

Materials 15% higher

Housing prices jump upward

By TIM RICHARD
Buyers of new houses can expect to find "price adjustment" clauses in their purchase contracts.

The culprit is a 15 per cent inflation in the cost of building materials during 1977, with further hikes expected in 1978.

Materials are about one-third the cost of a house. Thus, a typical price adjustment clause will say the price may be raised (or lowered) as much as five per cent between the time you sign the contract and closing date.

THE CLAUSES are being recommended this week by the board of the Builders Association of Southeastern Michigan.

BASM General Counsel Irving Yackness said the industrial group has about 1,000 members who put up 85 to 90 per cent of the new houses in the region.

"How can we trust builders to pass on only the actual increases in materials costs, and not use the clause as an excuse to tack five per cent onto the price?" Yackness was asked.

"There's a cap of five per cent in the clause we're suggesting," said Yackness, pointing to one sample which said "in no event shall the price be increased for any reason whatsoever by more than five per cent."

A second buyer protection, Yackness said, is that the U.S. Labor Department each month publishes an industrial production commodities index. It would be the guide.

Finally, he said, the clause works two ways. Price drops would have to be reflected in the price of the house.

BUT THE BUILDERS left no doubt they don't expect prices to drop.

Lumber prices rose 16.5 per cent from January 1977 to January 1978. Plywood rose 13.1 per cent. Millwork rose 13.9 per cent.

In the month of January alone, he said, lumber rose 3.2 per cent, plywood 2.7 per cent, concrete 3.6 per cent and gypsum (for drywall) 2.3 per cent.

While local labor costs are also rising, the builders association said these can be estimated. So it is not recommending acceleration clauses to cover local labor costs.

"We've had reports from many builders who say they can't keep pace with price escalation," said Yackness, explaining why BASM drafted the clauses.

"We are apprehensive other builders face bankruptcy because they cannot anticipate today what their costs will be at the time of closing."



Isn't it the builders' tough luck if they go broke? No, said Yackness, because fewer builders means less choice for the buyer and a smaller housing supply.

A COMPLICATING factor for builders is the length of time it takes to build a house.

"It used to take 90 days. Some builders could finish a house in 60 days," said Yackness.

"Now it takes seven to nine months. There are various reasons for that."

"The inspection process is very lengthy. One community, Canton Township, requires 22 inspections."

"We've had extreme weather this year that has held up building."

"And then there's the availability of mechanics. There's intense competition for bricklayers here."

Some builders said that during the building slump that occurred in the region for the past few years, many

workers quit the building trades. Others headed south. It leaves southeast Michigan with a shortage in some trades.

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