

Federal deficits must be reduced to help housing, Realtors claim

This is the second of a three-part series. Observer & Eccentric editors — Ron Garbinski, Kathy Moran and Dennis O'Connor — recently hosted a joint interview with four leading real estate brokers — Mel Durbin of the Durbin Co., Bob Gavey of the Chamberlain Companies, Steve Pew of Max Brook Inc. and Dick Weir of Weir, Manuel, Snyder and Ranke. Their views follow.

IS THERE any question of sticker shock on the price of houses?

WEIR: There has been in the past, and I suspect there are some houses out there that are overpriced.

DURBIN: A lot of the sellers are still living in 1979 and when they price their house at the figure they want, they think if they wait long enough it will sell. Those days actually have passed. Shooting for the high dollar and waiting it out and figuring that the market will come back to their price will no longer happen. The person who is selling is pricing his house very, very closely to the market. Those are the houses, coupled with seller-supplied financing, that are selling. And they do sell readily. It is the people who are living in the past who aren't selling either on financing and/or price of the property.

What do you think of President Ronald Reagan and his fiscal policy?

WEIR: I think both state and federal budgets are out of control and spending way beyond what is projected. For example, one popular program that is part of Reagan's safety net — it's a necessary program so we don't have starvation in the country — (is) the food stamp program. At one time that was debated in Congress, passed and made a law. The projected expenditures were to be possibly \$4 billion a year, but today I can't seem to remember what the latest cost for food stamps per year is — possibly \$7 billion, 18 or \$20 billion per year. That's just an example. There is program after program of social contracts that the federal government has made for the people with the legislation that has passed calling for a particular program with certain expenditures that has ended up 10, 20, 25 years later costing five, 10 and 20 times what was projected by Congress at the time they passed the law. Those have all added, one after another, "topsy-turvy," to the point where we just spent ourselves into the poorhouse. And we are continuing to do it today. That's what the basic problem is — we are spending more money than we are making. Reagan is absolutely right. He had to do something taxwise because we had the top, most able part of our populace paying tax rates of up to 70 percent of everything they earned. It can't go on if we are going to get those people to make investments that will create new jobs. The government did discover that new jobs did come as a result of activities by the so-called "private sector," not as a result of government activity. The only way they were going to get the activity they needed, in the long run, is when a large number of people are gainfully employed and paying taxes rather than taking in income from the government in the form of a subsidy.

Isn't an inflationary economy better for your business?

WEIR: Yes, it is, but only in the short run. Wait until you retire and you are on a fixed income. If inflation keeps up at 15 percent, you won't think that's very thrilling at all. It's easy for the American public to spend now and let the future take care of itself. It won't work.

GAVEY: I like what Dick has to say about that. I think he is right. I think we have to pay the price now. It is true, an inflationary market is better for our business in the short term. It is actually better for the people who are selling

and going to another market. They are making a lot of inflationary dollars on real estate that they bought at a lesser price. In the long term, stabilized interest rates at a reasonable rate of inflation is better for us and is better for the general public. We all have a built-in prejudice in the real estate market. For years and years it increased at the rate of 4 to 5 percent. It then rapidly increased, prior to three years ago, doubling every five years.

WEIR: Back 30 years ago, when someone would come to town to buy a house, they would occasionally ask, "How long do I have to live in it to pay a commission to sell it?" We would tell them the have to stay there four or five years to earn 6 percent. That's the way it was. The budget wasn't just "leap-frogging." That was better for people in the long run. When they did retire with whatever they had put aside for their old age, it would continue to buy something.

GAVEY: From 1974 to 1979 (housing) was no longer just a shelter — it was an investment with a lot of high-dollar profits.

WEIR: The growing intelligence was to (go) out on a limb (because) you could get anyone to loan to you and it would be smart. And it wasn't very smart. Now the limb is being sawed off. The guys out on the end of the limb are in trouble.

There are a lot of economists who now say that it is an economic fact that housing is not an investment any more simply because the interest rates are higher than what you could make on a house because the price is going down. Is housing an investment?

DURBIN: I don't know if the correct term is "economists are saying that." Authors of books are saying that. Whether, in truth, they are economists, I don't know. I can't honestly say that I recall a single economist saying that.

PEW: Let's start with one basic premise. Housing is a necessity. If you want to talk about buying other than your necessities, such as an apartment building, office building and so forth, then yes, I suppose the hot money is going elsewhere. What the four of us are primarily dealing with, in the community in which we serve, is the person's basic shelter — the necessity. It's just been a damn good investment since (President) Johnson and the Gulf of Tonkin. Now there isn't any war to keep the inflation fires going so it isn't the great investment that it used to be, but it still is better than living in a tent.

GAVEY: We are not only selling housing as a necessity. We are selling the amenities of a neighborhood. We are selling a lifestyle. We are selling a community that is, no doubt, the finest community (Oakland County) in Michigan if not the country. It is not just bricks and sticks. It is the whole gamut from the tremendous school system to the community, the trees, everything. Where it goes from there is up to the individual.

DURBIN: I catch myself once in awhile talking about the "sticker shock." When I first started selling in Birmingham, we had the homes right in this neighborhood. They were \$11,000-\$13,000. I compare them to prices now to near \$100,000. I think, gee, the prices of homes have really gone up. Compare the physical homes. The \$11,000 to \$13,000 was a 900-square-foot box with no garage on a 50-foot lot, no family room, one bath, if you were lucky a bath and a half, and if you were real lucky you finished off the attic. Those were the \$13,000 houses that they want \$60,000 for now. If you compare that type of home to what we are talking about now, which is a four-bedroom, 2½ bath colonial with a family room and an attached garage, you are really not comparing the same product.

PEW: You are comparing 900-1,000



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square feet to 18,000-22,000 square feet. You have three times the house plus the inflation factor.

DURBIN: It really isn't that gross an exaggeration that it was back in the old days.

WEIR: One other thing to say about this being other than an investment is that the typical families' entire standard of living begins at home. How they are going to live, how (do) they fit into their community, who are their neighbors? The whole thing is established from their home.

Federal Reserve policy has been to keep the interest rates high. What do you think of the Fed's plan for the economy?

WEIR: It is the bitter medicine that is necessary due to 40 years of over-spending. It is not Reagan's fault. He wasn't in office 40 years ago. The trillion-dollar national debt has been growing for years. That's what the fault is. That is what has made the financing, the payment of interest on the national debt, the third-largest figure in the budget. It is the trillion dollars that is overhanging, not what is happening right now. What (the Federal Reserve) is attempting to do is to hold down the kind of inflation that has

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caused that trillion dollars to be the fact of life that it is. So it is essentially correct that the Federal Reserve continue to do exactly as it is doing. There is nothing I would like to see than to have interest rates come tumbling. I fail to see how it can be done short of increasing everyone's taxes to balancing the budget, as the saying goes, on the "backs of the taxpayers." (The taxpayers) are the 90 million people who work, or (we have to) cut spending. They can do a combination of both, but they have to find a way to start cutting down the national debt, not just balancing the current year's budget. A reduced federal deficit would be a beginning. (Federal Reserve Chairman Paul) Volcker does not come across as being very impressed by what Congress and the president are attempting to do. He says it is not good enough. The reason being is that he is looking at that overhanging debt not just this budget. What is being done now to cut the projected budget from 150 to 100 (billion dollars) has very little to do with the trillion that is owed. That's what he is looking at, and that's what the problem is.

DURBIN: This point is well taken about the interest rate coming down, but we also have to watch out for the supply of money. A 5-percent interest rate with no money available does not

one any good. Money has to be available. The point that the government is gobbling it up because of the deficit is well taken. But even if we had a lower interest rate, if there was no money, it would accomplish nothing.

PEW: Right now there is roughly, and I may be wrong by a couple of billion, \$200 billion in savings right now in this country. The federal deficit in 1984 will be \$180 to \$200 billion if they don't get this resolved. If that's true, there is not going to be any money for anybody because the government is going to take all of the savings that are out there and use it themselves to take care of the deficit. You have to start somewhere, and the deficit has to start coming down or the government will be using every cent that is available. The money won't be there for business to expand or borrow, much less the homeowner. I have met with Volcker twice in his office this past year. He's not one to say, "I told you so," but in essence he did. When (Budget Director David) Stockman first proposed his economic theory when Reagan went after the tax cuts, Volcker said it's not going to work because there is not enough cut in the spending. Yes, it is great that cuts are beginning, but it is not enough. We are going to have high interest rates. He said that. So now he is merely saying without saying it, "I



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told you so. Congress, you haven't got your act together yet." What some people fail to remember is that the cuts that Reagan got last year, and he got them right down the line, were not cuts but a cut in the increase. They were still more than the previous year. The spending was more than, but not as much of an increase as (President Jimmy) Carter had asked for in his budget. Volcker is maintaining his independence, and I think that is absolutely essential. Some people are saying, "Bring him under the administrative branch." We are really in trouble if that happens.

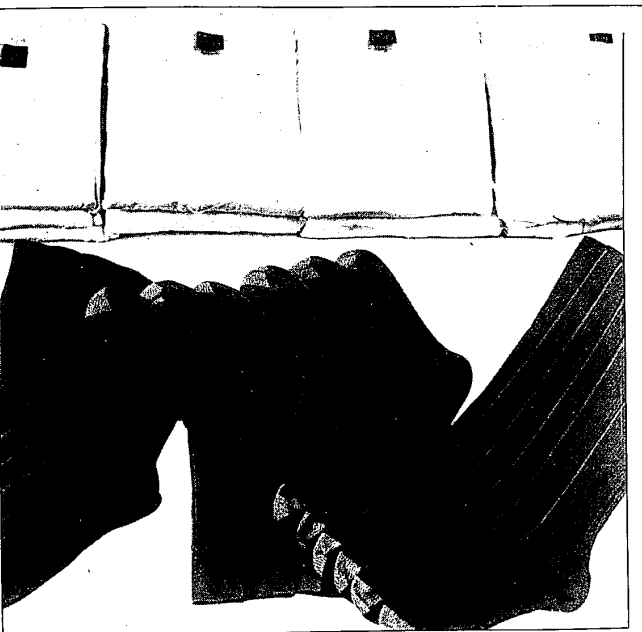
GAVEY: I guess I would rather be here talking about high interest rates than paying \$10 for a pork chop or \$200,000 for a house. The tradeoff is that inflation is coming down.

WEIR: Right now, this is a buyers' market and the houses are a bargain. The fact of the matter is they are, on average, off in the neighborhood of 20 percent from where they were the first part of 1979. That's when the market peaked. You can probably buy (a \$100,000 house in 1979 prices) today for \$80,000, and you can get it for 11 percent. That's a benefit to the public. It is a reduction in inflation.

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— Dick Weir



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