INTRODUCTION

This book is a history and analysis of a business activity, merchant building, as it developed since World War II. Merchant building is the term commonly, but not exclusively, used to designate a person or a company who purchases a parcel of raw land and turns it into a group of houses for sale. The major functions are land acquisition and development, construction, financing, and marketing. Unlike most manufacturers, merchant builders take their product, a house on a lot, from its virgin state directly to the consumer. There are no middle men or dealers as, for example, in the automobile business.

People who have written previously about merchant building justified their effort and tried to invoke interest by emphasizing the importance of houses built per year, dollar volume, and the amount of employment generated. They proclaimed the special aesthetic, social, emotional, and political importance of houses, development, and homeownership. While there is truth to such exhortation, I choose the subject for less grandiose reasons. I write about merchant building because I know a great deal about it and because it interests me. I also believe that, though popular, trade, and academic publications have contained millions of words about merchant building, with a few exceptions they have not provided an accurate picture of how it works or why.

When I was seventeen years old, in 1947, and had just entered Dartmouth College, my father entered the homebuilding business in Sunnyvale, California, a suburb of San Francisco. My father was born in 1900 in New York; he graduated from NYU and became an accountant. In 1925 he moved to San Francisco and worked as treasurer for a butter and egg wholesale firm owned by my mother's family. In 1946 the sale of the family business was a cata-

lyst to his quitting to try something on his own, a long-held desire.

For some time my father had been interested in modern architecture. During the war we had rented a house designed by Frank Lloyd Wright; subsequently, one of his followers, the young San Francisco architect Robert Anshen, designed a house for our family.

It is not surprising then that my father found a way into home building, though I have no indication he consciously connected it with his aesthetic interests at the outset. As was true of most merchant builders in the postwar period, he entered the field by apparent accident. Two young engineers asked him to invest in their nascent business prefabricating houses for construction on buyers' own lots. He did so and began to handle the finances. A year or so later, restless and disgruntled with his partners' incompetence, my father bought them out. A few months later a real estate broker friend suggested that my father "stop fiddling around with this stupid little business and build a subdivision." "I don't know anything about that; where would I get the land? Or the money?" my father replied. The broker, of course, had the land—fifty lots in Sunnyvale, My father, of course, did raise the money. And one of the nation's two most famous merchant-building companies was started. The other was Levitt and Sons in New York.

From 1947 to 1951, while I was attending college, I worked during summers at Eichler Homes installing lawns, driving a truck, carrying lumber, and as laborer for a framing crew. After graduation I became purchasing agent for one year before entering the army. After discharge in 1954 I returned as sales manager. For the next nine years I functioned in this capacity and to some degree as executive vice-president.

I left the family business in 1963, partly because of disagreements with my father over various policies and man-

agement style and partly out of a desire to try something else. For two years I conducted research and taught at the University of California.

Since I left the university in 1966, I have had two major executive jobs related to merchant building. From 1968 to 1973 I was California division manager and then executive vice-president of the Klingbeil Company, an Ohio-based apartment builder. Like many housing companies of its time Klingbeil attempted rapid expansion and aligned itself with a large, nonhousing firm, CBS. Although this book is primarily about builders of homes for sale not for rent, my experiences at Klingbeil had much to do with my views on expansion by merchant builders. Many of the problems were the same.

In 1974 I became a principal in Victor Palmieri and Company, a manager of large packages of troubled real estate. I moved to Washington, D.C., and then to New York, to work on the major properties of the bankrupt Penn Central Railroad. But a year later Palmieri became trustee of Levitt and Sons, which, as a result of an antitrust suit brought by the Department of Justice, its owner, ITT, was required to sell. Almost thirty years after starting with one famous, and ultimately doomed, merchant builder, Eichler Homes, I found myself in charge of another, Levitt and Sons, the grand daddy of them all.

Levitt was not bankrupt but only because ITT had propped it up financially, primarily out of fear of the government. In 1974 Levitt's losses exceeded $50 million and, as Victor Palmieri put it so well, what was turned over to us in January 1975 was a bleeding elephant. Operating then in eighteen metropolitan areas, including Paris and Madrid, Levitt's annualized overhead was $30 million, and it was losing money in every region. Hundreds of postwar merchant builders made a great many mistakes, certainly Eichler Homes and the Klingbeil Company, in their expansion efforts. But Levitt, as I studied its

then condition and past operations trying to figure out how to stop the bleeding, was a textbook case of what not to do.

Had the court order under which we ran Levitt not specifically precluded it, almost certainly we would have met our fiduciary obligations to ITT (it got the proceeds of sale or liquidation) by totally liquidating the company. But the order required the trustee first to put back into the marketplace a "viable home-building company." We were to select the assets necessary for this effort. Only the "remaining assets" were to be sold separately. The company was to remain as an operating entity.

For over four years I worked at the task of creating a new Levitt, selling it, and disposing of remaining assets. Helped mightily by a boom in demand, we sold a profitable Levitt in early 1978 to Starrett Housing Company of New York and completed asset disposition later that year. I remained with Levitt as its president until June 1979.

This was a unique package of experiences. In different capacities at different times of my life I had participated in the management of large housing companies. I had had ample opportunity to observe and study a subject that became for some almost an obsession, the struggle of merchant builders to expand and try to become national. After leaving Levitt, I returned to San Francisco to teach and decided to write about merchant building.

Before World War II there was little mass building or marketing of housing for sale, although in the 1920s and even earlier many large rental projects were built. The most significant deterrent to large-scale building and selling of houses per year was the lack of attractive consumer financing. By law and policy financial institutions rarely made loans over 60 to 70 percent of the purchase price. The term of such loans was often five years or less. There had not been a period of sufficiently high incomes or pros-

perity of sufficient duration to encourage lenders or home buyers to take greater risks.

Without the potential of a mass market, builders rarely achieved much scale. In the 1920s and 1930s a few firms had annual production of a hundred units for sale, but the vast majority of houses were built either by contractors for individual families who purchased a lot or by speculative builders who put up less than ten houses at a time. Land development was almost always a function of local government or private firms which then sold improved lots.

Actions in the 1930s, the war itself, and postwar conditions provided an environment uniquely favorable to large-scale, integrated housing production, the process I call merchant building. Within twenty years after the war almost two-thirds of American families owned their own home. When the war started, the ratio was little over one-third. By 1960 about 70 percent of all sales housing in this country was accounted for by merchant builders with annual volume of a hundred units per year or more.

There had been much hope and expectation that, as merchant building grew, both in overall volume and the size of individual firms, home building would become a much more efficient process. There were even predictions that within a decade after the war there would emerge in merchant building, as there had in automobile manufacturing, a few giant firms with highly mechanized production processes. The postwar era, it was believed, would demonstrate that not only at volume increases from less than ten houses per year to several hundred for an individual firm but even at thousands and hundreds of thousands, there were, in economic parlance, economies of scale.

This book is the story of what actually happened. It is my attempt to fill in the gaps in the literature of some excellent housing researchers.

In a recent television interview novelist John Updike

begrudged his lack of knowledge about "how so many things work." Updike was explaining why he wrote mainly about suburban family life and not about how people earn a living. He has been able to observe and participate in the former but not the latter. I would give a great deal to be able to write one paragraph as well as Updike. On the other hand, I do know about how something works, namely merchant building. I hope the reader has as much fun reading about the subject as I have had writing about it.