have been erratic; the percentage declined in 1900, 1910, and 1920; it rose in 1930 and 1940, and in 1940 was higher in this region than in any other section of the country. The highest percentage of owner-occupancy ever obtained in any section—58.2—occurred in the East North Central and West North Central states in 1947.

INFLUENCES AFFECTING PERCENTAGE OF HOME OWNERSHIP [3]

The percentage of homes owner-occupied tends to vary inversely with the size of a city or metropolitan area (Table 3), but there are

[3] See Henry McCulley Muller, *Urban Home Ownership—A Socio-Economic Analysis, with Emphasis on Philadelphia* (Philadelphia, 1947) pp. 5-45.

TABLE 3 — PERCENTAGE OF HOMES OWNER-OCCUPIED IN CITIES OF 50,000 POPULATION OR MORE, BY SIZE OF CITY, 1940 [a]

Size of City	*Percentage of Homes Owner-Occupied*
1,000,000 and over	24.5%
500,000 – 999,999	31.1
200,000 – 499,999	35.8
100,000 – 199,999	37.0
50,000 – 99,999	37.3
All groups	31.6%

[a] Bureau of the Census, 16th Census: 1940, *Housing*, Vol. 2, Part 1, Table 72, pp. 113-15. Data are based on all occupied dwelling units.

wide variations within each size group. In New York City in 1940 only 15.8 percent of the homes were owner-occupied; but in the third largest city, Philadelphia, 38.9 percent were owner-occupied, and in the Philadelphia metropolitan area the percentage was 42.7. In the five largest metropolitan areas in the country, the percentage varied from 44.9 in Detroit to 23.6 in New York.[4] Thus, size alone, while doubtless an important element, particularly when associated with high land costs, does not appear to be the controlling factor.

One of the most important influences appears to be the percentage of nonwhite families in the community, which varies by geographical location. Of the twelve metropolitan areas in which less than 30 percent of the homes were owner-occupied in 1940, nine were in the South. In this group only the metropolitan areas of New York, Atlantic City, and Fall River-New Bedford lie in the North. Furthermore, only the New York and New Orleans metropolitan areas had more than 500,000 population in 1940 (Table 4).

On the other hand, not a single metropolitan area in which more than 50 percent of the homes were owner-occupied in 1940 lies in the South. The highest percentage of home ownership was in the Saginaw, Michigan metropolitan area (population 153,888), with 62.6 percent of the homes owner-occupied.[5] Tacoma, Washington, was second, with a population of 156,018, and 60 percent owner-occupied homes. Salt Lake City, Utah, with a population of 204,488, had 54.8 percent; Portland, Oregon, with 406,406 population, had 52.9 percent of its homes owner-occupied.

[4] Bureau of the Census, 16th Census: 1940, *Housing*, Vol. 2, Part 1, Tables 72 and 89, pp. 113, 156-57.

[5] *Ibid.*, Tables 89 and 90, pp. 156-59.

TABLE 4 — POPULATION, PERCENTAGE OF HOMES OWNER-OCCUPIED AND PERCENTAGE OCCUPIED BY NONWHITE FAMILIES IN TWELVE METROPOLITAN AREAS, 1940 [a]

Metropolitan Area	*Population 1940*	*Percentage of Homes* [b]	
		Owner-Occupied	Nonwhite Families
Charleston, S. C.	98,711	22.8%	47.5%
Macon, Ga.	74,830	23.1	44.6
Columbus, Ga.	92,478	23.4	32.8
New York, N. Y.[c]	11,690,520	23.6	5.4
Savannah, Ga.	117,970	23.7	46.6
New Orleans, La.	540,030	25.6	30.2
Augusta, Ga.	87,809	25.8	41.2
Montgomery, Ala.	93,697	26.7	47.0
Durham, N. C.	69,683	27.1	36.6
Atlantic City, N. J.	100,096	28.1	16.9
Fall River, Mass.[d]	272,648	29.5	2.0
Charlotte, N. C.	112,986	29.9	28.9

[a] Bureau of the Census, 16th Census: 1940, *Housing*, Vol. 2, Part I, Tables 89 and 90, pp. 156-59.
[b] Based on all occupied dwelling units.
[c] Includes Northeastern New Jersey.
[d] Includes New Bedford, Mass.

It has been suggested that the percentage of owner-occupancy tends to decline with the age of the city, but the record in Philadelphia is a notable exception to this generalization. The fact, however, that none of the metropolitan areas which reported more than 50 percent owner-occupancy in 1940 lies east of the Allegheny Mountains and that all are in the Great Lakes region or farther west suggests that the age of the community is important in many cases.

Topography, local customs, and ways of living may exert more influence than any of the other factors mentioned, except racial composition. The low percentage of ownership in New York—particularly in Manhattan—reflects the influence of topography, though San Francisco, similarly situated, reported a much higher percentage of owner-occupancy. The topographical environment of Los Angeles and Detroit is doubtless a factor in their higher percentages of home ownership; but the influence of the automobile in enabling a broadening of their geographical areas before these two cities had grown up may have been more important. Pittsburgh is another area in which topography suggests congestion, multi-family structures, and a low percentage of home ownership; but in the metropolitan area, 39.1 percent of its homes were reported owner-occupied in 1940.

Another influence sometimes mentioned, particularly within recent decades, is the rate of population growth. This influence seems logical in view of the record of Los Angeles and Detroit; but there is, nevertheless, no statistically significant correlation between rate of population growth within the last three decades and percentage of owner-occupancy in all metropolitan areas.

It is not easy, therefore, to generalize regarding the relative significance of these different forces. Apparently, the percentage of owner-occupancy reflects a number of local conditions, of which custom and tradition are probably the most influential of all.

There is some evidence, described elsewhere in this study, that during periods of general economic and business expansion the percentage of owner-occupancy tends to increase, while it declines in periods of contraction. Accordingly, the percentage of homes owner-occupied in 1930 may reflect the prosperous circumstances of the twenties, inasmuch as the census was taken before the impact of the depression of the thirties had been felt; and the decline reported by the Census of 1940 may reflect these forces after they had expended themselves. Likewise, the all-time peaks reported by the sample Censuses of 1945 and 1947 [6] reflect the prosperous circumstances of those years, as well as a number of war measures, such as rent control.

Length of Tenure of Owner-Occupied Homes

The person who acquires or holds in fee the premises occupied as his home, while primarily concerned with the direct satisfactions to be obtained through use and occupancy, must consider also the "rental value" of the premises and their probable resale value should circumstances suggest sale. As a matter of fact, such circumstances do occur frequently. It is impossible to generalize broadly, but the scanty evidence available indicates that the average length of time for which a home is "owned" is much shorter than might be expected. Hoad found that in Toledo during the period 1917-38 one-family houses changed hands "once every seven years, on the average (and that) the average annual rate of turnover was 18 percent . . . in the boom of 1922-28 and 10 percent during the following depression." [7] The

[6] Bureau of the Census, *Housing — Special Reports,* Series H-46, No. 1 (May 1946) and *Current Population Reports, Housing,* Series P-71, No. 35 (August 1947).

[7] William M. Hoad, *Real Estate Prices,* A Study of Residential Real Estate Transfers in Lucas County, Ohio (unpublished Ph.D. thesis, University of Michigan, 1942) pp. 48 ff.

highest rate of turnover was during the years 1919-20, during which about one-fifth of all the single-family dwellings in the area were bought and sold on the average each year. Similarly, in 1945-46 the rate of turnover was very rapid, but there are no data from which the rate could be determined.

Hoad's study also indicates that the age of improvements is reflected in the rate of turnover. Homes forty years old, or more, were sold at a rate of 5.7 percent a year, while 25.8 percent of those only one to four years old were sold on the average each year. Conversely, the average length of time the old houses were held was nearly twenty years, while almost all new houses were sold by their first owner-occupant before the expiration of four years.[8]

Some fragmentary data on length of tenure were assembled in the 1940 Census. According to these data, of 11,437,000 urban and rural nonfarm owner-occupants in 1940, 64 percent lived in the same homes they had occupied in 1935. On the other hand, 36 percent had either moved from another house in the same city or county to the one occupied in 1940, or had moved into their 1940 home from outside the county.[9] In other words, for 64 percent of the owner-occupants, ownership and occupancy had extended beyond five years, and for 36 percent, for less than that. It would be dangerous to generalize from these two figures, but one could easily surmise that the average term of ownership is less than ten years.

Another scrap of relevant data is found in the reports on tenure published by the Works Progress Administration. These reports show that among owner-occupants in ninety cities surveyed between 1934 and 1937, 15 percent had occupied their homes for five years or less, 37 percent for ten years or less, and 78 percent for twenty years or less.[10] These figures suggest an average tenure somewhat longer than the others.

Some of the circumstances that make it inconvenient or impossible for a family to maintain the status of owner-occupancy are familiar. They include changes in location of the employment of the

[8] *Ibid.*, p. 49. The turnover of houses one to four years old does not include the purchase by the first owner.

[9] Bureau of the Census, 16th Census: 1940, *Population and Housing: Families, Tenure and Rent,* Table 18, p. 126. For 39,580 owners, there is no report on status.

[10] Peyton Stapp, *Urban Housing,* Works Progress Administration (1938) Table 1: Part 4, p. 36.

principal wage earners; unemployment, sickness, accident, or other causes of decline in income; changes in the neighborhood, in the number, age, and interests of members of the family; and disruption of family groups by death and divorce. It is not easy to determine the relative significance of these influences, but Hoad has gathered data that indicate that 9 percent of the transfers of single-family houses in the Toledo area from 1917 to 1938 were attributable to foreclosure or surrender in lieu of foreclosure; 17 percent to "business convenience"; 12 percent occurred as the result of gifts or inheritance; and 61 percent were attributable to ordinary market transactions.[11] It is impossible to determine what proportion of these "market transactions" arose from the circumstances mentioned above.

Characteristics of the Home Ownership Market

Whatever the reasons when the family owning a home decides to abandon occupancy and use, it has the alternative of offering to sell the home in fee or of offering it for rent. The circumstances of the family and the general market situation determine which alternative is chosen. In view of the frequency of such transactions, it is important to examine the behavior of the market for single-family homes in fee.

Every home offered for sale or rent, being unique to some degree, is the center of its own market. In other words, the market for the services of a home is localized and particularized. Prospective purchasers find it possible or convenient to use services of a particular home, or homes, in a given (and usually rather narrow) price range. In making a decision to buy, these purchasers have only restricted alternatives to consider, for a very small proportion of homes within a given market area is available for purchase at any given time.

These localized and particularized markets may coincide to a degree, but their scope [12] is seldom identical. Moreover, the market for a particular home varies from time to time. In a buyer's market, it shrinks; and in a seller's market it is usually greatly expanded. As each market shrinks, the extent to which houses compete with one

11 William M. Hoad, *op. cit.*, p. 51.

12 The word "scope" is used to imply more than geographical area and to include especially the range of income, tastes, and preferences of prospective buyers.

another increases; and, as it expands, this diminishes. When markets are shrunken, competition among buyers is weakened, and that among sellers is strengthened. When markets expand, the reverse tends to occur; sellers compete less actively, and buyers, each extending the area of his preference, come more and more into competition with each other. Furthermore, each seller (and each potential buyer) is commonly seeking to sell (or to buy) only one unit. In some cases, large-scale builders have numerous houses for sale; this is not the usual situation, though the importance of large-scale, operative builders has increased in recent years. The owner-occupant seller ordinarily is interested only in the disposition of the single unit; and the buyer, seeking the right to occupancy and use, needs only one home. Once a transaction is consummated, therefore, the seller and the buyer are both out of the market.[13]

In most cases, both the buyer and seller are inexperienced in the real estate market. The transactions, however, involve such technical aspects as title search, title assurance, and other details unfamiliar to the inexperienced, and, as a consequence, different specialists participate in the transaction at one stage or another. In this situation the buyer's or seller's decisions are frequently made more on the basis of a specialist's advice than as a result of his own analysis or understanding of the transaction, and the outcome may depend more on the persuasiveness of the specialist than on the merits of the terms. In such a market the prices of almost similar homes may vary widely.

Characteristics of a Buyer's Market

In a buyer's market, each potential purchaser has a variety of choices. Each seller is conscious of this fact and knows that once the buyer has made a purchase he will be out of the market. Accordingly, the seller realizes the importance of selling to a given prospective buyer, and also that the only basis of enhancing the likelihood of sale is that of price and terms; in a buyer's market he is usually obliged to make concessions on both, and his willingness to do so is ordinarily manifested by his asking for "an offer," either directly or through his broker.

Prices in a buyer's market, therefore, are "soft" or declining.

[13] In their respective roles, the seller may, of course, become the buyer of another house, but he seldom has more than one for sale.

Once a chance of sale is lost, the next opportunity is likely to be created (or met when it arises) by quoting a lower price. Price declines cause potential purchasers to delay action on the assumption that the longer they wait, the less they will have to pay for the house of their choice. Furthermore, as sales are made the disproportion between the number of sellers and buyers tends to increase. If there were, before the sale, three homes for sale and two prospective buyers in three overlapping markets, one sale leaves two homes for sale but only one buyer.

It may be argued that in such a situation declining prices would bring more buyers into the market, causing this disproportion to be corrected. While there may be some such tendency in the market for homes, it is almost nullified by other forces; notable among these in a buyer's market is a widespread preference for liquidity and safety. Liquid resources are carefully husbanded under the impact of reduced income, uncertainty, and a sense of economic insecurity. Commitments involving long-extended and fixed obligations are avoided. Instead of seeking long-term investments, capital flows into the most liquid, most readily convertible, and safest forms. This preference for liquidity and safety restrains potential buyers and encourages further postponement of their decisions.

On the other hand, the same set of circumstances forces an increasing number of owner-occupants into offering their homes for sale. Changes in economic position may have converted into intolerable burdens carrying charges which were previously met with relative ease, especially if obligations carrying heavy debt service have been incurred. In many instances, relinquishment of use and occupancy becomes a means of adjusting standards of living to reduced income, and sale becomes the last desperate resort for salvaging something from the wreck of an ill-advised or poorly timed venture. In an effort to realize urgently needed cash to meet current obligations, the frozen or illiquid asset represented by home ownership must be sold with little regard for price. Thus, the very circumstances that tend to inhibit purchasing compel owners to attempt sale.

Yet, in such a market many owners are unable to sell. They may have no alternative but to default on their obligations; and, as a result of this default, they find themselves obliged to forfeit ownership as the only means of satisfying their mortgage obligation. Thus, many homes fall into the ownership of mortgagees through foreclosure or voluntary surrender in lieu of foreclosure; when they do so, they are free of debt. Some measure of the extent to which mortgagees become owners in fee is shown by the amount of "residential real estate" held by the principal types of lenders in the late thirties. Estimates of these amounts are given in Table 5. The fixed charges are then reduced to a minimum, and the homes can be "carried" with a minimum of cash outlay. Much, or all, of this cash outlay, however, can be met if the house can be rented.

TABLE 5 — ESTIMATED VOLUME OF RESIDENTIAL REAL ESTATE OWNED BY SELECTED LENDING INSTITUTIONS, 1938-48 [a]
(in millions)

End of Year	*Savings & Loan Assocs.*	*Life Insurance Cos.*	*Mutual Savings Banks*	*Commercial Banks*	*HOLC*	*Total*
1938	$890	$568	$392	$290	$489	$2,629
1939	681	530	342	235	462	2,250
1940	492	474	298	187	338	1,789
1941	328	358	212	127	275	1,299
1942	203	295	142	85	222	947
1943	117	213	81	49	94	554
1944	60	124	36	24	11	255
1945	33	85	12	14	1	146
1946	26	52	6	11	..	97
1947	13	42	5	10	..	70
1948 [b]	10	37	4	9	..	60

[a] Home Loan Bank Board, *Statistical Summary, 1949,* Table 15, p. 18.
[b] Preliminary data.

Some owner-occupant families who have to relinquish use and occupancy are also able to meet carrying charges out of their resources supplemented by whatever rent they can obtain. This alternative of renting is chosen by both types of owners when the price which can be obtained for a home in fee is so low, or it becomes so difficult to secure an offer to purchase at any price, that renting appears more attractive.

MEASUREMENT OF FORECLOSURE AND SURRENDER RATE IN A BUYER'S MARKET

There are no comprehensive data reflecting these changes in the market for homes over a long period. Even data on foreclosures do not permit segregation of single-family homes from other types, and the few data on voluntary surrenders are scattered and fragmentary.

Hoad found in Toledo that the rate of voluntary surrender of title for single-family houses was higher than the rate of foreclosure, except in the three-year period 1936-38. During the eight-year period, 1931-38, 10.1 percent of all single-family homes in the area were foreclosed, and 9.6 percent were surrendered in lieu of foreclosure; that is, one out of every five single-family homes was lost by the owner either by foreclosure or by voluntary surrender. This rate of foreclosure and surrender, however, must be related to the whole market. During the entire period of Hoad's study, transfers by foreclosure or surrender represented only 9 percent of the total, and was only 15 percent of the transfers attributable to market consideration.[14]

Through these processes many single-family homes came into the debt-free ownership of lending institutions and other mortgagees and became a part of the stock of housing facilities which prospective occupants and users could rent on short-term leases. The low rents required, however, probably made it seem unwise to buy even at reduced prices. In this way, any tendency for lower prices to increase the number of buyers is counteracted, at least in part. Thus, in a buyer's market the advantages are all in favor of the prospective buyer, who has everything to gain and nothing to lose by waiting and by close bargaining. It is not surprising that the volume of home construction is small in such a market situation. Building for sale practically ceases when new homes cannot be built and sold for prices that compete with those asked for comparable existing homes.

Transition from a Buyer's to a Seller's Market [15]

Thus, a buyer's market represents a period of stagnation in building, of declining prices and low rents. In the early part of the period, rents probably decline more rapidly than the prices of single-family homes, and it appears cheaper to rent than to own. There are, however, individual cases in which the price asked by the necessitous

[14] William M. Hoad, *op. cit.*, p. 51.

[15] Robinson Newcomb and H. C. Kyle, "The Housing Crisis in a Free Economy," *Law and Contemporary Problems*, Vol. 12, No. 1 (Duke University, Winter 1947) p. 186.

seller, and the terms which he is willing to give for payment of his price, dispel the appearance of advantage to the renter. In such cases, sales are the likely result. In general, however, there are few sales until prices and terms are so adjusted as to destroy the appearance that it is cheaper to rent than to buy.[16] As these adjustments are made, advantage is taken of low prices by persons having sufficient capital; as these sales increase, and as it requires less time for owners to secure purchasers, the transition from a buyer's to a seller's market begins.

During this period, buyers are selective and the seller of an individual home can never be too confident of finding a buyer, or of the price which he may be able to obtain. In general, there is greater uncertainty in connection with older houses and with those in high price ranges than in the case of newer and lower-priced houses. The transition, therefore, is timed differently in different market areas, price ranges, and for structures of different age, condition, and geographical location. In fact, at the same time, the markets for different types of homes may be either a seller's or a buyer's type. It is not until a seller's market predominates that the transition is generally observed.

As the number of sales increases, however, confidence begins to be restored. The fact that rents and prices are no longer declining becomes noticeable, and the volume of construction of new homes, especially in the lower price ranges, shows some increase. These phenomena accompany an increase in income and employment, and, when they occur, they bring increasing confidence in the future, more widespread willingness to convert liquid assets into long-term investments from which a larger return can be expected, and less hesitancy in making financial commitments. They also permit larger outlays for current living expenses. Consequently homes are purchased and move from the rented to the owner-occupied status. As the transition proceeds, owners of single-family homes under lease begin to refuse renewal of the leases and to offer them only for sale in fee. Single-family homes for rent become fewer and fewer, and home ownership increases.[17]

[16] The data are not sufficiently comprehensive nor refined to test the hypothesis here proposed. The need for the collection and analysis of such data is evident here as well as in many other places in this volume.

[17] See *infra,* Chapter 4.

Characteristics of a Seller's Market

The characteristics of a seller's market are just the opposite. The seller, having the advantage, can in most instances find more than one prospective purchaser for the house offered for sale; and, as sales are made, the alternatives of those seeking homes become more and more restricted. The building of new houses proceeds too slowly to preserve the range of alternatives, and prices set by sellers become increasingly firm.

As incomes rise and become more certain, the number of families willing to invest their savings and to commit their future income to fixed obligations likewise increases. Competition among potential buyers enables the seller to hold his price firm and thus increases the tendency for prices to rise. At the same time, as vacancies decline, rents and prices rise; as a consequence, the alternative to purchasing is to sign a short-term lease at advancing rents.

Each sale of a home to an owner-occupant removes just one home and one buyer from the market; rising rents and prices, instead of reducing the number of prospective purchasers, tend to increase them—and the disproportion between the number of homes for sale and the number of prospective buyers is accentuated. Naturally, this situation is not uniform for houses of all types; it is usually easier to find prospective buyers for small new low-priced homes, in favored locations.

As long as prices are rising, it is to the advantage of a seller to postpone and of a buyer to consummate a transaction. Thus, as more sales are made and vacancies diminish, prices may rise precipitously. Building does not proceed at a rate high enough to provide the needed additional facilities, with the result that the pressure on housing facilities increases and may reach a point where it is virtually impossible for the prospective purchaser to exercise any significant choice between renting or buying a home or accepting or rejecting the price of the seller.

In the meantime, rising prices enable early purchasers to sell their homes at a profit, if they wish. In a community of any size, some families will find it advantageous to sell. The story of their profits spreads rapidly, and it becomes generally accepted that "there is no safer investment on earth than the earth itself," that the purchaser of a home "can't lose but may be able to make substantial gains." Thereafter, speculation may become a prominent element in the market.

Market Changes and Price Movements

Only fragmentary statistics are available on real estate price movements and the amplitude of their fluctuations. These materials admittedly do not permit an accurate or clear-cut analysis of price movements, but they are of interest, nonetheless.

Certain basic data were compiled by the Bureau of the Census in 1890 and in several subsequent decennial censuses. This series presents the results of an inquiry in the course of which homeowners were asked to give their opinion of the value of the homes they occupied. From these estimates the average value of owner-occupied homes[18] was computed, which in 1890 was $3,250 for owner-occupied, nonfarm mortgaged homes. The corresponding figure in 1920 had risen to $4,938.[19] Two decades later, the 1940 Census of Housing revealed that the average of one- to four-family, owner-occupied, mortgaged homes stood at $4,703 or roughly 5 percent less than in 1920.[20]

The Census of 1930 reported that the median value of all owner-occupied nonfarm dwellings was $4,778; the comparable (median) figure in 1940 was $2,938.[21]

Wickens estimated that the average value of owner-occupied nonfarm dwelling units in 1930 in fifty American cities was $6,619, and that between 1930 and 1934 the average value declined by 33 percent.[22]

Wyngarden's figures indicate that in one district of Ann Arbor, Michigan, prices at which parcels were listed for sale rose from a base of 100 in 1913 to 301 in 1924; in another district, from 100 in 1913

[18] Some of the series apply only to *mortgaged* owner-occupied homes, as is subsequently indicated.

[19] Bureau of the Census, *Mortgages on Homes in the United States, 1920,* Monograph No. 2 (1923) Table 8, p. 47.

[20] Bureau of the Census, 16th Census: 1940, *Housing,* Vol. 4, Part 1, Table 7, p. 4.

[21] Bureau of the Census, 15th Census: 1930, *Population,* Vol. 6, Table 5, p. 7; 16th Census: 1940, *Housing,* Vol. 2, Part 1, Table 63, p. 104.

[22] David L. Wickens, *Residential Real Estate* (National Bureau of Economic Research, 1941) Table A-10, p. 97. This estimate of average value in 1930 ($6,619) is 39 percent larger than the median figure ($4,778) reported by the census for all owner-occupied nonfarm dwellings. In 1940 the average ($3,565) was 21 percent larger than the median ($2,938).

to 272 in 1924; and in the third district, from 100 in 1913 to 258 in 1925.[23]

Hoad's study of real estate prices in Lucas County (Toledo), Ohio,[24] shows that the prices of all one-family houses rose from an index (1925-26 = 100) of 79 in 1917 to 92 in 1920, declined slightly in 1921, and rose to a peak of 108 in 1929. Between 1929 and 1932 prices dropped sharply; and from 1932 to 1938 the price trend was downward, with some minor interruptions. Generally, he found that the prices of newer houses fluctuated less than the prices of older houses.

In an unpublished study, the National Housing Agency (predecessor of the present Housing and Home Finance Agency) experimented with classified newspaper advertisements in attempting to construct an index of residential real estate prices.[25] In this experimental study, a metropolitan newspaper from each of 100 metropolitan districts was chosen. The classified real estate advertisements in selected issues of these newspapers were studied, and those that advertised homes other-than-new, giving asking price, were tabulated by price. From the tabulated prices the median was chosen as representative of price changes. By a system of weighting, based on the number of single-family homes in the metropolitan area studied, a national median price was calculated.

The index of this national median advertised price for other-than-new single family homes rose from a base of 100 in 1940 to 151 in September 1945, and to a peak of 220 in September 1946. In the ensuing months there was a gradual decline to 198 in January 1947,

23 Herman Wyngarden, "An Index of Local Real Estate Prices," *Michigan Business Studies,* Vol. 1, No. 2 (University of Michigan, Bureau of Business Research, 1927) Table 1, p. 5. Wyngarden constructed his index by comparing the prices at which identical parcels were listed for sale from 1912 to 1925; the methods employed and their limitations are adequately set forth in the publication cited.

24 William M. Hoad, *op. cit.,* pp. 85 and 91.

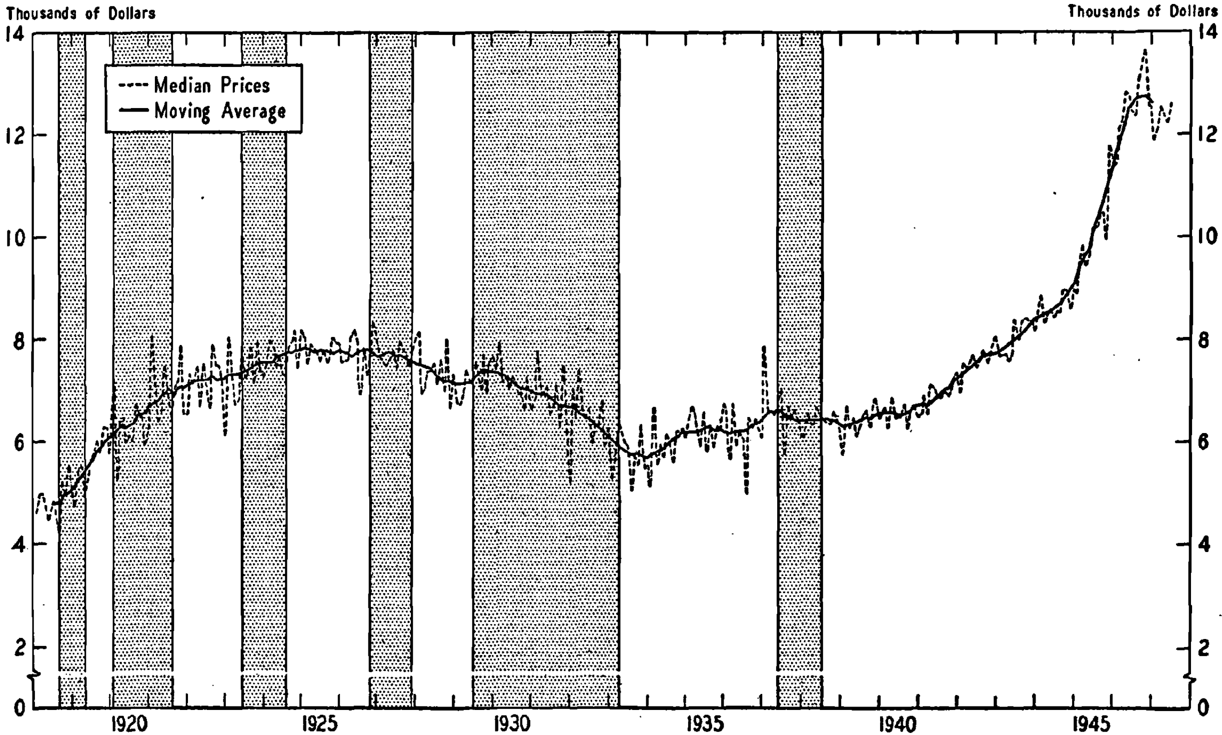
25 National Housing Agency, Construction and Housing Division, *Ad Analysis—A Technique to Study Prices of Single-Family, Other-Than-New Houses,* an unpublished study. The limitations of this experimental study are many and are recognized by its author. The results do not measure prices with the degree of accuracy reflected in the more usual price indexes, but the series is an interesting one. The principal limitations pointed out by the author of the study are as follows: (1) the sample varies from month to month, thus what appears to be fluctuations in price may be changes in the kind of houses advertised; (2) the relationship between advertised prices and those actually paid may change from time to time (in a seller's market, prices paid probably are nearer those asked than they are in a buyer's market); (3) many advertisements do not list prices, especially those which advertise houses in the higher price ranges; and (4) the houses advertised for sale may not be typical of all houses offered for sale.

TABLE 6 — MEDIAN ASKING PRICES FOR EXISTING SINGLE-FAMILY DWELLING UNITS ADVERTISED FOR SALE IN WASHINGTON, D.C., BY MONTHS, 1918-47 [a]

	Jan.	*Feb.*	*Mar.*	*Apr.*	*May*	*June*	*July*	*Aug.*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Avg.*
1918	$4,625	$4,956	$4,951	$4,659	$4,474	$4,811	$4,546	$4,231	$5,216	$4,905	$5,540	$4,943	$4,821
1919	4,736	5,426	5,549	4,933	5,380	5,656	5,737	5,958	5,793	6,289	6,272	5,784	5,626
1920	7,218	5,256	6,393	6,498	6,024	6,119	6,032	6,708	6,562	6,450	5,996	6,300	6,296
1921	8,043	7,115	6,391	6,616	7,495	6,834	6,469	7,050	7,174	7,885	6,581	6,575	7,019
1922	7,343	7,159	7,411	6,681	7,507	7,317	6,673	7,877	7,444	7,481	7,338	6,128	7,197
1923	8,020	7,374	6,734	6,829	7,648	7,223	7,333	7,840	7,145	7,993	7,398	7,266	7,400
1924	7,511	7,973	7,868	7,433	7,646	7,368	7,286	7,887	7,931	8,163	7,420	8,154	7,720
1925	8,071	7,577	7,914	7,857	7,826	7,591	7,805	7,570	7,636	8,000	7,933	7,923	7,809
1926	7,533	7,551	7,612	8,038	8,176	7,908	6,979	7,822	7,285	7,720	8,344	8,013	7,748
1927	7,684	7,613	7,472	7,609	7,768	7,431	7,985	7,816	7,732	7,441	7,636	7,991	7,682
1928	8,138	6,923	7,050	7,373	7,354	7,557	7,123	7,636	6,956	7,983	6,628	7,280	7,333
1929	6,775	6,716	7,031	7,425	7,220	7,135	7,599	7,085	7,755	6,950	7,578	7,683	7,246
1930	7,399	7,945	7,137	7,226	7,082	7,305	7,219	6,894	6,950	6,651	7,294	6,646	7,146
1931	6,819	7,759	6,984	6,945	7,097	6,537	6,727	7,103	6,257	7,463	6,713	5,151	6,796
1932	7,001	6,471	7,362	6,635	6,502	6,656	6,008	6,342	6,267	6,767	5,893	6,279	6,515
1933	5,238	5,789	6,374	6,160	5,990	5,893	5,074	5,702	5,536	6,303	5,507	5,538	5,759
1934	5,090	6,676	5,594	5,918	5,726	6,181	6,111	5,615	6,220	6,167	6,291	6,073	5,972
1935	6,244	6,714	6,618	6,184	5,879	6,593	5,767	6,358	5,830	6,366	6,264	6,729	6,296
1936	6,622	5,683	6,700	5,933	6,175	6,076	5,000	6,446	6,264	6,458	6,276	6,111	6,145
1937	7,831	6,620	6,623	6,512	6,677	7,036	5,730	6,719	6,539	6,611	6,439	6,131	6,622
1938	6,118	6,516	6,335	6,333	6,643	6,574	6,421	6,432	6,362	6,613	6,466	6,224	6,420
1939	5,752	6,741	6,264	6,483	6,109	6,280	6,495	6,607	6,328	6,632	6,866	6,440	6,416
1940	6,582	6,657	6,265	6,887	6,449	6,552	6,496	6,758	6,321	6,609	6,636	6,488	6,558
1941	6,539	6,873	6,522	7,168	7,031	6,879	6,865	7,000	6,922	7,070	7,218	7,357	6,954
1942	6,996	7,545	7,432	7,505	7,675	7,431	7,568	7,760	7,507	7,624	7,827	8,005	7,573
1943	7,640	7,671	7,681	7,595	7,644	8,383	7,977	8,331	8,380	8,344	8,351	8,137	8,011
1944	8,513	8,820	8,312	8,523	8,599	8,444	8,570	8,513	8,970	8,926	8,631	8,967	8,649
1945	8,899	9,490	9,818	9,403	9,654	10,109	10,210	10,427	10,476	9,933	11,774	11,382	10,131
1946	11,406	12,175	12,301	12,847	12,780	12,490	12,398	13,108	13,347	13,659	12,595	12,548	12,638
1947	11,917	12,148	12,538	12,375	12,260	12,619							

[a] Data from Housing and Home Finance Agency, Office of the Administrator.

CHART 1 — MEDIAN ASKING PRICES AND TWELVE-MONTH MOVING AVERAGE OF MEDIAN PRICES FOR EXISTING SINGLE-FAMILY DWELLING UNITS ADVERTISED FOR SALE IN WASHINGTON, D.C., BY MONTHS, 1918-47 [a]



[a] Based on data shown in Table 6. Shaded areas indicate periods of business contraction; reference dates are from Arthur F. Burns and Wesley C. Mitchell, *Measuring Business Cycles* (National Bureau of Economic Research, 1946) p. 78, except for three reference dates that have since been revised: September 1921 revised to July 1921, December 1927 revised to November 1927, and May 1938 revised to June 1938.

followed by an up-turn to 209 in February 1947.[26] In the same study, a series of median asking prices for other-than-new, single-family homes in the Washington, D. C., area was developed for the period 1918 to 1947, and it is probably the longest single series of its kind available to date (Table 6 and Chart 1). The median asking price in Washington rose consistently from $4,800 in 1918 to $7,800 in 1925. It declined from there to a low of $5,800 in 1933. The price level of 1925 was reached again in 1943, and, in the following three-year period, the median price rose slightly more than 50 percent. In 1918, less than 10 percent of the advertised asking prices were in the $10,000 to $20,000 range; and in 1946 about 80 percent were in this price range.[27]

Some further material on prices has been collected from data supplied by Home Owners' Loan Corporation records. These data are presented in Table 7. The change in prices reflected in these data

TABLE 7 — FREQUENCY DISTRIBUTION OF HOMES BOUGHT IN 1925-27, BY PERCENTAGE CHANGE IN PRICE FROM 1925-27 TO 1933-34 [a]

Percentage Change in Price	*1925*	*1926*	*1927*
Increase	*9*	*9*	*8*
Under 10%	2	4	4
10 and over	7	5	4
No change	*3*	*1*	*4*
Decrease	*174*	*203*	*193*
Under 10%	8	17	9
10–19	30	30	38
20–29	37	73	63
30–39	55	55	51
40–49	27	24	22
50–59	10	4	9
60 and over	7	..	1
Total	186	213	205
Median percentage change in price	*−31.0%*	*−26.9%*	*−26.9%*

[a] Data compiled from a 3 percent sample of urban mortgage loans made by the Home Owners' Loan Corporation in New York, New Jersey, and Connecticut.

[26] Data are from a special release of the National Housing Agency, Construction and Housing Division (*Prices of Single-Family Houses,* Real Estate Ad Analysis, February and March 1947).

[27] Data are from a special release of the National Housing Agency, Construction and Housing Division (*Prices of Single-Family Houses,* Washington, D.C., area study).

occurred from the time the home was bought until it was appraised for lending purposes by the HOLC. Most of these appraisals were made in the years 1933 and 1934. The median price decline in houses bought in 1925 was 31 percent; for those purchased in 1926 and 1927, 27 percent. It would appear from these data that the peak of prices was reached in 1925, if not earlier.

These fragmentary data and general observation suggest the following generalizations about the behavior of prices of single-family homes though these general statements should, as improved data become available, be subjected to analysis and testing: (1) In a seller's market, prices seem to rise until the point is reached at which the increase in prices is disproportionate to the increase in income in the community. When the increase in prices goes further, buyer resistance develops, and families choose to double up, or lower their standard of housing, rather than commit themselves to the obligations represented by the prices currently asked for homes in fee. (2) These price movements are slow; they do not respond quickly to the changes in the forces that affect them; both their rise and their decline are less rapid than are those of many standardized commodities quoted on the exchanges. This lag in price movements may influence the magnitude of the changes in price. It makes it difficult for observers to formulate considered judgments about current prices. Memory is so short and the present so engaging that it is difficult to give appropriate weight to experiences that occur at intervals measured in decades rather than in months.

Effects on the Volume of Home Building

The vast majority of new homes are intended for owner-occupancy. A considerable number are built on contract for owners who intend to occupy them when completed; others are built by speculative or operative builders who offer them for sale to prospective owner-occupants. We have no comprehensive data which can be used to estimate the proportion of all building which is ascribable to these two procedures. The proportion probably varies between communities, and from time to time in the same community, as the general aspects of the market change.

The speculative or "operative" builder naturally increases production when he anticipates a ready market for his product. The larger the profit and the shorter the period required for making the sale, the more incentive the builder has to produce and vice versa.

The process of producing new homes, however, is a long-drawn-out one. Acquiring land, planning its use, accumulating building materials, and building may extend over months or years, and the speculative or operative builder must anticipate changes during the process. Prevailing expectations with respect to costs, rents, and prices, therefore, play a leading role in determining whether an operative builder expands or contracts his output.

In a buyer's market, as we have already seen, the price at which a particular home may be sold depends largely upon the circumstances of the seller. If he is forced by necessity, or especially eager to sell, the price may represent an amount far below the expenditure necessary to construct a comparable home. The price at which many existing homes are offered for sale is the amount which a mortgagee asks after foreclosure. In brief, the price situation is chaotic and declining. In such a situation, risks are too great for entrepreneurs to acquire land and build new homes for sale.

Furthermore, it seems that the costs involved in the process do not fall so rapidly as the prices of existing houses. Faced with costs which are less flexible than the price he can expect to get for his product, the speculative builder withdraws from the market and the volume of home building which he contributes shrinks to virtually nothing.[28]

There is, however, some construction of homes on contract. Some families who have accumulated or can borrow the necessary funds are able to obtain a desired house in a preferred location. Such families are able to get contracts at favorable prices, for there are always some organizations that wish to maintain a skeleton force, material

[28] The reasons for cost rigidities have been well established. See, for example, Miles L. Colean, *American Housing* (New York, 1944) especially Chapters 3 and 4 and references there cited. It may be that insufficient emphasis has been placed upon the fact that the ultimate purchaser of the product of the building industry is very infrequently in the market. In periods of prosperity, the producer can and does assume a "take it or leave it" attitude; and in depression, having little capital invested, he simply sits and waits. The ultimate consumer is not cultivated in the hope of repeat sales and therefore cannot exert continuous pressure for production at lower and lower costs. Frequently, when the owner is producing by contract, the time required for completion is more important to him than the small savings which can be effected by careful management and shrewd bargaining. He may, in such instances, exert some influence in the direction of higher rather than lower costs of production.

dealers who are anxious to dispose of some of their stock in order to meet their obligations, and contractors with a wide choice in selecting experienced and efficient labor. The restrictions and limitations that prevail in periods of great building activity become relaxed, some practices common in a busy market are abandoned, and others that would not be tolerated are ignored. Actual costs of construction, therefore, fall below the level indicated by open-market quotations, especially for those who are experienced enough to drive close bargains. The record indicates that the volume of home building fell in 1933 to a point that represented about one-twentieth of the 1925 volume.[29]

During such a period, manufacturers of building materials and home equipment develop new products or new uses for familiar products which they advertise aggressively, and technological change is likely to be more rapid.

As a buyer's market runs its course, homes acquired by mortgagees through foreclosure gradually disappear from the market. Technological changes in the home itself and in land planning produce changes that are cumulative in their effect. Gradually new homes are bought at prices above those being paid for existing houses. Building usually revives earliest in the lower price ranges and predominantly in the single-family type house. These prices are achieved by centering building efforts on smaller homes, better planning of space, and the elimination of waste in design and construction. The increase in volume of construction, however, is slow and hesitant. The time interval between the origination of plans and completion of an enterprise mitigates against rapid achievement of volume. Building organizations disperse in periods of recession; entrepreneurs engage in other enterprises; and the capacity of the industry, having shrunken to minimum proportions, is slow to increase. It is only after the success of the smaller and tentative efforts has been demonstrated that expansion becomes widespread and total volume is significantly augmented.[30]

Conversely, when the conditions characteristic of a seller's market have prevailed over a considerable period of time, the volume of

[29] David L. Wickens, *op. cit.*, Table 9, p. 60.

[30] See Arthur F. Burns, "Long Cycles in Residential Construction," in *Economic Essays in Honor of Wesley Clair Mitchell* (Columbia University Press, 1935) pp. 63-104 for an analysis of the relationships of market conditions to the volume of building.

home building grows to large proportions. The speculative builder has little difficulty in finding purchasers; frequently his homes are sold before completion. Many of these purchasers are more concerned with date of occupancy and with fine appointments and equipment than with price. Emphasis, therefore, is placed upon attractiveness rather than upon efficiency and low-cost production. Speculative or operative building occurs in all price ranges but is likely to shift toward the higher ranges. Waste and extravagance in the process are of less importance than speed in performance and modernity of design and equipment. When a seller's market is most intense, the speculative builder can assume a "take it or leave it" attitude and still find purchasers for his product.

Homeowners, building under contract in a seller's market, have to compete with speculative builders for the services of contractors, for labor, and for materials. When costs are least stable, they frequently have to let contracts on a cost-plus basis to secure these services. Building by contract, therefore, is only for those families for whom the possibility of final costs being in excess of expected costs is not a deterrent.

As a seller's market runs its course, it requires a longer and longer period for the speculative or operative builder to dispose of his product. Building continues, however, in considerable volume for some time, a situation partly explained by the length of time necessary to complete the process of planning and building the speculative project.

Also, it may be partly accounted for by the character of the marketing machinery. Those most experienced in marketing homes are real estate brokers, many of whom are builders or have close contacts with builders. Frequently, the speculative or operative builder has his own organized and experienced sales force. He has more at stake in "moving" new houses than in selling on a commission basis the existing house listed for a one-time sale by its owner. Some owners, notwithstanding their unfamiliarity with the market, think they can avoid payment of a broker's commission and try to sell directly by advertising and personal contacts. In the early stages of a seller's market they are frequently successful, but later on they may find that they have missed the opportunity to sell.

As the effort and time necessary to sell their product increase, as vacancies in both apartments and single-family houses rise, as foreclosures become more frequent and the volume of existing houses for sale becomes more and more a menace to the price structure of the market, operative builders, as already indicated, restrict the volume of their operations. This restriction comes, in many cases, only after they have met stubborn resistance in the market and sometimes only after a loss has been taken. Then they retire entirely from the field, or, retaining a small nucleus of skilled technicians, they undertake to build only upon order or contract. Thus, a buyer's market heralds a large decline in the volume of home building.

During both a buyer's and a seller's market, it is clear that there are elements of compulsion which affect the parties to a transaction. In a buyer's market, the seller is, in many instances, under severe strain because of declining income, inelasticity of carrying charges, and the necessity of relinquishing use and occupancy and of salvaging whatever he can from fixed investments to meet current obligations. In a seller's market, the purchaser meets similar elements of compulsion. He may be obliged to purchase in order to secure a suitable house or even just a dwelling. As a consequence, the fluctuations in prices and in the rate of turnover are wide. These changes occur slowly, however, and rarely cover the whole range of types and kinds of homes at the same time.