

EXHIBIT 1-A: THE ECONOMIC BACKGROUND, MARCH 1966

HOUSING DECLINES—GENERAL ECONOMY BOOMS

Housing construction has been declining for the past 2 years. The overall economy, meanwhile, has soared to new records with the gross national product still climbing into a sixth consecutive year.

Total private housing starts, singles and multiples, slipped from 1,609,000 units in 1963 to 1,577,400 in 1964, and dropped to 1,503,000 in 1965.

In the last 2 years, the gross national product increased by 15 percent while total housing starts declined by 7.4 percent. For the last 6 years, the single-family housing sector has shown little vitality, remaining at a level just below the 1 million rung except for 1963 when production moved slightly above that number.

The persistent 2-year downturn has been accompanied by these other major housing changes:

A shift to production of higher priced homes. The median sales price in August 1963, was \$17,900; in November 1965, it was \$20,400—an increase of 13 percent.

A decline in FHA and VA units, basically moderate-priced homes, from 291,000 in 1963 to a total 212,506, or 28 percent in 2 years.

A high rate of multifamily starts, more than doubling since 1960. This resulted in relatively smaller construction expenditures than would have been the case if a rise had occurred in the single-family housing market.

A significant increase in the costs of land, labor, and materials—a major factor in pushing up the median sales price of homes.

A gradual tightening, in the last few months, in the mortgage market, culminating in changes in the Federal Reserve Board's discount rate. Interest rates are moving up and pressures are strong to increase discounts. These factors will push further upward the prices of homes, further constrict the market, and disqualify many buyers.

Housing demand still high

The basic need and demand for new housing continues strong despite the 2-year decline in production. Much of the decline has been concentrated in the West, particularly in southern California. Production in other regions has remained steady, if not overly strong.

The decline in the West has been mostly in multiple units. However, a strong and even demand in the multifamily sector is going to continue generally in all areas. The distribution of population by age groups favors rental units. Other factors, besides age distribution population, were considered in preparation of table 1 which shows the projected number of housing starts from now until 1975—a peak total then of 1.8 million. The table shows that multiples are likely to reach a peak of 600,000 in 1972, up from 530,000 in 1965, and then gradually level off around the 500,000 mark.

Housing's basic strength is reflected in two recent surveys which show that consumers plan to buy more new homes in 1966, and builders plan to build more. These surveys, however, do not reflect the effect of the recent monetary actions in the mortgage market.

Other factors in housing's basic strength.—The annual increase in household formation at long last is going to move at a higher rate than was the case in the last few years.

Available vacancy data does not suggest weakness in the housing market. On the contrary, latest data show a third consecutive decline in the rental vacancy rate and an unchanged rate in the homeowner vacancy rate.

Thus, the decline in production reflects no lessening of consumer interest in purchasing and no necessary fulfillment of demand, provided that housing can be made available at satisfactory terms and prices.

Growth of the overall economy

Save for housing, virtually all other sectors of the economy have increased at a rapid rate. The gross national product has risen in 1965 by about \$42.5 billion, as compared to \$39.5 billion in 1964 and only \$28.9 billion in 1963—a recent peak of housing construction. It is very likely that 1966 will see the GNP rising another 42 billion, or 6.3 percent over 1965. A comparison of the performance of some other sectors of the economy are apparent from the following table.