



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

November 8, 1976

TO: Federal Open Market Committee

FROM: Arthur L. Broida

Attached for your information is a memorandum prepared in the Board's Division of Research and Statistics in response to a question raised at the October FOMC meeting.

Attachment

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 4, 1976

To Mr. Gramley

Subject: September Increase in

From Ira Kawaller *IK*

Private Housing Starts

This memo, which you requested, deals with the role that federal housing programs played in the sharp increase in private housing starts in September. In summary, the 46 per cent month-to-month rise in multifamily starts appears to have resulted from an even greater increase in starts under HUD programs. Specifically, FHA-insured multifamily starts, that had been running under 50 thousand units (on a seasonally adjusted annual rate basis) jumped to 186 thousand units, and starts solely under the emerging Section 8 rental assistance program, which consists of both FHA and conventional units, were 4 times greater in September than any previous monthly rate since the program began, over a year ago.

In the case of single-family starts, which, taken as a whole, increased by 9 per cent in September, no similar administrative efforts were evident.

Background

A feature of the 18 per cent rise in private housing starts during September--to a seasonally adjusted annual rate of 1.81 million units--was a 46 per cent jump in starts of units in 2- or more-family structures. This surge followed a decline in multifamily starts in July and a rise of 38 per cent in August back close to the

-2-

June rate. Although it was the highest rate in 3 years, the September rate of 519 thousand units was still less than half of the record peak in late 1972.

Single-family starts also declined in July and then rose for the rest of the quarter, but unlike multifamily starts, these starts were at a comparatively high level in September. The rate was only a tenth below the peak of January 1973--when HUD subsidized homes accounted for over 6 per cent of single-family starts.

Informal Federal Reserve staff inquiries suggest that in recent months the Department of Housing and Urban Development (HUD) had taken several steps to bolster the production of multifamily units in recent months. These measures included:

- 1) assignment of a higher priority to the processing of project applications for FHA insurance and subsidy programs;
- 2) accelerating inspections of project sites designated for new starts;
- 3) speeding-up loan closings;
- 4) making personal phone calls to regional office directors, in some cases directly by the HUD Secretary;
- 5) requiring as a condition for reservations of funds for some subsidized projects that such projects be started before September 30, the end of the budgetary-transition quarter.

-3-

Reinforcing the more favorable climate for multifamily construction was the high level of mortgage commitments outstanding that had been made from HUD's release of \$3 billion last January. These funds were exclusively directed to subsidize FHA-insured project mortgages through GNMA's purchase of loans bearing below market interest rates under the Tandem plan.^{1/}

Data on apartment projects with FHA-insured mortgages and HUD subsidized starts (under the Section 8 rental assistance program) indicate that the HUD effort was quite successful for September. Both seasonally adjusted and unadjusted data suggest that the September increase in starts of multifamily units was restricted almost entirely to FHA-insured projects; and Section 8 starts, by themselves, appear to have accounted for between half and three-quarters of the overall increase (see Table). ^{2/} On the other hand, in the case of single-family starts, which were

^{1/} On September 9, HUD released an additional \$2 billion for GNMA purchase of FHA-insured low-rate multifamily mortgages, for which commitments were first accepted September 21. Given the typically long time lag between commitment and beginning of construction, it is unlikely that this action had any effect on September multifamily starts.

^{2/} The seasonally adjusted FHA-insured and Section 8 starts shown in the Table were calculated using the implied factors from the multifamily starts data reported by the Census Bureau. However, seasonally adjusting these starts by themselves--instead of using the Census factors--does not affect any of the conclusions drawn in this memo.

-4-

already comparatively high, the over-all rise was achieved without any increase in FHA-insured starts.

In October, multifamily starts may very well have fallen back toward earlier levels both because such starts are typically very volatile and because the extraordinary amount of starts activity in the FHA-insured category may not be sustainable in the very short term. However, given the groundwork that has been laid by HUD in implementing the Section 8 program, further expansion of these starts is expected throughout 1977. Moreover, the growth of this program will be a contributing factor to the uptrend that is generally anticipated for the multifamily sector as a whole.

Attachment

MULTIFAMILY STARTS
(Thousands of units)

	Seasonally Adjusted Annual Rates			Not Seasonally Adjusted		
	Total	FHA- insured	Section 8*	Total	FHA- insured	Section 8*
1975 - Jan.	275	62	0	16.3	3.9	0.0
Feb.	231	37	0	14.7	2.4	0.0
Mar.	223	26	0	17.7	2.1	0.0
Apr.	208	13	0	20.1	1.3	0.0
May	232	35	0	23.3	3.5	0.0
June	206	26	0	20.0	2.5	0.0
July	291	26	0	26.5	2.3	0.0
Aug.	285	39	0	26.6	3.7	0.0
Sept.	338	40	3	27.4	3.2	0.2
Oct.	338	39	0	29.8	3.5	0.0
Nov.	333	39	9	25.3	3.0	0.7
Dec.	321	38	6	20.5	2.4	0.4
1976 - Jan.	279	51	6	18.5	3.4	0.4
Feb.	252	60	5	17.3	4.1	0.4
Mar.	307	31	10	26.0	2.6	0.8
Apr.	312	36	13	29.4	3.4	1.2
May	357	27	18	35.7	2.6	1.8
June	371	30	21	34.6	2.8	2.0
July	259	49	8	23.8	4.5	0.8
Aug.	356	47	14	32.6	4.3	1.3
Sept.	519	186	90	40.5	14.5	7.0
Unit change in September from August	163	139	76	7.9	10.2	5.7

*The Section 8 program, which provides rental assistance to participating lower-income households, includes both FHA and non-FHA insured projects.