

**The original documents are located in Box 2, folder “11/18/76 - Business Outlook Conference in Los Angeles” of the Carla A. Hills Speeches at the Gerald R. Ford Presidential Library.**

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Now that you tell me that I am the first woman to address you, I should scold you, but I am glad to be here. I have to confess I have looked forward all week to coming out here, to returning home, and to being with a group of my friends. I can see there are a lot of friends who are here today. It is a special pleasure to have the chance to enjoy a living room type discussion on issues of mutual interest. Indeed I didn't have to write a speech which made it even more fun. Your panel of economists very thoughtfully sent to me 11 questions seeking my prognosis, which I found extremely flattering in view of the season. Those 11 questions fall in basically 4 categories: the health of our housing industry, affordable homes for middle America, shelter for our poor and the problems of our cities. Not much of an agenda for 35 minutes.

You know there have been some changes over the past year in the housing market which make prognosis difficult at best. And there have been some changes outside of the housing market, one of which occurred just two weeks ago. But I am pleased to share with you my views.

With respect to the health of the housing industry your panel asked (I'll paraphrase a little for brevity): The housing sector activity has been a major disappointment of the present recovery. How do you explain this? What kind of stimulus, if any, will be needed over the next year to boost the multi-family construction? And what is your estimate of housing starts for 77?



First, let me take issue with the opening premise. '75 was a terrible year. The worst year for housing in 3 decades. But '76 is an entirely different story. We have climbed out of the trough of the recession which we hit in December of '74 and the beginning of 75. Starts are up 93% overall. Starts are at an annualized rate of 1.8 million, which any economist would say is healthy. This recovery is much faster than in any of the prior 3 housing cycles. The single-family market is very, very strong. Indeed, we're headed for the third best year in this nation's history for single-family starts just behind 59 and 72.

The multi-family market has been much slower in large measure because of the overproduction that occurred during the early '70s. Notwithstanding, I would not recommend additional stimulation for the multi-family sector and I have three reasons. First of all we do have a recovery on the way. Starts jumped up the multi-family sector 48% in August, another 46% in September. The starts figures out on Tuesday of this week went down multi-family a little bit from that high plateau, but they are still 30% over the August figures, and they're 38% over a year ago. So I think we've got to let our free market work. Now there's another factor why I would not encourage stimulation at this time. We preceive a change in demographic patterns. Those born

in the post-war baby boom are aging. They are now reaching 30 and getting into the 30, 31, 32, 33 age brackets. There is a much greater demand after 30 for homeownership than there is for rental tenure. So, we anticipate during the latter part of this decade and into the 1980s, a much greater demand for single-family homes than for apartment dwellings. And that's what we're perceiving right now. During the early 70s the ratio was about 55 to 45 in favor of the single-family market, and we anticipate that ratio will change to something like 70 to 30 at the end of this decade and into the beginning of next decade, which really parallels what we saw in the '40s where the demand divided two-thirds/one-third in favor of single-family homes. My prognosis for '76 is for a pretty healthy year: very, very, very good single-family starts; slower and weaker for multi-family starts with overall starts figure of about 1.5 to 1.55 million which would make this year the 5th best in a decade and the 12th best since we've kept records. So 1976 is not a star year, but it is by no means what you would call a depressed year for housing.

My prognosis for '77 is better, but it rests upon a couple of assumptions. Assumption one is that we will continue to have the rate of growth that we had in the third quarter and anticipate for the fourth quarter of this year which is about a 4% real growth rate, and assumption two is that we will have a continued decline in the inflationary rate. If we can make those assumptions, and I don't know that we can because I don't know what the economic



programs will be for next year, we would estimate starts in the range of 1.6 to 1.8 million, which would include single-family starts of 1.2 to 1.3 million, multi-family starts of 400,000 to 500,000, and of course not in the overall start rate are in addition shipments of mobile homes which we estimate at 300,000 to 400,000.

With respect to affordable homes for middle America your economists have written: What specific policies would you recommend for dealing with the problem of skyrocketing prices that threaten to prevent young middle-income families from buying a home? How extensive will subsidized housing be in the next few years, and specifically what programs are on the drawing boards so that more families can afford the still rising home prices? And what do you recommend to supply single-family housing for young, middle-income families?

The problem of housing costs in my view must be put in a framework. Skyrocketing costs of homes have been accompanied by skyrocketing sales of homes, new and existing. For the past 16 months we have had 16 consecutive months of records in the sale of existing homes. Indeed in the last 4 months, 3 have been records not only the best October for an October, but the best 3 months of existing homes sales that we have had in the history of this nation. And we've had records with respect to the sales of new family homes.



What we see nationwide, acknowledging that there are pockets of differences which is what is interesting about the housing industry and why mandates from Washington have worked so poorly, is a tremendous growth of homeownership in this country. Among families homeownership is the highest it has been in history: 75% of the husband and wife families own their own homes. And if we take our entire population, singles included, 65% of all Americans own their own homes. And why is that? It is because basically the incomes have risen at the same rate as the costs, both have increased about 59% since 1968. And the relationship between the median price of a new home -- and keep in mind the median price simply means that the homebuilder is building half above that price and half below -- but the relationship between that median priced new home and the median income has been stable since World War II on a national analysis. For example, in 1965 the median family income was about \$7,000 and the median priced home was about \$22,500. Today, 1976, the median family income is about \$14,000 and the median priced home is about \$44,500. So that the ratio is about 2.8 to 1, and has been at that steady ratio since the War.

The biggest barrier in my view to homebuyership is inflation. That is the difference to a buyer in 1965 and 1976 and more clearly so between 1974. When we had double digit inflation we saw the interest rate, which in the mid-60s was about 6%, jump up to 10%. By cutting of that double digit inflation over the past

16 months we've seen the FHA-VA interest rate decline to 8% and conventional rates edge downward. With that same cut in the inflationary pressures we've had urban revenues increase 11% this year, which reduces upward pressures on property taxes. And with home maintenance costs, as with the costs of everything that has escalated during an inflationary period, you get relief where you get control over inflation.

Thus a principal concern of mine with respect to housing has been not to urge a remedy which is in fact counterproductive. When you talk about subsidies you can be counterproductive, and you can be so very, very rapidly. Because when you try to buy out the base of all middle-income people, say all those with \$15,000 in income who would like to enter homebuyership, you look upon a tremendous sea of faces. That subsidy program costs the Treasury a great deal, and when the Treasury goes out and borrows it drives up the interest rates. We figure that about a 1% increase in the mortgage interest rate creates a barrier for about 7% of the potential homebuyers who would come into the market. So, it's like pushing down on a sofa here and having it pop up there. What you're creating with your right hand in producing 450,000 units of subsidy, you may with your left be taking back from the private enterprise system by precluding people from entering homebuyership because the interest rate is too high. Thus you may have a substitution effect which nets you little but costs you alot.

Apart from the need to control the inflation, I think that we can have a number of innovative measures that assist homebuyers by reflecting the economy as it is today rather than the economy as it was in the 30s. We definitely have an inflationary climate. That fact accounts for our support of the graduated payment mortgage, an innovative debt instrument, which would permit young, first-time buyers to convert their future earning power into present purchasing power. For example, on a \$35,000 mortgage if they opt for a fully amortized debt instrument they'd be paying \$270 a month; if they opt for a graduated payment plan, they could choose to pay \$225 in year 1; go up in 3% incrementals or approximately \$7 dollars in each of the succeeding years, so their payments would go from \$225, \$232, \$239, et cetera, til they reached \$300 and then they would level off at year 11 through the 30th year at \$300. We have done some actuarial studies on this proposal, and we think it is sound. Many of you may recall that in the '30s and the '40s the typical mortgage in this country was 5 years with a 50% downpayment. We think that by providing a Federal guarantee to a graduated payment mortgage establish that this debt instrument is not unduly risky and thereby open up homebuyership to young, first-time buyers who are assured in today's economy, whether they be blue-collar or white-collar that their senicrity is going to pull down more dollars over the span of their work period. We also have proposed a cut in the FHA downpayment simultaneous with an expansion of FHA coverage. By legislation we cannot insure more than a \$45,000 mortgage, we are urging that that limitation increase



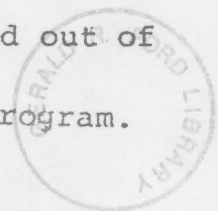
to \$60,000 which would permit FHA to be an option for 87% of the sales that occur in this country. At the same time we propose to reduce the FHA downpayment above \$25,000 to 5%. And we find that there is actuarial strength in these innovative measures. We will have those proposals before Congress when it returns on the 3rd of January and from my discussion with the members of both Houses and their staff, I do not anticipate a great deal of consternation over either. I think that we can do something today in the 70s through FHA which reflects some of the needs of the markets, as we did in the 30s and 40s.

The next category of questions sent to me addresses shelter for the poor and your economists ask: What is being done to prevent the creation of public housing that the public refuses to use? Well, our major program today is a rental subsidy program whereby we subsidize the difference between 25% of a poor family's income and the fair market rental of a decent but modest unit. If the family has zero income we pay the entire tariff. This program was enacted on August 22, 1974, and enables us for the first time in history, to deal with the true poverty strata in a way that I think is effective. This program also can use existing homes as well as newly constructed homes. This means in a soft market, and we have plenty of them with high vacancy rates, we can put poor families into units that are otherwise wasting. This means we can put families into decent shelter without having them wait 30 months for an apartment or a public housing project to be built. It means relief in the

form of additional demand for the landlord that has vacant units. With the current increase in all costs and property taxes, a landlord with unrented units is very concerned about his break-even point and whether he should simply abandon. Abandonment of rental units is a real problem. In New York City, for example, we have 50,000 abandonments per year, because the costs for carrying the apartment are so much higher than the stream of income from the rented units. Our rental subsidy program, which puts poor families into existing unrented units, retards abandonment and thereby prevents blight. The city also benefits because not only does it avoid the potential blight, but the landlords pay taxes.

The program works in a similar fashion with respect to homebuilders. For the first time by working with the market, the homebuilders can look at a community and treat people, who before were simply persons who occupied institutionalized housing if you will, as part of the demand curve and build to it. And we are seeing construction.

The rental assistance program has been criticized because it had a slow start-up period. It is difficult, slow, and frustrating to fill any pipeline whether you're hanging out your shingle to sell oranges or practice law, there is a hiatus there until you've got your pipeline filled. And so it is with a new housing program. I might say parenthetically that one of the things we suffer with in this country is that we are so impatient. In housing we shift gears so rapidly that we never quite get the bugs worked out of one program, before we are high-tailing it to another program.



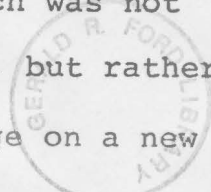
In the course of this criticism of the rental subsidy program public housing was lauded as the alternative that we should return to. I recommended against it, not only for the reasons that I've said that every segment in the equation -- the tenant, the landlord, the homebuilder and the city, benefit from the rental subsidy -- but it is faster in implementation and avoids the pockets of overproduction that we have had in the past where bureaucrats from Washington decide where we shall put our housing. For example, we can compare the rental subsidy program with the most popular public housing program, turnkey public housing. That program was enacted in 1965. Two years after enactment, turnkey public housing had achieved 4800 starts as opposed to our rental program which has over 40,000 starts and 2300 in occupancy as opposed to our program which has over 100,000 in occupancy. I strongly recommend that the rental program be kept. Now you may be aware that Congress upon returning from the 4th of July recess, reactivated the public housing program and mandated the construction of 21,000 units of public housing. I think we can make use of this public housing, particularly for large families, the most difficult segment of the market to service. But I believe it would be a serious mistake to make public housing the centerpiece of the future housing programs for the poor of this country.

I cannot tell you what will in fact occur in 1977, other than to say that the rental subsidy program is on the books; I would think that it would at least survive through this budget period and perhaps be re-assessed in October of 77. If it continues to produce the high levels of starts and occupancies I think that it will gain for itself enough real support so that it can continue as a strong tool to deal with the problems of providing shelter for our low-income population.

And the last grouping of questions addresses the problems of the cities. Your panel asked: How can our central cities be salvaged? And what did Toronto do that we're not doing? Let me get Toronto out of the way first. Toronto is the largest English speaking city in Canada, grew up rapidly following the War, is on the St. Lawrence waterway, is the hub of a major transportation system, has a very efficient subway system, and has a very cooperative and dynamic interaction between its business leaders and its political leaders. On the upside Toronto has a real cooperative effort working to address such problems of imaginative zoning, mass transit. It also has a homogeneous population, relatively few minorities and few economically disadvantaged. Their problems of late have been a very high rate of inflation. Their prime interest rate is 12%, and it doesn't look like it's going down. They have a single-family inventory that is twice a healthy rate, while their multi-family market is very very tight, but no one is building because

of the high interest rate and rent controls. So the things that I would like us to draw from the Toronto experience is their fine working relationship between the private and public sectors. But they have many unique qualities that I fear we cannot emulate. But we can certainly learn from other cities of the world, and I think that Toronto has much to offer.

With respect to urban problems in this country, I believe that we have for too long attempted to deal with them by enacting narrow Federal legislation that address narrow categories of problems rather than to develop a broad strategy. In my view a national urban policy must push the decision-making down to the local level and provide Federal funding within broad Federal goals to use the method in that locality that best addresses that Federal goal. For example, we have a national policy that every American is entitled to a decent home, in a decent living environment. That is an appropriate Federal goal. What we did to implement that goal was to pass the Housing Act of 1968, whereby we mandated the subsidization of 2 million homes a year for a three year period running and, generated such a burst of overproduction in this country that we are just now working it off. This overproduction drew urban dwellers out of the city, robbed the cities of their tax base, left a homogeneous poor at the core and resulted in a large number of abandoned and boarded up dwellings. This policy mandated from Washington which was not based on the condition of particular housing markets, but rather a decision to build. If you're offering a 1% mortgage on a new



home, you can find a buyer, even in a soft market. In my view it would be far better to use those same dollars to let the locality forge its own strategy for housing its poor, and many of our communities could have -- might have -- utilized their existing housing stock. The 1968 legislation was well-intentioned, but wrong, and I would like us not to go back to that.

I have personally reviewed 63 Federal grant programs to our cities. Only 4 are block grants which means that funding is provided with very few strings attached to the locally elected official to address the top priority of that community. I favor block grant programs over the small categorical programs for reason of my experience at HUD. Prior to 1974 we had 7 categories of programs. We had open spaces for parks; model cities; urban renewal if you wanted to tear down your center city and maybe build it up someday; water and sewer programs. If a Mayor came in to see my predecessor to say: You know, the top priority in my community is to expand the housing stock for my low and moderate income persons and, I'd like help to develop a rehabilitation loan and grant program. My predecessor would have had to say: I don't have funds for that categorical problem. How about a park today? And the Mayor would say: Well, a park -- that's 19th on my priorities. My predecessor might have said: Water and sewer pipes? And the Mayor would have said: That's our 7th priority. I'd like to address my top priority. You don't have that capacity with categorical programs.

In 1974 the Housing and Community Development Act was passed which gives the Mayors unfettered funds, mandates citizen participation, relies on a post-program auditing mechanism -- and has distributed over a 3-year period \$8.6 billion. It has been a tremendous success and completely revolutionized the programs of the past. Regulations were cut from 2600 pages down to 100 pages; the length of applications from some 1400 pages down to 50 pages. We are funding twice as many units of Government in 45 days instead of the average of the old categorical programs of 26 months. Straight across the board on any criteria you use, this is an efficient distribution mechanism.

The President's Urban Development and Neighborhood Revitalization Committee which I chair supported block grants in its interim report issued in October as governing principles for future Federal assistance. One definite advantage of block grants is that by working with elected officials, State or local, you achieve accountability and the capacity to coordinate. I would hope that we don't go back to categorical thinking but that we continue to develop block grant planning.

I've taken too long. I did want to open this up to questions.

QUESTION inaudible... Secretary Hills, most of our questions that we have involve the problems in building an affordable house as well as the cost of living. There is one that the 2.8 ratio -- change in the tax and social security law -- When in your opinion will families be able to afford homeownership, at the

expense of 76% of expendable incomes and the third one says will there be an overabundance of expensive homes not within the grasp of the \$42,000 a year income?

On the spendable income, I think people are spending more than the rule of thumb of 25% of their income for housing but that figure has vacillated over the years. When we look back statistically we see that people are not doing what the lenders think they should be doing. My 2.8 to 1 ratio compares the price of houses and the income of families buying. That ratio has held constant. But I believe that the biggest barriers to entry into the homebuyer market are escalating interest rates, property taxes and home maintenance costs. I can't tell you the exact percentage of the increase of these items; they vary so much across the country. But over the years most homebuyers have found that homeownership is a terrific investment. It is a forced investment and there has been an appreciation of their investment which comports with inflationary pressures in the economy. Since 75% of American families already own their own home, that segment of the population do not face the problems a family seeking to purchase for the first time. For first time buyers we need to give careful thought to controlling inflation and to utilizing such innovative debt instruments as the graduated payment mortgage and a lower downpayment where there is demonstrated credit worthiness.




QUESTION inaudible... There are 2 questions that have to do with what the Federal government can do ... One question says that roughly 125 different legal documents are required to build a house ... the number be simplified and made less expensive. The other asks the Federal government ...

In Maryland I am told it takes 29 permits to build a home, and the number varies across the nation. I have a committee working with the National Association of Home Builders to see whether we can't work together to get localities to eliminate red-tape, and whether we can't create with respect to the FHA Minimum Property Standards a substantial equivalency test that is based upon established local requirements. Essentially building requirements are local. Localities would very much resent if the Federal government came in and said from now on you must put your sewer pipe down so many inches or you must use this sort of a connection for plumbing. This has traditionally been local, because terrains differ. What is good for Little Rock, Arkansas is not necessarily good for downtown Manhattan and the home markets vary greatly. We have thousands and thousands of housing markets across this nation and what works in one simply doesn't work in another. We need local leadership to address this problem rather than shunting it off to Washington. Indeed,

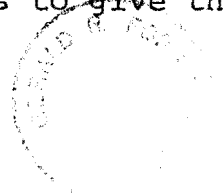
there is a growing awareness in this country that problems are not automatically solved by shunting them off to Washington, and there is merit in having the local and State governments step up to the responsibilities of addressing some of these concerns. And were we to develop some uniform code provisions I would certainly rather have them at the State level than at the Federal level.

With respect to your question about property taxes, the Federal government has assisted by strongly favoring general revenue sharing which has alleviated the pressures to raise property taxes. The 3 categories that revenue sharing have addressed most generally are transportation, protection against crime, and quality education. Those items affect quality of life in the locality and will tap the local coffers without general revenue sharing. I think this year has been a travesty in that Congress kept its extension unresolved until a majority of our communities were already half-way through their fiscal 77. But we're out of the woods on that now. There was some harm done. But I think revenue sharing is one way to address those concerns you raise.

QUESTION inaudible... Another question asks: About the plans of the Carter Administration. Are they considering government-backed housing loans at very low interest rates -- 5% -- and if so what is your reaction?



The only thing I heard during the campaign was that Governor Carter stated on a couple of occasions that he would subsidize housing starts to the level of 2-1/2 million a year. And as I have mentioned here, I'm against such artificial stimulation of the market. I'm against it because of what it does to the cities by creating pockets of overproduction and drawing people out from the city. It builds on the theory that new is better and ignores renovation, rehabilitation, recycling, reuse and preservation of our existing housing stock, which is our most valuable asset in this country and which should be fully used. Frankly, we stand in an era of relatively scarce resources, and we cannot afford the luxury of always throwing away that which is slightly tarnished and always reaching out for the shiny new. I think it is better to work with the market in line with the programs I have described. I see a real downside in a subsidy program where the base is so large that it either is grossly inequitable because you can only pick the lucky few who are first in line or you buy out the base and sink the Treasury. There might be other considerations if we were in a housing slump. This Administration utilized below-market interest rate mortgages in both the single-family and the multi-family to stimulate a stagnant housing market. Back in 74 and 75 we released some \$15 billion worth of below-market interest rates for the single-family sector, which translates into assistance for some 500,000 single-family home mortgages. That was to give the



single-family market a shot in the arm when it was literally down and out and when there were no funds in our thrifts to finance home purchases. We faced both the flight of funds from our private lending institutions and a housing market that was on its knees. This year we have released \$5 billion worth of below-market mortgages (7-1/2%) in the multi-family which translates into assistance for about 200,000 units. The majority of that money was released in January and the remainder in September. We will see the effects of that stimulation over the next 18 months. Again, we were giving this retarded sector a shot in the arm. But a permanent subsidy is in my view counterproductive, and the housing picture today does not call for a subsidy. It is making a comeback and we ought to let it do so. If we are going to step in with subsidies to artificially stimulate the market, we will borrow forward, and we will have an exaggerated period of contraction in the next period. That is exactly what happened in 1968 where we subsidized for 3 years running 2 million housing starts. We not only created the abandonment, but we borrowed forward and when we came to the next period which hit us just about 2 years ago we had an exaggerated period of contraction -- 4 out of 5 bankruptcies were connected with construction and the unemployment rate among construction workers was triple the national average. We brought that condition on ourselves. I would not want to go back to that.

Thank you.