It will be noted that the index of costs soared abruptly during the year 1937, but has declined each year since. Virtually all of this decline in Los Angeles has been due to a decline in building labor costs, as the costs of materials have remained generally steady and many materials have registered increases in price. This decline in labor costs has been due to three factors: first, labor costs in 1937 were inflated by an acute shortage of skilled artisans. This shortage forced the average labor wages to well above 1929 levels; second, the demand for skilled artisans brought a rush of semi-skilled and apprentice workers into the field, who received substantially lower wages than the prevailing wage rates for union labor. Contractors, furthermore, took advantage of this influx of workers to avoid paying union wage scales by placing the workers on a salary basis. This deflated the abnormally high labor costs prevalent in 1937 and thus effected a substantial reduction in the labor costs per dwelling; third, a considerable segment of new speculative building construction has been done on a mass-production basis, i.e., material requirements for a whole block of new dwellings were prepared at one source and at one time. This, of course, has enabled an appreciable reduction in labor costs, and, to a lesser extent, in material costs as well.

In Table 95, Appendix Page 111, will be found a tabulation of union wage scales in the building crafts during the years 1913-1938. These tables indicate that union scales in 1938 were about 7% above 1929 rates. However, these wage rates are not closely adhered to in Los Angeles and hence are not important to this discussion. Building labor in common with other laboring groups, is not well organized in the Los Angeles area, and consequently, union wage scales are meaningless.

Speculative building activity.

Speculative builders have been very active in the Metropolitan Area. Definite data are not available showing the extent of construction of this type, but it is believed to represent by far the greatest portion of new residential construction in all but the high price neighborhoods.

The low-down-payment FHA loan has, of course, proved a god-send to the speculative builder, and it has been utilized to the fullest extent. Most of the speculative developments have been successfully moved, although in many instances, particularly in the San Fernando Valley, in southwest Los Angeles, San Gabriel, portions of Long Beach and in the area southeast of Santa Monica, pressure tactics in the highest degree have been utilized to sell new dwellings. In these efforts builders have had unanimous and intensive support of local newspapers, and these media have never permitted even a shadow of doubt to creep into their columns, as to the merit and necessity for this intensive speculative building activity.

There is evidence that the pace of such speculative building has slowed appreciably during recent months, although such activity is still heavy. Increasing difficulty in the disposal of new dwellings is evidenced by the increase in numbers of completed new dwellings which have stood vacant from two to six months, and by the fact that builders are beginning to offer price concessions in an effort to move their unsold properties.

Financing of New Construction.

Mortgage funds are available throughout the metropolitan community in amounts far in excess of present demand. In fact, the competition to place mortgage funds is so keen at the present time that the hazard of overbuilding the area is an ever-present menace. The great preponderance of new construction is financed through FHA loans, and institutions not using the FHA loan plans are having difficulty in competing in the present market.

b. Housing needs and supply in Metropolitan Los Angeles.

The condition of a real estate market, as in any other type of market, is largely dependent upon the mechanics of supply and demand as a basis for the determination of price levels. Since a healthy real estate market, therefore, depends upon the maintenance of an equitable balance between supply and demand, it is important to the study of housing market to consider the relation existing between the supply of housing units and the demand for housing—both existing and potential demand. This is deemed particularly necessary in Los Angeles because of the rapidity with which new dwelling units have been constructed in the past three years.