Residential Construction

When you read about the state of the economy, two major economic stabilizers — automobiles and homebuilding — are prominently mentioned. In a previous column, we expressed concern over rising costs of labor, materials and money and their potential impact on homebuilding in 1969. To impress upon you how important housing construction is to the national economy, let's consider what happens when you build 100,000 low-cost homes.

To give some background, in 1968, 1.5 million homes were started in the United States. This year, speculation is that the figure will climb to 1.6 million, with construction costs predicted to reach about 25 billion dollars. Recent statistics indicate the median amount of money spent on a new home is about $25,000. Thus, when you multiply this figure by 100,000, the dollar figure is an impressive one.

Information Source

Let's consider the economic impact resulting from building 100,000 very, very modest single-dwelling homes costing $15,500 each. One source of information is a brochure published by the U.S. Savings and Loan League.

To begin with, the $15,500 figure would just cover outlays for manufacturing and distributing materials, design of the house, job organization and direction, and actual erection of the house.

There would, however, be other related costs. Any new home automatically involves expenditures not included in the immediate construction cost. Site preparation is the first consideration. Grading the ground and getting it ready for construction, installation of storm and sanitary sewers, water, gas, electric and telephone facilities plus streets adjacent to your property, cost a pretty penny also.

In connection with home purchasing, there is a rough estimate of $900 per home for expenses on sales commission or selling costs and outlays for closing which include recording fees, title fees and insurance.

Once a family moves into a new home, there is the question of related sales items including kitchen equipment (stoves, refrigerators, dishwashers), laundry equipment, shrubbery, rugs, draperies, furniture and minor appliances. The average estimate of these items purchased within the first year the home is purchased is $3,000.

Multiplicty Effect

Where new houses are constructed, there usually follows construction of shopping centers with beauty parlors, grocery stores, barber shops, drug stores and often religious buildings to accommodate the people in the nearby residential sections. Therefore, home construction has a multiplier effect which influences commercial construction and also causes an increasing need for construction equipment to meet building demands.

The expenditures resulting from constructing just 100,000 homes at $15,500 each plus the related costs mentioned above expand the final cost of this construction to a staggering $2,240,000,000. Its far-reaching effects reach a multitude of industries including those which deal with lumber and wood products as well as aluminum, steel, brick, copper, cast iron, cement and paint manufacturers. It also influences kitchen equipment and furniture production and stimulates plumbing, heating, air-conditioning, electrical and flooring fabrication.

Stimulates Economy

Besides playing a role in federal and state taxes, home construction also helps stimulate our economy by giving jobs to countless laborers in the building field. Although the figures we quoted give insight into the effect building 100,000 homes of moderate price has, the degree of loss that might follow a decline in the amount of construction is conversely awesome. Besides throwing so many industries and manufacturers off balance, it would seriously create the unemployment rate and consequently increase unemployment compensation. The possibility of transferring the money and resources used for these homes to other outlets would involve considerable and timely readjustment with no guarantee of success. Under the most favorable conditions, the transfer theory couldn't be complete because other types of labor, organizations and many of the materials and equipment used in home constructing aren't adaptable to other uses.

If the effect of 100,000 homes in such a modest price range can have such an overwhelming impact on our economy, it is easy to see why a lag in median-priced home construction could be most serious. Let us hope that tight money will lessen up so that this segment of our economy can proceed in good health.

Daily Advertiser
June 23, 1969
S. 3, p. 43, c. 4