

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And /
Or Sponsoring Organization Is Missing

4. Education Topics

c. "Issues in Consumer Education", no date

Issues in Consumer Education

- I. A housing market consumer and product does not exist in general terms unless it is reduced to a space-time abstraction with specific attributes for housing some form of domestic behavior and a corresponding money-time system for transferring the energy of productive behavior from one group to another.
 - A. Cave analogy - anxiety and comfortable adaptation to a hostile world
 - B. Micro-market segmentation and a continuous spectrum of alternative use
 - C. On the space-time side any dwelling unit represents the use of a capital resource represented by:
 1. Flophouse hotel room
 2. Short-term apartment lease (unfurnished)
 3. Three-year house lease with tenant paying all expenses
 4. Semester lease (furnished and with meals)
 5. Three-year apartment lease with lease/purchase of furnishings
 6. Mobile home purchase complete with furniture
 7. TSO (time share ownership) recreational unit
 8. Cooperative apartment corporate share
 9. Condominium apartment
 10. Condominium townhouse
 11. Single family detached in a PUD
 12. Single family detached on one acre lot with pool and tennis court
 - D. This array of housing choices demonstrates a number of financing strategies:
 1. Gross rent--fixed cost (1 and 2)
 2. Net cost with no reversion (3 and 4)
 3. Net cost with small reversion (5 and 6)
 4. Net cost with unpredictable reversion (6,8, and 9)
 5. Net cost with stable reversion (9, 10, and 11)
 6. Pooling of financing requirements for an individual (2, 5, 6, and 11)
 7. Pooling of financing requirements by association (1, 4, 5, 6, 8, 8, 10, 11)
 8. Packaging of a consumption system (1, 4, 6, 7, 8, 9, 10, 11, 12)
- C. The supply changes by less than 2% each year and what and where the supply exists or is created depends on:
 1. Definition of locational attributes
 2. Definition of structural style attributes
 3. Political restraints on growth
 4. Environmental capacity for growth
 5. Supply of financing for growth
 6. Public infrastructure capacity
 7. Political control of price
 8. Technology available for production and servicing
 9. Perceived risk by supply producers

In short, supply is highly inelastic and increasingly unresponsive to individual household demands because the collective consumer operating through political transaction mechanism has conflicting demands.

- D. Since the real estate process is oblique, long term, and spatially fluid, it is not always clear who benefits and who pays as the consequence of political action to control land use and housing is the major component of urban land use.
 - E. The first response is that constraint on supply has increased the price of new homes out of reach. The NAHB can show that the median sales price of a new home has increased 191% between 1955 and 1975, and 95% in the last 10 years alone. However, during the same period a family of four who bought a new median priced home enjoy a 221% increase in gross income and 189% increase in disposable income. Disposable income went up 95% in the last 10 years so the housing industry has been keeping cost increases in line with net increases in family income.
 - F. However, mortgage interest rates went from 4.875% to 9%, an increase of 85% which must be applied to a 191% increase in mortgage dollars needed to buy the median home. Monthly costs have jumped 492% in 20 years. Once interest represented 67¢ of each dollar of monthly payment, today it is 92¢.
 - 1. Real estate taxes are up 341%
 - 2. Insurance costs are up 321%
 - 3. Refer to Exhibit 1 on housing expenses
 - 4. Notice increases in federal and social security taxes and recall rising share of income taken by food and transportation and there is a serious decline in real dwelling unit buying power.
 - G. Refer to Exhibit 4, a housing cost calculator reflecting 6% interest rather than 9%; double the numbers for more representative costs per month.
- II. Despite inelastic supply housing preferences are shifting rapidly to create short term monopolies for some locations and some housing styles and underutilization of others.
- A. Relative to would-be owners, the market is shifting quickly as demographics change both the family and the household structure.
 - B. One builder has defined 12 potential purchase unit segments in the Chicago market (See Exhibit 3)
 - C. One builder operating in class 8 further defined the markets as the style dresser, the button-down collar crowd, and the Pendleton market.
 - D. All of these groups face choices constrained by the means to pay but made urgent by anxieties of the moment:
 - 1. Social status and peer group
 - 2. Control of children
 - 3. Education of children
 - 4. Personal safety
 - 5. Personal career plans
 - 6. Energy costs
 - 7. Investment protection against inflation
 - 8. Emotional ties to soil and hearth
 - 9. Resentment of taxation
 - 10. Resentment of the costs and loss of mobility
 - 11. Changing thresholds of perceived environmental quality

No Exhibit 2 found.

Exhibit 1

Housing Expenses and Income Required
To Buy a New One Family Home, 1955, 1965, 1975

	1955	1965	1975	Percent Change		
				1955-75	1955-65	1965-75
Median Sales Price, New Homes Sold	13,400e	20,000	39,000	191.0%	49.3%	95.0%
Loan-to-Value Ratio	75.3	83.3	82.1	9.0	10.6	-1.4
Mortgage Amount	10,090	16,660	32,019	217.3	65.1	92.2
Length of Mortgage	23 Yrs	28 Yrs	28 Yrs	21.7	21.7	0.0
Interest Rate	4.875	5.750	9.000	84.6	17.9	56.5
Monthly Mortgage Payment, Total	77.34	128.35	333.41	331.1%	66.0%	159.8%
Principal and Interest	60.87	99.87	261.37	329.4	64.1	161.7
Interest (average for 1st year)	40.56	79.30	240.25	492.3	95.5	203.0
Real Estate Tax	13.27	23.34	58.58	341.4	75.9	151.0
Hazard Insurance	3.20	5.14	13.46	320.6	60.6	161.9
Other Monthly Housing Expense	24.32	34.74	77.52	220.0%	42.8%	124.0%
Maintenance and Repair	7.40	10.58	27.32	269.2	43.0	158.2
Heat and Utilities	16.92	24.16	50.50	198.5	42.8	109.0
Total Monthly Housing Expense	101.66	163.09	411.23	304.5	60.4	152.1
Annual Housing Expense, Total	1,219.92	1,957.08	4,934.76	304.5%	60.4%	152.1%
Mortgage Payment, Total	928.08	1,540.20	4,000.92	331.1	66.0	159.8
Principal and Interest	730.44	1,198.44	3,136.44	329.4	64.1	161.7
Interest (first year)	486.54	951.45	2,882.99	492.5	95.6	203.0
Real Estate Tax	159.24	280.08	702.96	341.4	75.9	151.0
Hazard Insurance	38.40	61.68	161.52	320.6	60.6	161.9
Other Housing Expense, Total	291.84	416.88	933.84	220.0	42.8	124.0
Maintenance and Repair	88.80	126.96	327.84	269.2	43.0	158.2
Heat and Utilities	203.04	289.92	606.00	198.5	42.8	109.0
Years of Income Needed to Qualify	2.031	2.014	1.843	-9.3%	-0.8%	-8.5%
Annual Income Needed to Qualify	6,597.74	9,930.49	21,161.15	220.7	50.5	113.1
Income Taxes Withheld for a Family of Four, Total	800.13	1,357.49	4,400.93	450.0	69.7	224.2
Federal Income Tax	687.59	1,102.10	3,195.60	364.8	60.3	190.0
Social Security	84.00	174.00	824.85	882.0	107.1	374.1
State Income Tax	28.54	81.39	380.48	1,233.1	185.2	367.5
Total Disposable Income	5,797.61	8,573.00	16,760.22	189.1	47.9	95.5
Annual Housing Expense as a Percent of Disposable Income	21.0	22.8	29.4	40.0	8.6	28.9
Percent of Families Eligible to Buy	22.9	25.8	22.4	-2.2	12.7	-13.2
Monthly Interest Payment as a Percent of:						
Payment to Principal and Interest	66.6	79.4	91.9	38.0	19.2	15.7
Monthly Housing Expense	39.9	48.6	58.4	46.4	21.8	20.2
Median Family Income	4,418	6,957	13,991e	216.7%	57.5%	101.1%
Income Taxes Withheld for a Family of Four, Total	420.11	821.02	2,661.16	533.4	95.4	224.1
Federal Income Tax	317.00	590.00	1,591.20	402.0	86.1	169.7
Social Security	84.00	174.00	818.40	874.3	107.1	370.3
State Income Tax	19.11	57.02	251.56	1,216.4	198.4	341.2
Total Disposable Income	3,997.89	6,135.98	11,329.84	183.4	53.5	84.7

e-estimate
Source: NAHB Economics Department

POTENTIAL MARKET SEGMENTS

- I. Singles -- Unmarried, active, mobile, many interests, entertain informally, few financial burdens, recreation oriented. Buy basic furniture, basic kitchen equipment, cars, stereos, and vacations.
- II. Young Marrieds, #1 -- Young couple, working wife, entertain informally, amateur gardeners, planning on family. Better off financially than they will be in the "family formation" future. Buy durables -- cars, kitchen equipment, furniture, and vacations. Rate housing as a need for more living space.
- III. Young Marrieds, #2 -- Discretionary income available, deferring family, active, entertain informally and often, some formal entertaining, independent, dual-person working household, do-it-yourself buffs, sports car. Rate housing as an investment.
- IV. Compact Family/Move Down -- Discretionary income available, interested in no maintenance, informal living, some formal entertainment. Away from home often, occasional visits from family or guests, focus on both active and passive recreation.
- V. Divorcees/With Children -- Family oriented activity, limited entertainment, informal lifestyle, limited maintenance.
- VI. Full Nest, #1 -- Home purchasing at its peak, even though liquid assets are low. Dissatisfied with financial position, and amount of money saved. Conscious of monthly payments, family activities. Unemployed female with numerous interests, mostly child oriented. Lifestyle is casual and informal. Interested in new products, buy washers, dryers, T.V.'s, baby food, dolls, wagons, etc.
- VII. Full Nest, #2 -- Family move-up market, as financial position gets better, some wives work. Interested in larger sized packages. The most price/size sensitive group.
- VIII. Established Family -- Making monthly payment comfortably, some discretionary income as more wives work, approaching peak of economic and social lifestyle curve, some formal entertaining, older children and teenagers, many interests.
- IX. Luxury Families -- Have arrived, tremendous discretionary income, very formal house, don't entertain often, but when they do, it's formal, dine out often, no maintenance, privacy mandatory.

Exhibit 3 (Continued)

- X. Empty Nester - Home ownership at its peak, more satisfied with financial position. Small or no debt. Family is often away from home, occasional visits from family. Mobile in attitude, but permanent in residence, near grandchildren, many hobbies, one child in college, one or two children married, self-sufficient couple.
- XI. Active Retired -- Still working two or three days per week, active either socially or politically in community or church affairs, self-sufficient, many hours away from home, do not entertain often, but when they do, it's semi-formal. Winter/summer residences. Likely to sell home before retirement.
- XII. Retired -- Drastic cut in income, dependent, limited activities outside community. Winter/summer residences.