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MORTGAGE DEPARTMENT

July 13, 1982

Mr. Philip Abrams
General Deputy Assistant Secretary
Deputy Federal Housing Commissioner
Department of Housing and Urban Development
Washington, D. C. 20410

RE: Mortgage Letter 82-10 - Initiative
Designed to Provide Economic Stimulus
to the Housing Industry

Dear Mr. Abrams:

As your recent announcement suggests, the seriousness of conditions in the housing industry requires dramatic new approaches on the part of both government and the private sector. The number of proposals generated by interested parties of all types speaks to the urgent nature of the problems. This letter contains several specific recommendations for consideration. However, initially I offer comment on the specific procedural changes announced by Secretary Pierce.

On the subject of using public funds to subsidize rates of interest as a method of making housing "available for low-income Americans", the question arises as to the method of controlling housing prices. Affordability involves two distinct factors -- interest rate and price. Although the process has been rather slow in achieving results, the impact of high interest rates has been to bring down the selling price of existing dwelling units. A real or subsidized reduction in interest rates will have the effect of pushing housing prices back upward as developers attempt to recoup earlier losses and maximize present profits on existing inventory.

Rather than employ an elaborate revenue bond program having the side effect of producing substantial government debt, a more appropriate method of increasing affordability is to concentrate on the pricing factor. Among the primary factors involved in housing prices, the greatest variable (and the one factor cost subject to greatest fluctuation) is that of site acquisition. A major element of government activity in the housing sector should therefore concentrate on ways to discourage land banking and land speculation, thereby ensuring an ample supply of developable housing sites at reasonable cost.

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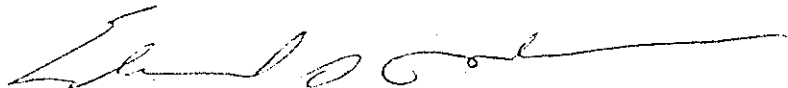
Surprisingly enough, hearings held late in 1979 by House Subcommittee on the City, of the Committee on Banking, Finance and Urban Affairs, produced a report entitled "Compact Cities: Energy Saving Strategies for the Eighties", which reads pretty much like a blueprint for effectively solving the underlying problems of producing affordable housing in America. I direct you to pages 60 - 70 of this report, which appropriately place responsibility for much of the housing dilemma on the widespread misuse and misapplication of the property tax at local levels. University of California economist, Mason Gaffney, recommended a total shift from building to land value taxes, a move I also endorse as a major part of a housing revival. Such a shift, Professor Gaffney stated, would "so change the arithmetic of property ownership that no subsidy at all should be needed to make it profitable for the owners of almost all parking lots and obsolete, decaying or inadequate buildings to replace them with new buildings." Government policies should, therefore, link funding for urban housing programs to a municipality's adoption of modernized assessment practices and a gradual shift away from taxation of improvements and onto site values.

As one of HUD's new procedures is to emphasize current market valuations, a method of aiding both HUD and local government would be development of computer data incorporating market values of all parcels within a given taxing jurisdiction. The program would be written to automatically adjust values of "like properties" based upon actual sales data. Annual reassessments could thus automatically occur, providing HUD and local government with up-to-date statistical data on changing market values throughout all the city's neighborhoods and for all uses.

Admittedly, the above measures and those contained in the referenced Congressional report must be included in an overall economic package which is subject to tremendous national and international pressures. However, until the housing industry (which is a prime user of basic materials and is labor intensive) can once again provide affordable housing and still earn a reasonable profit, economic recovery seems remote. And, the evidence strongly suggests that the above measures would, in the aggregate, have a far greater impact than can be reasonably expected from such non-structural procedural changes as have been thus far adopted by HUD.

I sincerely hope these comments will serve to increase the range of options given consideration by the Administration, and I offer my services in whatever capacity might be considered of value to further our common goal of recovery.

Sincerely,



EDWARD J. DODSON
Senior Mortgage Officer
Manager - Mortgage Administration

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