Lags and Leakages in Housing Data

The relationship between housing permits, starts, completions, and sales is often confusing, even though the data all come from the same source (the Census Bureau's Construction Statistics Division). The differences arise from differences in coverage, timing, and definition. In addition, some housing permits never turn into starts and a few starts never reach completion.

The Census Bureau collects permit data from 17,000 permit-issuing authorities on an annual basis. On a monthly basis data are collected from about half those places and estimated for the remaining places, to produce a monthly estimate of permits by structure type. In 1985, permit-issuing places accounted for 95.5 percent of total housing starts. This is probably larger than their share of population. The fact that the 1985 share of total private housing starts in permit areas was greater than the population share probably reflects net migration into permit areas, a larger mobile home share in non-permit areas, and a slightly larger average household size in non-permit areas.

From Permits to Starts

Each month a sample of newly-issued permits is chosen, and is used as the basis for the estimates of starts, completions, and sales. The Census enumerators follow the progress of the sample units each month and extrapolate from the experience of those units to create national and regional estimates. To estimate starts in non-permit areas, the Census uses a sample of large parcels of land, which enumerators regularly check to see if any new homes are being built.

In the case of single family units, permits nearly always become starts, and there is generally only a short time lag between permit issuance and start. The approximately 2 percent of single family permits that are ultimately abandoned, cancelled, expired, or revoked is more than offset by the 3.2 percent of single family starts in permit areas that are estimated by the Census Bureau to be started without legally-required permits. About 60 percent of single family starts in 1985 were based on permits issued in the same month that construction began, and another 26 percent were started in the month following permit issuance. Only 2 percent were started more than 6 months after the permit was issued. The distribution of starts by lag since authorization is shown in Table 1.

Single family starts in permit-issuing areas generally exceed single family permits, not only because of starts for which no permit was issued, but also because a multifamily permit may have been issued for townhouse or cluster units that are considered to be single family attached units by the Census Bureau. Such units are reclassified in the starts data, but the permits data are not correspondingly revised.

Multifamily permits are more likely than single family permits to expire or be cancelled, revoked or abandoned, and the lag between permit issuance and start of construction is somewhat longer, on average. In 1985, about 4.5 percent of permits for units in structures with 5 or more units went unused. In years wehen the housing market is weakening that percentage may increase to over 10 percent.

Table 1
Distribution of Housing Units Started in 1985 By Number of Months from Permit to Start

	Single Family	2 to 4 Units	5 or More Units
Prior to Authorization	3%	3%	4%
Same Month	60	50	41
1 Month	26	28	23
2 Months	5	8	11
3 Months	2	3	7
4 Months	1	2	4
5 and 6 Months	1	2	4
More than 6 Months	2	3	6

From Starts to Completion

While the time between the start of construction and completion varies widely for individual buildings, the average times in 1985 were 6.2 months for single family homes, 6.6 months for 2 to 4 unit structures, and 8.4 months for structures with five or more units. These averages are skewed by a relatively small number of units that took a long time to complete. The median number of months to completion was significantly less, as shown in Table 2.

Among single family homes, the average time from start to completion was longest for the approximately 16 percent of new homes that were owner-built (i.e., where the house was built with the owner serving as general contractor). Those took an average of 10.6 months to complete, compared with 5.4 months for homes built for sale and 4.9 for contractor-built homes.

The time to completion varies over the business cycle, with shorter times recorded in years like 1971, 1976, and 1983 when there was a sharp pickup in housing activity.

Some units that are started never reach completion. Generally, this occurs with about 2 percent of starts, although the percentage fluctuates erratically.

Contrary to perceptions, the percentage abandoned is typically not any higher for 5 or more unit structures than for single family or two to four unit structures.

Sales

Units built for sale — those nonrental units where the land was not already owned by the prospective occupant — account for about two-thirds of single family starts. Among 1985 single family home sales, 33.3 percent were already completed at the time of sale, while 40.1 percent were under construction at the time they were sold, and 26.6 percent were not even started. In prior years, the share of homes sold after completion was often over 40 percent, but the combination of strong demand, unwillingness of builders to take excessive risks, and high real carrying costs has tended to reduce the proportion that are completed on a speculative basis. Data for the first half of 1986 indicate that the share of homes sold after completion has fallen even further.

Excluding homes that were sold before thay were started, the median time from start to sale was 3.9 months. Since the median time from start to completion was about the same, this suggests that homes that are sold while under construction were typically nearly complete at the time they were sold.

Table 2
1985 Lags, Leakages, and Coverage Ratios

	Single Family	2-4 Units	5+ Units
Avg. months between permit and start	0.7	1.0	1.6
Permits abandoned as a percent of new permits	2%	2%	4.5%
Percent of private starts in permit issuing areas	92.9%	97.5%	99.8%
Average months between start and completion	6.2	6.6	8.4
Median months from start to completion	4.0	5.2	7.2
Construction abandoned as a percent of completions	1.6%	3.9%	1.0%
Units built "for sale" as a percent of starts	66.5%	31.2%	21.7%
Median months from start to sale*	3.9	N/A	N/A

*excluding homes sold before start

The Tax Reform Act of 1986

On August 16th, the conference committee on the Tax Reform Act of 1986 agreed on a tax reform bill that sharply reduces tax rates while disallowing numerous deductions. The bill will probably pass both houses of Congress in September, and the provisions generally become effective on January 1, 1987 (some provisions are phased in). The bill will impact housing in a number of ways, including reducing the tax savings associated with homeownership and severely curtailing tax incentives for investment in rental housing.

General Provisions

Exhibit 1 summarizes the general provisions and those that affect owner-occupied housing. The current rate structure of eleven brackets is replaced with only two statutory rates: 15 percent and 28 percent. Most households will receive a rate reduction, with the largest reduction for the highest-income group (from 50 to 28 percent). Also, the personal exemption and the standard deduction are increased, which will serve to remove many low-income households from the tax rolls while reducing the incentive to itemize. Because the benefits of the 15 percent tax rate and the personal exemption are phased out at upper income levels by using a 5 percent surcharge, households with incomes in the phaseout range will actually face a tax rate of 33 percent.

To partially offset the lost revenue implied by these changes, the bill disallows many deductions and exclusions from taxable income. Sales taxes are no longer deductible; consumer interest is sharply restricted; and the deduction for IRAs is disallowed for higher-income households who have pension plans. But mortgage interest remains fully deductible for the purchase of up to two homes and for refinancing those homes up to the amount of the initial purchase price plus the cost of improvements; and property taxes remain deductible in all cases. However, the fall in tax rates reduces the value of the remaining deductions.

Other Provisions Affecting Single-Family Housing

Under current law, first-time buyers of moderately priced homes are eligible for below-market-rate mortgage loans that are funded by tax-exempt Mortgage Revenue Bonds (MRBs). The bill limits significantly the total volume on certain private-activity issues, including MRBs, and the use of MRBs at all will end after 1988.

Other provisions affect home builders directly. First, the bill effectively ends the installment sales treatment of builder-issued mortgage-backed bonds, called builder bonds. Also, builders in many parts of the country will experience higher charges for the