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SINGLE–FAMILY HOUSING CONSTRUCTION IN DOUGLAS AND SARPY COUNTIES, APRIL THROUGH JULY, 1978

BY

JACK RUFF
LINDA FERRING

Introduction

At the peak of the construction season, July figures indicated that construction of single-family houses in the Douglas-Sarpy County area continued at the fast pace established in 1977. Despite the high rates of loan interest and inflation, new housing sales exceeded those of a year ago from April through July.1

The current construction market will be examined from 3 perspectives: loans made for new houses in Douglas and Sarpy County subdivisions, construction and sales rates by location within the 2-county area, and attitudes of area mortgage lenders about 1978 activity in comparison to 1977.

New Houses Built And Sold, April Through July

Building permits issued in the first 7 months of 1977 and 1978 showed the results of the extreme weather which delayed February and March requests for permits in relation to the mild early months of 1977 (Table 1). Since April, however, the number of permits issued has been similar or slightly higher. Over the 7 month period, Sarpy County permits increased (2%) while Douglas County permits decreased (4%) in comparison to 1977.

Reports of housing construction loan activity by 20 Douglas and Sarpy County lending institutions showed 809 new houses started in April through July. Of these, 468 (or 58%) were loans to building contractors for speculative houses, and the remaining 341 were loans directly to the prospective homeowner, for pre-sold houses. Of the speculative houses under construction, 245 were reported sold during the 4 month period (Table 2).

Locations of subdivisions where new units were built during the past 4 months are shown in Map 1. Many of the subdivisions reporting construction activity were clustered on the western Omaha fringe and just south of the Douglas-Sarpy division. There are notable exceptions, however, as 51 area

subdivisions reportedly more than 10 new houses under construction during the period.2

Construction was reported in subdivisions in both counties which were not clustered near other active areas. Particularly in Sarpy County, some of these scattered subdivisions have a considerable amount of activity. Understandably, a high proportion of the units in scattered subdivisions are pre-sold rather than speculative.

Construction And Sales In Subdivision Clusters, 1977 And 1978

Speculative construction in Douglas and Sarpy Counties between April and July was similar to activity reported during the same 4 months in 1977 (Table 3). The 488 speculative units started in 1977 were nearly identical to the total during this period of 1977, with the greatest increase in number of starts in the large subdivisions in cluster D and the most notable slowing in cluster L near La Vista, where available lots are becoming scarcer. Fewer speculative units were started in all Sarpy clusters except G, near Capehart, than during the same months of 1977. Speculative housing sales, however, were reported as 13.4% above those last year, with Douglas County showing an increase and Sarpy a decrease. The overall increase in sales with a steady construction rate is encouraging, considering that 1977 reports indicated a 13.4% increase which was reported as approximately a 10% increase in supply of units under construction, based on the 1977 sales rate. The greatest volume in sales was reported in the large clusters D and I in the west Omaha fringe/Millard area, although sales slowed most in cluster B just west of these, near Elkhorn.

The balance between speculative construction and demand may be experienced through the construction/sales ratio.3 In comparison to 1971, the higher construction/sales ratio for the 3-county area between April and July, 1978, reflects the increase in sales while starts remained nearly constant (Table 3). Of the higher volume clusters (those with 20 or more starts

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1. Locations of subdivision clusters are shown on Map 1.
2. Includes subdivisions with more than 3 houses under construction.
3. The construction/sales ratio is the number of speculative units sold divided by the speculative units started.
for the period), only H and I had higher construction/sales ratios than the 2-county area as a whole between April and July, 1978. This indicates that new construction in the other higher-volume clusters may be outpacing sales. In comparison to 1977, however, all the higher-volume clusters improved their construction/sales ratios except M and C.

Cluster D, which showed a dramatic increase in starts compared to 1977, also had an improved construction/sales ratio. Nevertheless, the 1978 construction/sales ratio for cluster D remained well below the 2-county total ratio. At the other extreme, several clusters which showed a decrease in starts also showed declining construction/sales ratios. Both these extremes represented typical market situations, with starts and construction/sales ratios changing in the same direction. However, an increase in the number of starts while the construction/sales ratio decreases is a signal of overbuilding.⁴

### Omaha Lenders’ Perceptions Of The Housing Market

In July and August, 1978, CAUR staff personnel surveyed the presidents (or their designated representatives) of 13 major area lending institutions about their perceptions of the housing market. Construction and sales reports from area lenders during 1977 had suggested that new home construction in the area was exceeding demand, and the survey was designed to determine whether lenders perceived similar conditions.

The representatives of the 13 lending institutions were asked 5 questions. The first was, “In general, the current residential housing market in the Douglas and Sarpy County area is very active, moderately active, or sluggish?” The responses were very active (2), moderately active (9), and sluggish (2).

To provide additional perspective on the general condition of the market, lenders were asked to compare 1977 and 1978 activity with regard to new home construction and sales: “In comparison to 1977, housing construction appears to be more rapid (2), about the same (5), or less rapid (6)?” Similarly, “In comparison to 1977, new home sales appear to be: more rapid (2), about the same (7), or less rapid (4)?”

⁴Of course many factors other than location affect sales of individual houses within a cluster. The survey of lenders revealed that they place greatest emphasis on their knowledge of the speculative builder in making loan decisions.

Lending policies were the next focus: “How would you compare your attitude toward short-term speculative construction lending as compared to a year ago?” All but one of the 13 lenders said that they were more stringent with their money this year than they were in 1977, with the remaining response being about the same. The tightening loan policy was reported in several forms. All institutions reported increased interest rates, many of which were directly linked to national prime interest rates. Several lenders also reported increased down payment requirements. Others stated that they were granting speculative construction loans only to those builders who were established clients, and a few were making no construction loans in July.

Finally, lenders were asked what social or economic conditions had influenced the 1978 Douglas and Sarpy County housing market. Most lenders perceived Federal tight-money policies as a strong reason for locally high rates. Although a majority had characterized the 1978 market as about the same as a year ago, most of their responses about social and economic influences suggested a decrease in demand. Population changes were cited, such as decreasing local population growth rates and changing age structure, with the bulk of the population in the new-household stage not usually perceived as homebuyers. Two lenders referred to a possibility that the local housing market may be overbuilt. Two others referred to a subsidizing of earlier reactions to the Omaha school district’s court-ordered busing which temporarily stimulated demand in the newer areas outside the district limits. One lender said increased construction costs as well as financing costs were eliminating moderate-income homebuyers from the market.

In contrast, 3 lenders referred to an “inflation psychology” which is keeping the demand for mortgage loans high despite high interest rates. This attitude was described as a continuing confidence that financing costs will be returned by more rapidly increasing equity or resale value of the home.

Thus, although lenders were cautious about emphasizing any negative trends in the demand for loans, nearly all respondents agreed that construction loan activity has slowed somewhat during 1978. The stringent lending policies are attributed more often to national than to local conditions, although many respondents consider the existing inventory of new houses to be large enough. Six of the 13 lending institutions are either not making new construction loans or are not accepting applications from new builders.

### Area Construction Trends: Summary

Omaha trends were comparable to national data for the first part of 1978. Nationally, single-family permits and housing starts are slightly higher than 1977 levels (3% and 4% respectively), but expected to level off, suggesting that the latter half of 1978 may reveal that the high level of construction activity has peaked.⁵ In Omaha, single-family permits were down by 7% and starts were nearly equal those of mid-1977. Area lenders said lending policies were more stringent than a year ago, although demand remained quite high.

Within the 2-county area, rates of speculative construction and sales varied considerably. The greatest volume of new construction was reported in the Boystown-Millard area, with sales declining slightly in the outer fringe of clusters.

Three findings suggest that the last half of the 1978 construction season will be slower than it was in 1977: fewer building permits were issued in July, interest rates for both long-term mortgage and construction loans are high, and lending institutions feel that tighter lending policies will be necessary.

HOUSING TOMORROW: PRELIMINARY FINDINGS OF THE OMAHA TOMORROW HOUSING TASK FORCE

A committee of the Omaha Tomorrow Program of the Greater Omaha Chamber of Commerce brought together 12 representatives of local governmental and non-profit agencies and industry to attempt a complete inventory of Omaha's current housing situation and to project future trends and goals.

General Findings

General findings of the Task Force related closely to the City Planning Department's 1970 Omaha Housing Plan and Community Development Master Plan. In comparison to 1960, population was found to have increased by 17% while housing units increased by 32%, and the single-family housing units increased by 27% to 33% of the total housing stock. The Task Force reaffirmed commonly held assumptions about the influence of this population drift, resulting in losses of both population and housing east of 42nd Street, a considerable degree of stability between 42nd and 72nd, and the greatest and most rapid growth in population and housing units west of 72nd. More specifically, the Task Force recognized the most serious deterioration and some abandonment in Near North Side neighborhoods.

The Task Force accepted the Housing Plan's estimate that the Omaha zoning jurisdiction will have 425,000 residents who will need 284,140 additional new units by 1985. The committee's assessment is that the greatest future challenge was found to be providing adequate housing for families at and below median-income levels. Existing housing and the single-family housing units in older neighborhoods as their highest priority. They also endorsed the need for government subsidized new units in moderate income ranges.

Neighborhood Findings

Although the city-wide findings were not unusual, the Task Force summaries of 10 neighborhoods based on census tracts updated some useful estimates of housing conditions in smaller segments of the city. 1970 census tract information about population and housing units as they have changed since 1960, and housing sales in 1977.

1Supplemental information by census tract included consideration of rental versus owner-occupied status, and density of existing as new clusters.

TABLE 1

1980 AND 1977 OMaha POPULATION AND HOUSING

<table>
<thead>
<tr>
<th>Subarea</th>
<th>Population</th>
<th>Housing Units</th>
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<tr>
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<td></td>
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<tr>
<td></td>
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<tr>
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<td>Change</td>
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<tr>
<td></td>
<td></td>
<td>Sales Values</td>
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<td>40,201</td>
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<td>-4</td>
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<td>-9,818</td>
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<td>-216</td>
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<tr>
<td>South Omaha</td>
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<td>West Omaha</td>
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Source: Compiled by the Omaha Tomorrow Housing Task Force from Intercommunity Estimating System population and housing estimates and real estate transaction records from the Douglas County Assessor's office.

and north to Blondo, showed the bulk of the city's population growth since 1960, including a substantial proportion of multi-family units, which single-family sales values were relatively high, although the variation among these 11 census tracts was considerable ($31,000-$61,500), particularly since a high proportion of houses sold were relatively new units.

The West Far Suburbs, north to Fort from 143rd to 180th, showed the most rapid growth in comparison to 1960. Since 1970, the population has doubled in these 8 tracts, with housing units increasing by 2 1/3. The area had the highest 1977 mean sales values, with means for all tracts above $37,000.

ANNOUNCEMENTS

Administration from the University of Pittsburgh and has six years of experience in working with volunteer/community groups such as the Riverfront Foundation and the Urban League, and two years as Human Relations Director in Council Bluffs.

The 1978 CAUR Summer Urban Research Fellowship was awarded this year to Dr. Julie Horney, a faculty member in the Criminal Justice Department. Dr. Horney designed and conducted an innovative study of drug bargaining practices. She will continue working part-time with CAUR during the current year to help develop additional research activities in the field of criminal justice.

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