

# Building Scene

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## Land costs escalate price of new homes

By Gerald Frawley  
staff writer

Bigger homes with more amenities are driving up the cost of new homes. If buyers would demand less and builders would include less, the housing affordability crisis could be eliminated.

That's the gist of a new congressional study federal legislators used to help determine whether to expand federal housing aid by setting higher loan limits for federal housing administration (FHA) mortgage insurance.

But local developers say the study is too simplistic.

According to "Bigger and Better Homes," the report compiled by Congressional Research Service, Congress in-house think tank, housing prices are actually not much higher than 25 years ago after subtracting inflation and amenity costs.

Using a U.S. Census Bureau statistical tool called "a 1982 house" that examines 10 housing characteristics at constant 1982 prices, one can "time warp" housing prices back to 1963 when a 1982 house would have sold for \$22,700, compared to the actual 1982 average house cost of \$19,300.

After factoring in inflation, that same 1982 house would cost \$161,200 in 1988, far less than the real average home price of \$145,500. After subtracting the amenities included in 1988 homes, prices could be reduced to approximately \$100,000, the study argues.

BUT DEVELOPERS counter that it is land costs and local demands that add to home prices.

"Whoever's doing that study is doing a lot of cherry picking with the statistics to come up with the numbers they want," according to Classic Construction president Sam Blumenstein. Classic Construction is the developer of Maple Place Villas in West Bloomfield and the Maples of Novi.

Blaming housing affordability woes on inflation and amenities is far too simplistic, he said. Hard costs — those associated with the actual home materials, may not have increased much in the past 20 years, but building and land costs have increased 25 percent in that same time. "It's not bigger and better housing at all."

If a home costs \$85 to \$100 a square foot to build, the extra amenities probably cost \$5, Blumenstein said.

The real culprits in the housing affordability crisis, he said, are increased land and development prices. Restrictions on developers' woodlands and wetlands ordinances, for example — are also costly to builders.

BUILDERS WHO want to build affordable homes are forced to go to extreme measures to build them, Blumenstein continued. Classic Construction buys and rezones land, builds the subdivision infrastructure, and then builds the homes.

Traditionally, one person buys the land and rezones it, a developer purchases it and develops the subdivision infrastructure, and then builders purchase individual lots, Blumenstein said. "Very few do all three."

Walter Cohen of Charter Development Co., one of metropolitan Detroit's largest residential builders, said few developers are building low-end housing.

Cohen said he doubts there is as much of a demand for low priced housing as many politicians and other groups claim. "There are beautiful homes in Detroit for very little money that go unsold."

"Everyone says there's a crisis. But come on, if that's true, people would buy them," he said.

If there is truly a need for more affordable homes, builders will address that need eventually, Cohen said, adding that building is a "lag industry," meaning it slowly responds to consumer demands.

"There's no question the amenities are costing more, Cohen added, "but local construction codes are higher in every community too."

Charter Development doesn't build low-end housing anymore because there isn't enough demand. "People don't want to buy rock bottom housing."

LAWRENCE GOSS, vice president at the Burton-Katzman-Shore/Abbey Group, said simple supply and demand economics also comes into play. Because many builders are concentrating on multi-family or high-end residential developments there's a lack of affordable homes.

That lack, he said, has resulted in increased competition and higher prices for the lower-end homes. "The problem is the profit margins on affordable housing are far less, so builders aren't willing to build them," Goss said. "The risk is still the same, but the potential for profit is lower."

Goss said many builders aspire to build larger homes because of profit potential and status.

Despite the risks and lower profits, Goss said his firm is moving ahead under the assumption there is a sufficient — and growing — demand for affordable homes.

DEVELOPERS MAY not be able to build affordable homes in Farmington Hills or West Bloomfield, Goss said, but areas like Walled Lake, Van Buren and Canton townships remain good possibilities.

## Houses larger with more features

By Gerald Frawley  
staff writer

Home construction trends support the assertion of "Bigger and Better Homes," a study by Congressional Research Service, Congress' own in-house think tank, that today's homes are larger and filled with more amenities.

Whether more amenities and inflation are the real cause of home price increases and the current housing affordability crisis, however, was debated by U.S. congressmen when they decided the merits of setting higher loan limits for federal housing administration mortgage insurance late last year.

Higher limits will allow first-time home buyers to take out larger federal government-backed loans. Although FHA loan limits vary from area to area, the cap was increased from \$100,000 to \$125,000.

The average price of a home in 1988, according to the U.S. bureau of the census, was more than \$140,000.

According to "Characteristics of New Housing: 1988," a report compiled by the U.S. departments of commerce and housing and urban development, and the bureau of the census, the percentage of larger homes in the Midwest with more amenities included during construction has steadily increased since 1985.

NEW HOUSES in the Midwest that are 1,599 square feet and less have become increasingly rare since 1984, according to the report. In 1984, 50 percent of new homes were larger than 1,600 square feet; by 1988, 59 percent were larger than 1,600 square feet.

Along with a growth in square feet has been a growth in

height, the report said. In 1985, only 40 percent of new homes had two stories or more; in 1988, 46 percent had multiple stories.

In 1985, when 156,000 single-family homes were built in the Midwest, only 55 percent had central air conditioning installed during construction. In 1988, 71 percent of the 191,000 new homes included central air conditioning, according to the report.

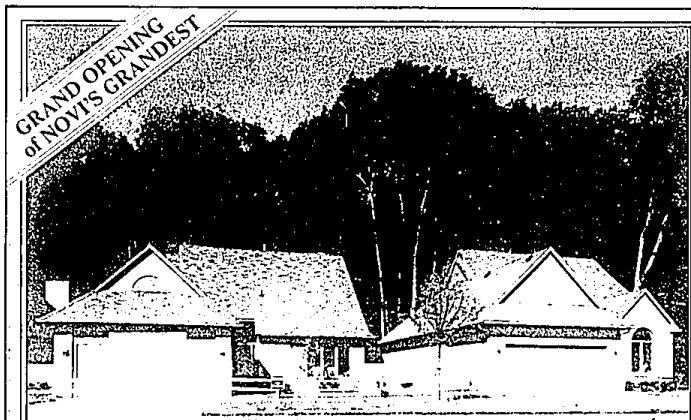
The percentage of homes with multiple bathrooms also has increased. In 1985, only 31 percent of new homes had 2.5 bathrooms or more and 32 percent had two bathrooms, the report states. By 1988, 45 percent of new homes had 2.5 bathrooms or more and 35 percent had two bathrooms.

THE NUMBER of bedrooms per home also continues to climb, according to the report. In 1985, only 21 percent of new homes had four bedrooms or more and 54 percent had three bedrooms. By 1988, 28 percent of new homes had four bedrooms or more and 56 percent had two bedrooms — more than any year since 1985 except 1987 when 57 percent of all new homes had 3 bedrooms.

The percentage of homes with fireplaces also has increased over the years. In 1985, 54 percent of new homes had fireplaces, but by 1988, 63 percent new homes had fireplaces, the report said.

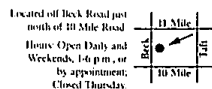
The percentage of new homes with full or partial basements, although steady at 77 percent from 1984 through 1987, increased to 81 in 1988, according to the report.

The percentage of homes with two-car garages in the Midwest has also increased in the past 5 years. In 1984, the report states, 70 percent of all homes had two-car garages, but by 1988, 84 percent of all new homes had two-car garages.



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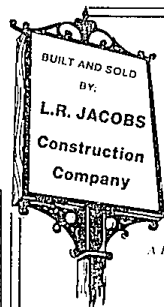
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