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Statement
BEFORE THE

**SUBCOMMITTEE ON HOUSING
AND URBAN REDEVELOPMENT
OF THE
SPECIAL SENATE COMMITTEE
ON POST-WAR ECONOMIC POLICY
AND PLANNING**

**STATEMENT OF PHILIP M. KLUTZNICK, Commissioner,
FEDERAL PUBLIC HOUSING AUTHORITY**

JANUARY 1945

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STATEMENT

The Administrator of the National Housing Agency in his testimony has presented an over-all picture of the nation's housing needs in war and in peace, and has described the approach of the Agency as a whole to the solution of these problems. My testimony will be limited to the part played by the Federal Public Housing Authority as the constituent of the National Housing Agency concerned with public housing.

1. Responsibilities and Organization of FPFA

Undoubtedly, one of the prime objectives of Executive Order No. 9070 establishing the NHA was to concentrate and consolidate the development and management of public housing. This was accomplished by creating the Federal Public Housing Authority. The nucleus about which this constituent of the NHA was formed was the United States Housing Authority, established in 1937 by Public Act 412. It was expressly provided that the Administrator of the USHA should be the Commissioner of the FPFA.

In addition to the activities of the USHA which included the program of locally-owned and managed low-rent housing aided by the federal government, the FWA low-rent projects, and the beginnings of a rural public housing program, there were merged into the FPFA the war housing programs of the FWA Divisions of Defense Housing and of Mutual Ownership, of the Public Buildings Administration, of the Defense Homes Corporation of the RFC, and of the War and Navy Departments (except housing on military posts or reservations), together with the non-farm housing of the Farm Security Administration.

Since this complex of activities was placed under the aegis of the FPFA two other significant responsibilities have been added. One is the management of the program of publicly-financed conversion of homes for war-workers which was sponsored by the Office of the Administrator and actively developed by the HOLC. The other is a recently assumed obligation to act as agent for the Foreign Economic Administration in developing and producing in this country such housing as may be required for foreign use pursuant to arrangements made between the FEA and the British and French governments.

The size and character of the responsibilities of the FPFA are graphically shown by Chart No. 1.

While the organization which administers this widespread program has undergone several internal organizational changes as the weight and emphasis of its workload changed, Chart No. 2 adequately illustrates as of this date the organizational machinery being utilized to discharge these functions. As of November 30, 1944 the employment of the FPFA, including its project employees, aggregated 10,064, a drop of 1,630 from a peak employment of 11,694 in December 1943. This total constitutes approximately 58% of the entire employment of the NHA.

It should be observed humbly and not at all boastfully that the FPFA is undoubtedly the largest operator of residential real estate in the United States. The total investment in our public housing projects exceeds two and three-quarters billion dollars, and the annual rent roll amounts to over two hundred million dollars. When you consider that a large part of this responsibility includes the onerous task of managing dwellings of temporary, high-maintenance construction, which are serving in-migrant war workers and their families; with all the difficulties which arise from the understandable lack of stability of such families, you will be able to conjure up some notion of the problems that are involved.

For purposes of this testimony I have assumed that this Committee is concerned with the present primarily as it may have an impact on the future. Viewed in this light the future of the FPFA seems to divide itself into three principal categories: First, the completion of development and management responsibilities related to the prosecution of the war; second, the disposition of war housing and other housing assets not calculated to serve a long-term program; and third, the reactivation and (hopefully) the enlargement of the low-rent slum clearance program incorporating such improvements as experience may dictate.

For purposes of this hearing the first of these, new war-time development and management responsibilities, may be passed over with the pertinent observation that whatever these may be will depend upon the progress of the struggle. Whatever they may be, we shall make every effort to discharge them expeditiously, effectively, and economically.

Chart 1. Total FPFA Program

The FPFA has under its jurisdiction or control a total of 826,000 dwelling units with a total estimated development cost of \$2,768,000,000. The construction of 26,000 low-rent units included in the program has been deferred pending the availability of labor and material; 48,000 war housing units are in an inactive status because of termination of the war needs for which they were built.

War housing, provided under all Acts except the United States Housing Act, comprises 605,000 units with a total cost of \$1,672,000,000. This was built from funds supplied primarily by the Lanham Act and the Temporary Shelter Act. In addition, 63,000 war units have been provided under the United States Housing Act, making a total of 668,000 war units. For the types of accommodation provided in war housing see Chart No. 3.

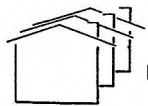
Funds provided under the United States Housing Act cover 194,000 units with a total development cost of \$904,000,000. Of these, 105,000 are in active low-rent projects. The 63,000 units of war housing provided under the United States Housing Act, and mentioned above, will revert to low-rent use at the end of the emergency. Contracts are outstanding with local authorities for 26,000 units which have been deferred pending the availability of labor and material.

The FPFA also administers 27,000 units of public housing which it has inherited from other agencies. Low-rent projects initiated by the Housing Division of the Public Works Administration amount to 22,000 units, while projects transferred from the Farm Security Administration, including the three Greenbelt Towns, total 5,000 units.

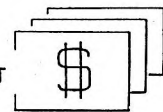
TOTAL FPHA PROGRAM

NO

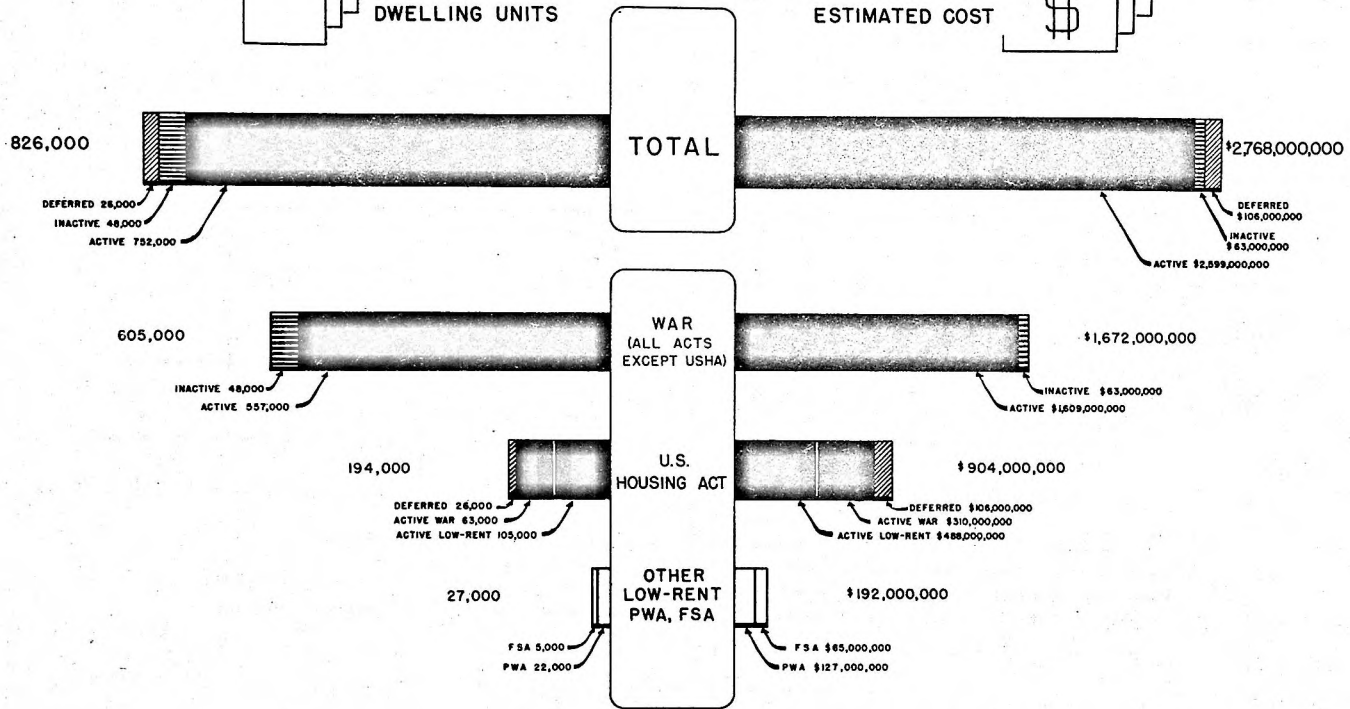
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DWELLING UNITS



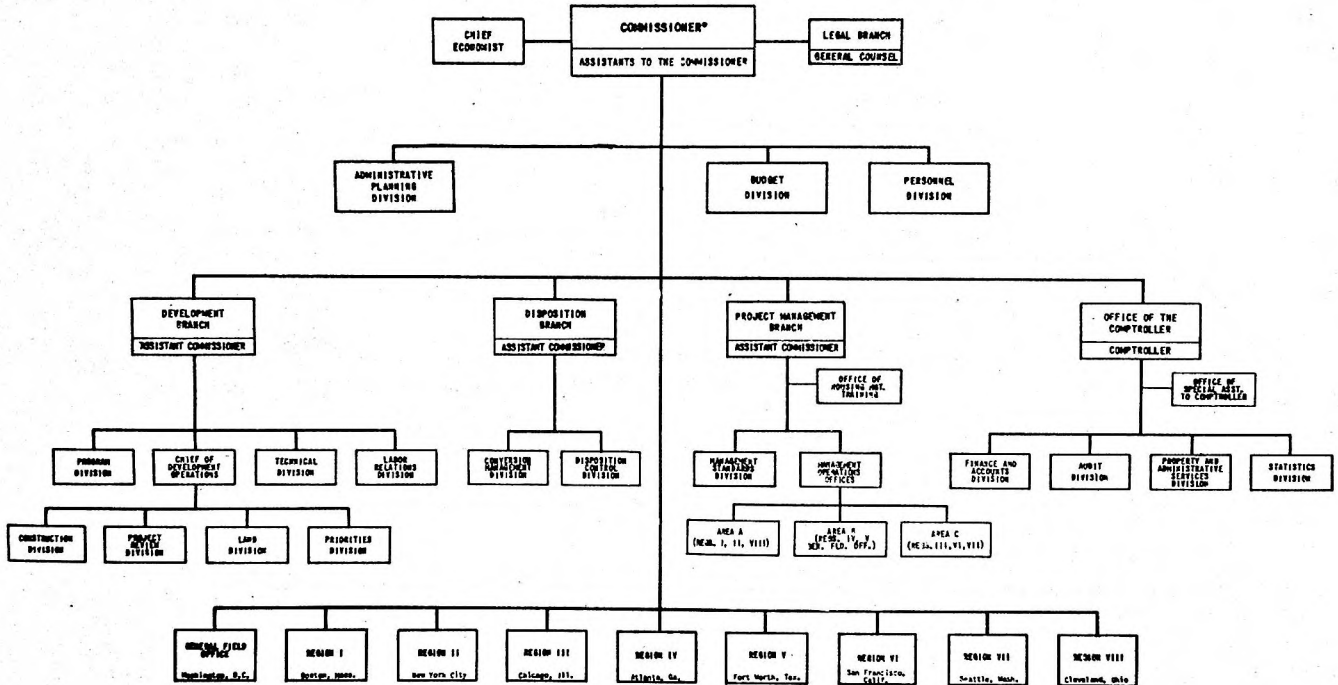
ESTIMATED COST



ORGANIZATION OF FPHA

NO

2



* The Commissioner serves also as president of the Defense Housing Corporation and the FPHA Control Office renders assistance and advice in its program.

2. Disposition of War Housing

The second of our responsibilities is the disposition of war housing and other housing assets. The other housing assets are a few miscellaneous items such as extra land surrounding the Greenbelt towns, resettlement projects, three mortgages on limited dividend corporation properties, and the holdings of the Defense Homes Corporation. While there are interesting and difficult problems in connection with this group of items, time does not permit of their exposition. The major disposition task centers about war housing.

While we have recently attained the highest rate of occupancy since the commencement of the war-housing program it is, nevertheless, inevitable that some day in the near future we will be confronted with a monumental job of disposing of the housing built for war. Under the present pattern of affairs it is the responsibility of the Administrator of the NHA to determine when housing is no longer needed in a given locality for war purposes or in orderly demobilization; it is the obligation of FPFA to actually dispose of the units no longer so needed. The complexities and ramifications of this assignment are best disclosed by a brief sketch of each of the main types of houses involved and some of our present thoughts on the subject. In this connection I would like to draw your attention to Chart No. 3 which shows the extent of the war housing program and the various types of dwellings which have been used.

Permanent Family Dwellings

Permanent war housing for families totals 165,000 dwellings. This has been produced under two principal authorizations, the United States Housing Act and the Lanham Act.

Public Act 671 authorized the use of unexpended funds under the United States Housing Act for housing to be used by war-workers during the war and to be converted to low-rent uses after the emergency. Local authorities now own some 44,000 units built under this authorization, while 8,000 are owned directly by the FPFA itself. In addition there are 11,000 units built under the original Act (PA 412) which are being used for war workers because priorities were received on that condition. This makes a total of 63,000 permanent family dwellings provided by funds under the United States Housing Act. All of this housing will be converted to low-rent use as soon as possible after the end of the emergency.

Chart 3. War Housing Program under FPHA

The total program of war housing under the FPHA includes 668,000 units with a total development cost of \$1,982,000,000. Of this, 63,000 units have been provided with funds under the United States Housing Act; the balance was financed under other Acts, primarily the Lanham Act and the Temporary Shelter Act.

The FPHA's war housing program includes 165,000 permanent family dwellings. This includes all of the 63,000 units provided under the United States Housing Act.

Demountable family dwellings are of standard character and design and suitable for permanent use on their present sites. They are, however, so constructed that, if there is no postwar need for them in their present location, they may be demounted and erected elsewhere. There are 76,000 units of this type.

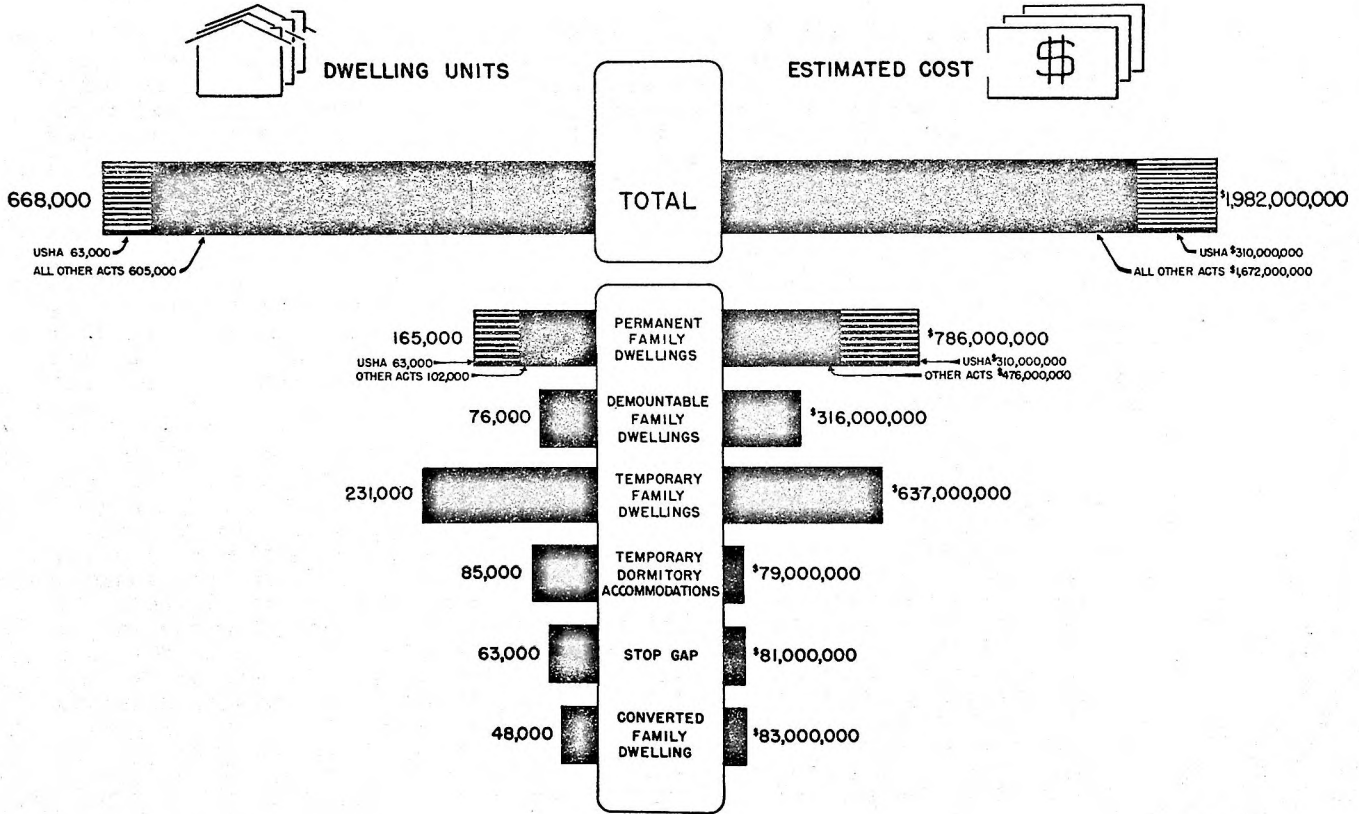
There are 231,000 temporary family dwellings which, in accordance with the Lanham Act, are to be removed after the war. In addition, 85,000 accommodations for individuals have been provided in temporary dormitories.

Stop-gap housing comprises 63,000 units. Of these 35,000 are trailers. The balance covers mobile houses, portable shelter units and parking spaces for privately-owned trailers.

A total of 48,000 family dwelling units have been provided by the publicly-financed conversion of structures leased by the government and remodeled to provide additional dwelling units for war workers.

WAR HOUSING PROGRAM UNDER FPHA

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Over 102,000 permanent family dwellings for war use have been built under other Acts. The great bulk of these, or 91,000 units, are under the Lanham Act; this housing can be used for low-rent subsidized housing after the war only with the express consent of the Congress.

There have been indications from a number of localities that the disposition of permanent Lanham projects to local housing authorities is regarded as being in the best interest of the community, not only to permit the rehousing of low-income families and enable slum clearance to proceed, but also because the sale of a project for private residential purposes might have a serious and adverse effect on rental or property values in the locality or cut unreasonably into the market for new construction. In cases where the governing bodies of localities and their local housing authorities request the sale of Lanham projects for long-term public housing use, we will examine such proposals to determine whether a need exists and whether an agreement can be concluded in the national interest. If so, it is our intent to submit such proposals to the Administrator of the National Housing Agency with the recommendation that the proposal be transmitted to the Congress with a request for favorable consideration. Under the present provisions of the Lanham Act the consideration of such proposals from the localities would be taken up by Congress on a case-by-case basis.

As suggested by the Director of War Mobilization and Conversion, it may be well for Congress to give consideration to an amendment to the Lanham Act which would make war housing available to improve present conditions in city slum areas and in certain farm areas. It is my own personal view that such an amendment should authorize the disposition of permanent housing to local housing authorities in those cases where the municipality finds that low-rent housing use would be in the best interest of the community and where we find that the project is suitable for such use. There are some instances where proposals from the localities may have to be rejected by us for the simple reason that the physical properties themselves may present problems of high-cost operation which would defeat the very purpose of converting a development to low-rent housing use. I further believe that temporary housing which can be converted, as I explain later, to rural housing of standard design should likewise be available for disposition to county and regional housing authorities for use in rural areas.

In anticipation of the many aspects of disposition to private users or investment buyers our Disposition Branch is already engaged in developing a sales program which will adequately protect the government's interest. It will be calculated to provide for proper appraisal, widespread public notice of sale, safeguards against extravagant repair and improvements prior to sale, and a use of private financing resources to provide mortgage money on as broad a base as possible consistent with the government's interest. It is our present thought that wherever consumer sales are practicable preference should be given to present occupants, and that where sales are to potential occupants preference should be given to veterans.

Demountable Family Dwellings

Some 76,000 demountable family dwellings have been provided for war use. This type of structure is the source of more misunderstanding than all the rest of our properties combined. It should not be confused with the temporary dwelling unit which I will treat separately. The demountable dwellings are, with minor exceptions, of a standard character and design. In a major way they can be considered permanent housing, usable either at their present site with perhaps some improvements of a relatively minor consequence, or at some other site either in cities or on farms. For the time being we feel it is our obligation to re-use these dwellings in connection with the war program wherever a need arises in another locality which it is feasible to meet by such re-use. Several thousand such units have been removed from original sites where the war demand slackened. In this process we have acquired a great deal of information about methods and costs of moving which will prove invaluable in the ultimate disposition of this type of housing. My comments with reference to the disposal of permanent Lanham Act developments are applicable in great part here, except for the important variant of mobility of the house itself.

Temporary Housing

This includes 231,000 family dwellings and 85,000 dormitory accommodations. In this group we have a variety of types. One of the compelling reasons for providing temporary housing was the extremely acute shortage of

strategic materials. Consequently, it is to be expected that by and large the type of unit developed at a particular time reflected the shortages or surpluses of critical materials that then prevailed. For example, in the category of temporary housing we list a number of masonry units. The very thought of masonry is opposed to the concept of temporary character, yet at the time and place these units were built it was impossible to think of aiding the war effort and to still use lumber. As a matter of fact, in many cases it was actually cheaper to use masonry.

It is not alone the kind of material that was used which determines the designation of temporary. In order to conserve those strategic materials which had to be used and in order to save money, these dwellings are not of standard size or design. The units were crowded on the land to reduce the length of utility runs; the equipment is almost without exception of the "Victory" type. The basic structures are sound for temporary war use, but they do represent substantial departures from the reasonable requirements of many local building codes.

It is the policy of the Congress that these structures be removed after the war. The Congressional intent would appear to be that these structures in their present substandard form shall not be used as housing accommodations; but there is no prohibition against other practicable re-use. In pursuit of this intent we determined that the first sensible thing that could be done would be to re-use as many of the temporary dwelling units as possible in the fulfillment of war-housing assignments during the period of the national emergency. It must be borne in mind that these structures were not erected originally with a view of re-use. They are not really "demountable" or "mobile" as we commonly use such terms. It required considerable ingenuity and relatively bold thinking to develop plans and techniques which would permit such re-use. I can report that our experiments along this line have been successful. As a result it is our hope that most of the limited war needs that continue to arise may be met through the re-use of surplus temporary dwelling units.

The re-use of temporary housing, depending upon the particular type of house that is involved, the locality, and the length of the move, enables us to save anywhere from \$300 to nearly \$1,000 per dwelling unit as against the cost of providing new temporary dwelling units. In addition, we avoid drawing on the nation's presently limited building supplies.

- 1 -

With this experience behind us, we faced the job of determining whether a cost or a recoupment of funds would be involved in the ultimate disposition of these dwellings. The average layman is inclined to the belief that this vast stock of temporary houses is an asset of huge monetary value. It is astonishing to discover that the contrary is true. If we were to utilize conventional demolition methods it is our belief that we would not only fail to recoup any money, but would actually find it necessary to expend additional funds averaging approximately \$200 per dwelling unit. Demolition involves two principal factors: (a) the cost, primarily in labor, of reducing the structure and restoring the site, and (b) the value of the salvage. It appeared at the outset that value of salvage from this type of structure would be less than the cost of reducing it and restoring the site.

We were not satisfied with guess work. We actually contracted for the demolition of typical structures under two different types of contract: first, the conventional contract of selling the structure to a demolition contractor, and second, a cost-plus-fixed-fee contract which enabled us to evaluate each item of cost and likewise to evaluate the sales potentialities of each item of salvage. We know now conclusively and irrevocably (barring unusual contradictory developments in labor cost or market prices for salvage) that demolition will cost the government money.

Armed with this knowledge we undertook another line of attack. Perhaps there was more to be gained by preserving some basic features of the structures for appropriate uses other than housing. We had a goal -- anything that would permit us to break even or recoup some money was desirable. Although we are still engaged in examination and experimentation, two significant and successful techniques are already available to us. First, we know that by a process of sawing temporary structures into panels instead of demolishing them we can produce demountable utility buildings of varying sizes at a cost less than the fair value of the new structures. Second, by proper sawing down and improvement we can produce standard rural housing units at a cost considerably less than their present fair market value provided the building is not moved too far. Both of these processes are practicable in all cases, except for the masonry temporaries. We are engaged in studies relating to these now, and are hopeful of finding an answer of some merit.

The significance of the techniques now in our bag of possibilities must not be under-estimated. For example, at the present moment there appears to be a dire need for temporary shelter among some of our allies in foreign lands. While it is not our function to determine the extent, if any, to which our domestic stock of materials and manpower should be applied to meet this need, suffice it to say it would be in everyone's interest, if such a need is to be met, that surplus temporary war housing be used in so far as possible if and when it becomes available as surplus. The successful experiments in domestic re-use, augmented by other studies we have made and are still making on crating and shipping, renders such use possible, practicable, and economically sound.

At this moment we are engaged in filling a Foreign Economic Administration requisition for 5,000 barracks to accommodate 150,000 harbor and dock workers in France. We will be able to fill about 10% of this order out of our limited surplus stock of temporary houses, using our technique of sawing them down into utility buildings. These buildings of panelized construction which re-use surplus war housing will meet the need admirably and accommodate some 15,000 French war-workers. Here again we have evolved crating and shipping methods which we believe will do the job. It will take about 1,300 dwelling units sawed down to produce the 500 large barracks. Although we are operating on what is really an experimental basis and financial arrangements are therefore not yet completed, it is already certain that we will save the potential demolition cost of \$260,000 for the 1,300 units and we may do somewhat better. Perhaps of equal importance at this stage is that we will save from 2½ million to 4 million board feet of lumber as well as other miscellaneous materials.

Our Disposition Branch is engaged in probing the many uses to which such a utility barrack or building can be put. In other words we are already developing our market against the day when our temporary dwellings will have to be eliminated. One can mention a few uses: farm utility buildings, barracks for migratory farm labor particularly on the West Coast and similar areas, section houses for railroads, roadside filling stations, roadside restaurants, storage warehouses, rural school houses, small town recreation centers, and a variety of uses such as

administration buildings, mess houses, sleeping quarters, etc., in connection with camps and recreation areas.

Finally, the technique of converting to rural structures of standard design may be invaluable for use in the USHA rural housing program suspended by the war, and for related purposes.

We are extremely conscious of the importance of this phase of our disposition work. We are stimulated by several aims which seem to complement each other: (1) We are striving to carry out this program at the least cost and with some hope of limited recoupment, (2) we are seeking to bring about the soundest possible re-use of the structures without perpetuating them as substandard and undesirable housing, (3) we are using them as a protection against unnecessary inroads into the limited stock of building materials so that these may be available for domestic use at the appropriate time, and thus aid in the re-activation of the building industry and help forestall the dangers of unemployment during the period of reconversion.

Stop-gap Housing

We have a total of 63,000 units of stop-gap housing. About 35,000 of this group are trailers of varying sizes and descriptions. Throughout the war period and for the remainder of the emergency these trailers will be used and re-used as the needs require. There will come a day when this type of housing will not be needed. At that time it is our plan to dispose of them through ordinary channels and to the best advantage of the government.

This group also includes mobile houses and portable shelter units. Neither of these types of housing can be moved on wheels as can trailers. They constitute a very limited amount of our stock and should be readily saleable because of their complete mobility and their desirability for such use at hunting camps, fishing lodges, resort places, etc. This represents a very small and relatively insignificant part of our problem.

Publicly-Financed Conversions

There is one other group of war housing in which we have a somewhat

limited interest. These are publicly-financed conversions of structures leased by the government and remodeled to provide additional dwelling units for war-workers. We have a total of 48,000 such units in about 9,000 individual properties which were originally developed by the HOLC and recently taken over by FPFA for management.

The government has a 7-year or longer leasehold interest in these properties with provision for 30-day cancellation. The terms of the lease contemplate recovery from the income of the property of the original investment, in part or in whole, without interest. I say in part or in whole for the simple reason that the determining factors are the rentability and the extent of vacancy. As war needs change some of these properties will not be in the same demand as in earlier days of extraordinary demand and limited supply. The original formula was based on the recovery of the whole of the government's investment during the 7-year period less the loss due to vacancy. These units were produced at an average of 50% to 55% of the cost of other family war housing. Consequently, irrespective of the vacancy loss they will show a net advantage in comparison with other types of family units.

While no ultimate policy has been clearly marked out, it is our current view that we will continue to operate under these leases, utilizing local real estate brokers for management so long as such leases individually produce a profit. When it appears that the operation of a given property is not only failing to produce a profit but is actually costing additional money, and that continued losses are inevitable, then we will exercise our right to cancel the lease before the termination of the 7-year term.

There are other possibilities for the disposition of these leaseholds which will confront us from time to time. Even at the present early date some owners have expressed a desire to buy back their leases. Obviously, subject always to the continued use of the property for war purposes wherever the war need exists, it may be desirable to permit such repurchase. It will be our intent so to do where it is in the government's interest.

In a large number of communities our ability to accomplish the disposition of temporary war housing quickly and economically will be linked inextricably to the ability of the community and the construction

industry to provide additional permanent accommodations. In this sense disposition is but a phase of the re-awakening and the expansion of the home building industry after the war. This brings us logically to the third aspect of the FPHA future -- namely, the re-activation and enlargement of the low-rent slum clearance program, together with such improvements as experience may dictate.

3. The Low-Rent Program -- Experience and Accomplishments

At the outset may I express the hope that at some future date this and other appropriate Committees of the Congress will afford us an opportunity to go into more detail both as to the past and as to what we believe should be the future of public housing. For several months, as time has permitted, we have been analyzing the experience of the past seven years with the locally developed and managed low-rent housing program. Local housing authorities have been engaged in surveying their communities' requirements for the three years immediately following the war. This two-fold job is scheduled for completion in about 60 to 90 days. I am confident that the material which will be developed will be of real interest to the Congress as it gets to the point of considering detailed legislation for post-war housing programs.

Today we are prepared to present some typical high lights of the program to date as well as some rather general observations as to the principles that should motivate any future program. In doing so I want to again emphasize the distinction between public housing provided in peacetime for low-income families as part of a long-term program, and public housing developed during the war to meet the emergency needs of in-migrant war workers and their families.

We have had a limited experience in the field of low-rent housing under the United States Housing Act. On the whole I believe this experience has developed a workable and a desirable pattern. It has promoted good housing for low-income people close to the minimum cost at which it can be made available. It has also produced a pattern that lodges the responsibility and control for such a program where it should be -- in the local community.

The high lights of the low-rent program have been shown in a number of charts to which I would now like to invite your attention.

Chart 4. Local Organization for Low-Rent Housing

Thirty-nine states, as shown on the map, have low-rent housing enabling legislation. There is also enabling legislation for the District of Columbia, Hawaii, Puerto Rico, and the Virgin Islands.

Of the nine States without such legislation, three States (Maine, Nevada, and South Dakota) have legislation authorizing the creation of local housing authorities for public war housing.

The States with low-rent enabling legislation have a total population of 120,000,000, or 91% of the total population of the continental United States.

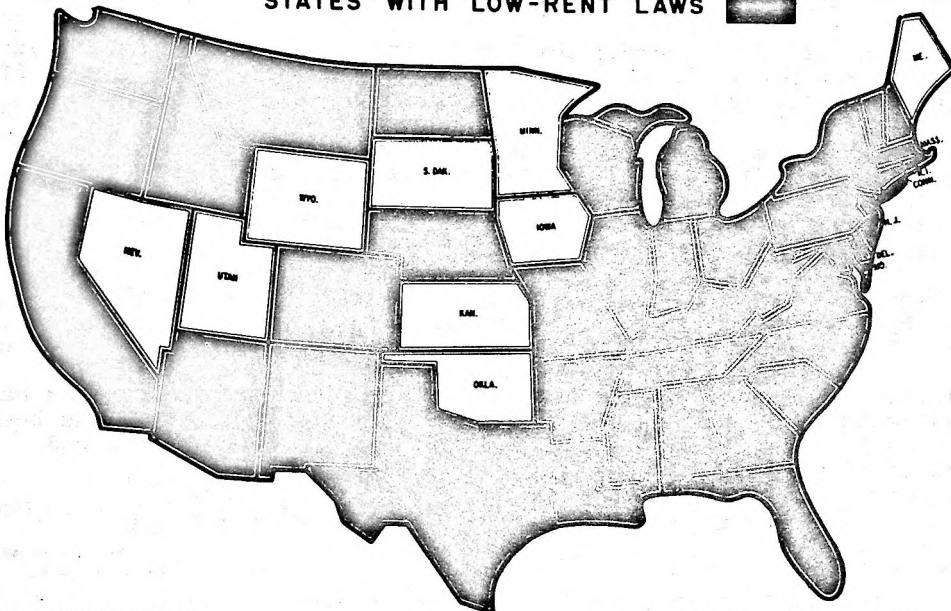
The urban population in the States with low-rent legislation totals 69,000,000. In these States local authorities with programs of low-rent or public war housing are active in cities with a population of 40,000,000, or 58% of the urban population of these States.

The number of cities of different sizes with active local authorities, and the number of counties with rural housing programs* are also shown in Chart 4.

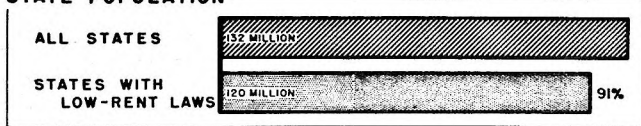
LOCAL ORGANIZATION FOR LOW-RENT HOUSING

Yes

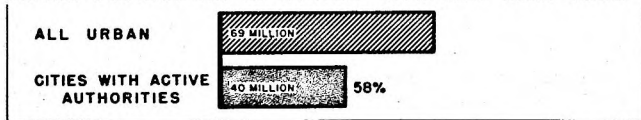
STATES WITH LOW-RENT LAWS



STATE POPULATION



URBAN POPULATION IN STATES WITH LOW-RENT LAWS



PLACES WITH ACTIVE HOUSING AUTHORITIES

CITIES

OVER - 500,000	14
100,000 - 500,000	59
50,000 - 100,000	47
25,000 - 50,000	54
UNDER - 25,000	160

COUNTIES

RURAL HOUSING	355
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Chart 5. Low-Rent Program Developed Under
United States Housing Act

The total low-rent program developed with the aid of funds provided under the United States Housing Act totals 194,000 family dwelling units. The total estimated cost is \$904,000,000.

Active projects under the original low-rent provisions of the United States Housing Act (PA 412) comprise 116,000 units. Of these 105,000 are being operated as low-rent housing, while 11,000 are for war workers of low income in projects for which priorities were granted for critical materials.

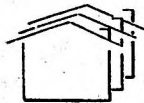
Active projects under the defense amendment (PA 671) amount to 52,000 units. These, together with the 11,000 war units under PA 412 will revert to low-income status at the end of the emergency.

Finally, there are 26,000 units in projects for which contracts have been made with local authorities, but the construction of which has been deferred during the emergency. The estimated cost of these deferred projects is \$106,000,000.

LOW-RENT PROGRAM DEVELOPED UNDER U.S. HOUSING ACT

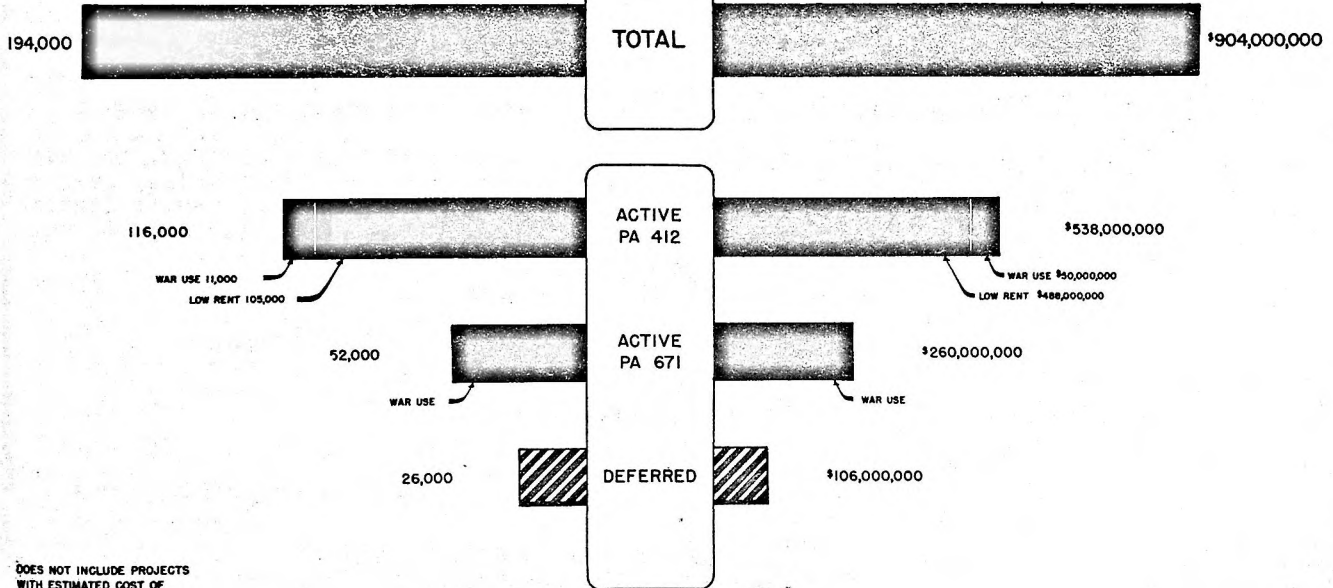
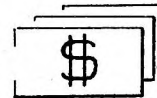
Revise

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FAMILY DWELLING UNITS

ESTIMATED COST



DOES NOT INCLUDE PROJECTS WITH ESTIMATED COST OF \$6,000,000 FOR WHICH FUNDS ARE EARMARKED

AS OF OCTOBER 31, 1944

FPHA
JANUARY 1945

Chart 6. Development Cost of Low-Rent Projects
Developed Under United States Housing Act

This chart relates to the average cost of all active projects developed under the United States Housing Act, except rural housing and housing in the insular possessions.

The Total Cost, including slum clearance, local authority overhead and carrying charges, averaged \$4,827 per unit for cities of all sizes. As shown by the chart, average costs decrease with decreases in city sizes.

The United States Housing Act provides that the Dwelling Facilities Cost (excluding land, demolition, and non-dwelling facilities) shall not exceed \$4,000 per dwelling in cities of less than 500,000 population, nor exceed \$5,000 in larger cities. As shown on the chart, the actual Dwelling Facilities Cost in cities where the \$5,000 limitation applies, averaged only \$3,782; in cities where the \$4,000 limitation applies, the average was \$3,328. The actual costs for all individual projects also fall within the statutory limits.

The Net Construction Cost covering the construction of dwellings, including all plumbing, heating and electrical systems within the dwelling walls, averaged \$2,871. This is the figure which is generally shown in building permit statistics, although in building permit statistics there is a tendency for builders to underestimate the actual net construction cost.

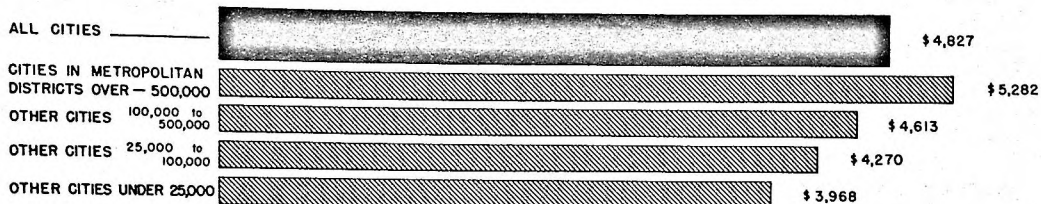
DEVELOPMENT COST OF LOW-RENT PROJECTS

DEVELOPED UNDER U.S. HOUSING ACT — AVERAGE PER DWELLING

No

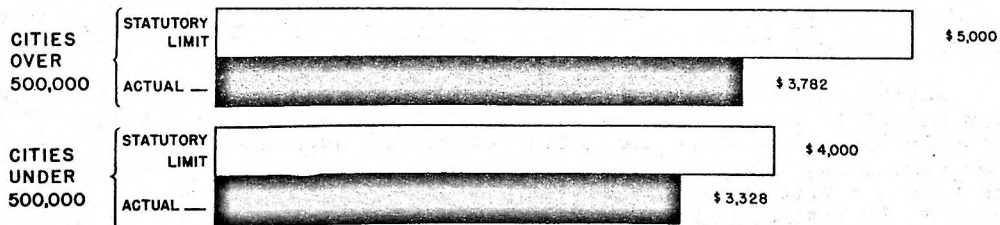
TOTAL COST

All Costs including Slum Clearance, Local Authority Overhead and Carrying Charges



DWELLING FACILITIES COST

Construction and Equipment of Dwellings and Pro Rata of Architectural and Engineering Fees, Local Authority Overhead and Carrying Charges



NET CONSTRUCTION COST

Construction of Dwellings only



Chart 7. Elimination of Substandard Dwellings
Under United States Housing Act

The provisions of the original United States Housing Act (PA 412) require that for all projects where annual contributions are to be paid, the project shall include "the elimination by demolition, condemnation, and effective closing, or the compulsory repair or improvement of unsafe or insanitary dwellings situated in the locality or metropolitan area, substantially equal to the number of newly-constructed dwellings provided by the project". Such elimination may be deferred when there is a dangerous shortage of housing available to families of low income. Elimination of substandard dwellings is not required by statute in connection with war housing projects under PA 671, but it is the policy of the FPHA to accomplish equivalent elimination in respect to these projects wherever feasible.

A total of 114,000 units have already been eliminated in connection with low-rent projects developed under the United States Housing Act.

The number of units eliminated by the various methods prescribed under the Act is shown on Chart 7. Ninety-three thousand units, or 82% of all units eliminated, have been actually demolished.

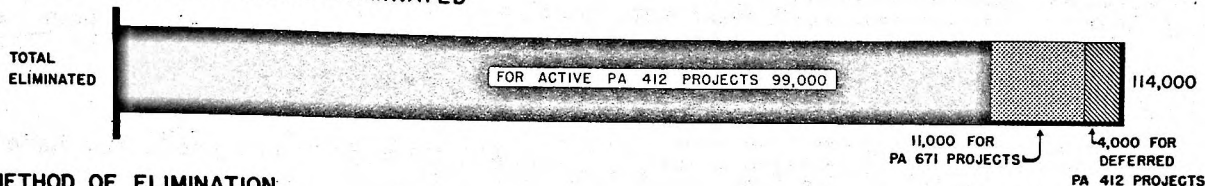
Active projects under PA 412 are the only ones for which equivalent elimination is presently required under statute. As against 116,000 new units in such projects, elimination of 96,000 substandard dwellings has been completed, being 83% of the required amount. The balance of 17% has been deferred pursuant to statute because of acute housing shortages, but will be completed as rapidly as conditions permit.

ELIMINATION OF SUBSTANDARD DWELLINGS UNDER U.S. HOUSING ACT

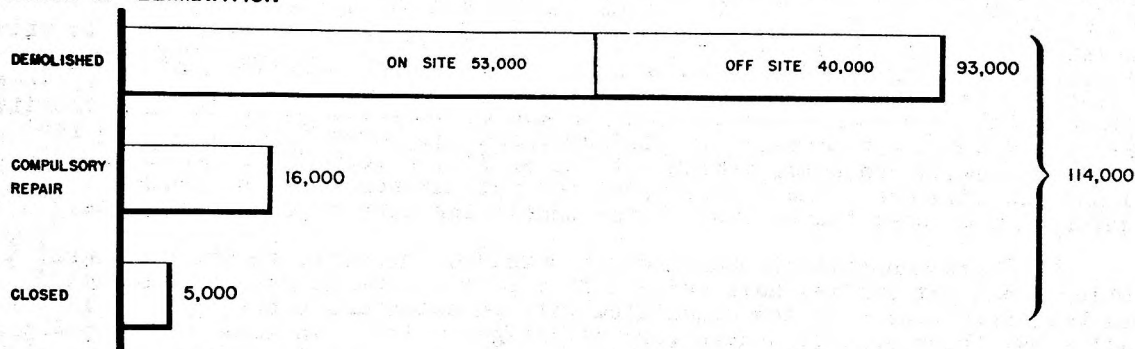
*yes, if
favorable*

7

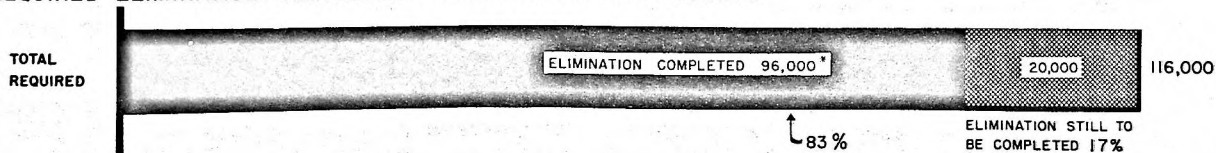
TOTAL SUBSTANDARD UNITS ELIMINATED



METHOD OF ELIMINATION



REQUIRED ELIMINATION COMPLETED FOR ACTIVE PA 412 PROJECTS



* EXCLUDES 3,000 UNITS ELIMINATED ON INDIVIDUAL PROJECTS BEYOND STATUTORY REQUIREMENTS.

Chart 8. Capital Financing of Low-Rent Projects
Developed Under U. S. Housing Act

The bulk of all PA 412 projects, with an estimated total cost of \$462,000,000, have been permanently financed, as shown in the right-hand circular chart. Under the U. S. Housing Act, local authorities are required to raise at least 10% of total cost from non-federal sources; actually, they have borrowed 35% of this cost, or \$162,000,000, directly from private investors. The FPFA loans amount to \$283,000,000, or 61%; while 4% has not yet been advanced.

All projects developed under the U. S. Housing Act, including the permanently-financed projects just described and the deferred projects, have a total estimated cost of \$904,000,000, as shown in the left-hand circular chart. On the PA 671 projects included in this total, the local authorities have borrowed practically all of the funds on temporary short-term notes sold to private investors at interest rates averaging just over $\frac{1}{2}$ % per annum. The amount borrowed on such temporary loans, including loans on a few PA 412 projects, totals \$227,000,000. The FPFA has temporary loans of \$20,000,000 to local authorities on projects not yet permanently financed, and has advanced \$64,000,000 for federally-owned projects, making a total of \$84,000,000 for federal temporary loans and advances. The \$148,000,000 not yet advanced covers \$94,000,000 on deferred projects; the balance is for completion work on other projects.

The bottom portion of Chart 8 presents data relative to the permanent loans which local authorities have secured from private investors. As financial markets have become better acquainted with this type of security, local authorities have been able to secure more advantageous terms in each successive year. For this reason, a number of the original bond issues made in the early years of the program have been retired and refinanced on better terms. The loans from private investors so retired amount to \$36,000,000, while the new loans from private investors on the same projects totaled \$100,000,000, permitting a repayment of \$64,000,000 to the FPFA on the original loans made by it.

The bonds sold to private investors represented 15% of total financing in 1940, but increased to 70% in 1944. The average final maturity of such issues increased from 18 years in 1940 to 42 years in 1943 and 41 years in 1944. Despite longer maturities, the average interest which local authorities have contracted to pay on non-federal issues has decreased steadily from 2.61% per annum on 1940 issues to 1.78% on 1944 issues.

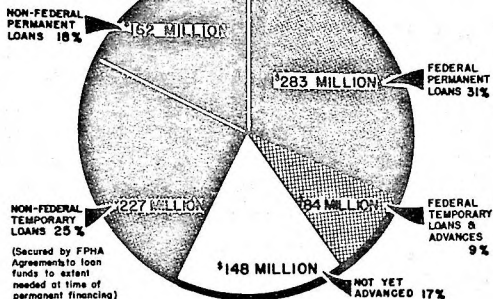
CAPITAL FINANCING OF LOW-RENT PROJECTS

DEVELOPED UNDER U. S. HOUSING ACT

No

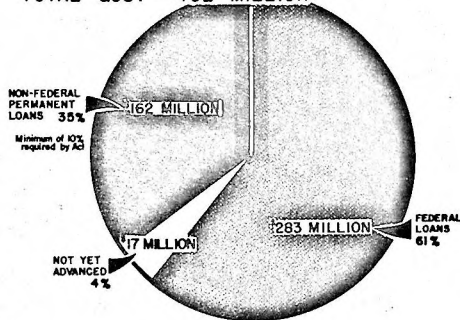
ALL PROJECTS

TOTAL COST—\$904 MILLION



PERMANENTLY FINANCED PROJECTS

TOTAL COST—\$462 MILLION



NON-FEDERAL LOANS ON PERMANENTLY FINANCED PROJECTS

PRESENT ISSUES \$162
 RETIRED THRU REFUNDING 36
 TOTAL NON-FEDERAL ISSUES \$198 MILLION

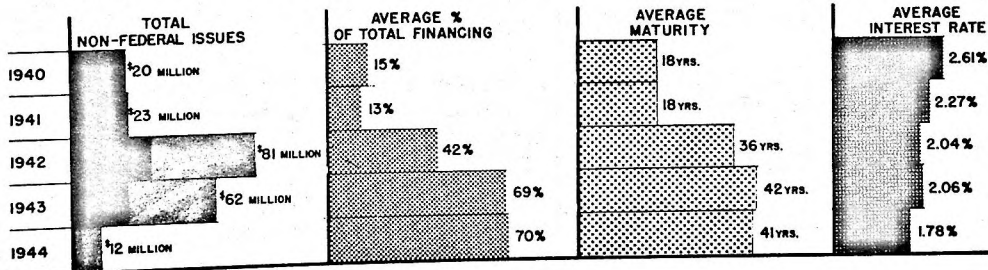


Chart 9. FPHA Capital Funds for Low-Rent Projects
Developed under U. S. Housing Act

The U. S. Housing Act, as amended, authorizes the FPHA to borrow \$800,000,000 for use in making loans to local authorities. In addition, the FPHA has approximately \$10,000,000 derived from the sale of limited dividend obligations which is also available for loan.

Under its contracts with local authorities, the FPHA agrees that if necessary it will lend up to 90% of the cost of projects under PA 412 and up to 100% of the cost of projects under PA 671. When projects are permanently financed the loan commitment of the FPHA is reduced to the difference between the total estimated cost and the amount borrowed from private investors. The total amounts committed under these arrangements for loans to local authorities aggregate \$650,000,000. This includes \$8,000,000 earmarked for projects awaiting formal contracts and Presidential approval.

The estimated cost of PA 412 and PA 671 projects owned by FPHA totals \$84,000,000, all of which is considered a commitment.

A margin of safety of \$12,000,000 has been reserved by the FPHA in case of possible overruns in the estimated cost of projects for which it has commitments.

In compliance with the intent of the Congress that the proceeds from the repayment of permanent loans should not be available for re-loan, the FPHA considers the \$64,000,000 repaid to it in connection with the refunding of permanent loans not to be available for further lending.

The various commitments enumerated above total \$810,000,000, thus exhausting the FPHA's ability to commit capital funds at this time.

When permanent financing is completed on PA 671 and other projects which are now in private temporary financing, it is expected that very substantial funds will be borrowed from private investors, which will correspondingly relieve FPHA of loan commitments. To this extent FPHA will then have capital funds again available for loans.

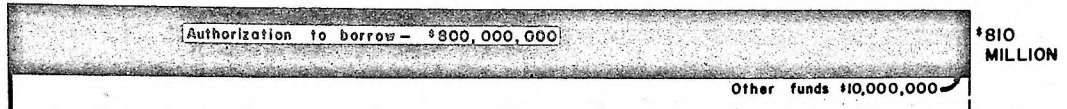
The capital funds actually advanced by FPHA total \$367,000,000.

FPHA CAPITAL FUNDS FOR LOW-RENT PROJECTS

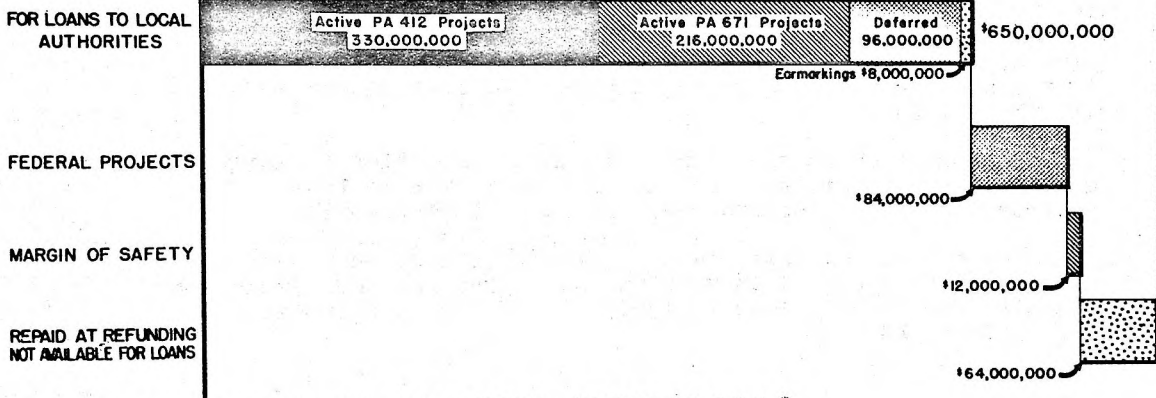
DEVELOPED UNDER U.S. HOUSING ACT

No

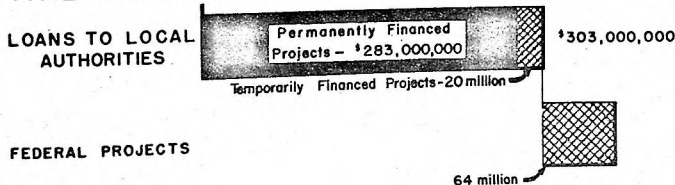
CAPITAL FUNDS AVAILABLE - \$810,000,000.



CAPITAL FUNDS COMMITTED - \$810,000,000.



CAPITAL FUNDS ACTUALLY ADVANCED - \$367,000,000.*



* In addition, Non-Federal borrowings totaling \$227,000,000 on Temporarily Financed Projects are secured by F.P.H.A. agreements to loan funds to extent needed at time of Permanent Financing.

Chart 10. Incomes of Families Admitted to Low-Rent Projects
Developed Under U. S. Housing Act

The incomes of all families admitted to low-rent projects are determined and verified by the local authorities before admission in order (a) to ascertain that they actually are families of low income, and (b) to determine, pursuant to the Act, that their income does not exceed five times (or in the case of families with 3 or more dependents, 6 times) the gross rent (including all utilities) to be charged them.

Chart 10 shows the income at time of admission for families living in low-rent projects in the first half of 1944. Families who had entered the projects in 1939 and 1940 had incomes at the time of admission averaging \$782. The income of families admitted in the next three years averaged \$962, and of families admitted in 1944, \$1,237.

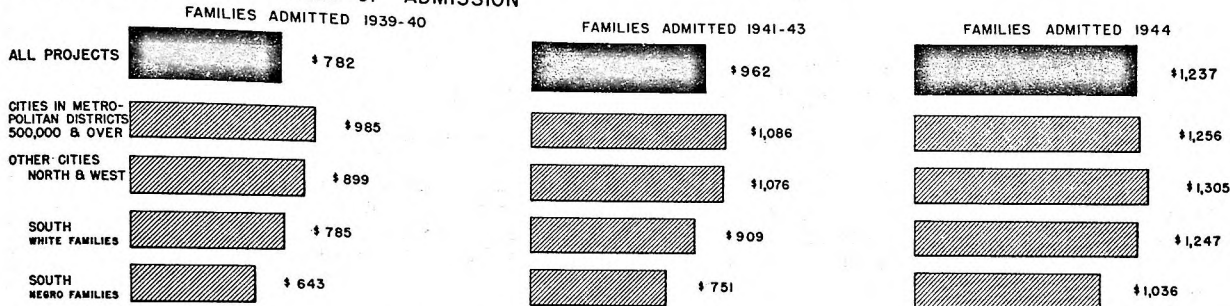
The chart shows the average incomes for cities in large metropolitan districts, for other cities in the North and West, and for white families and Negro families in the South.

Chart 10 also shows the percent of families whose income at time of admission fell in various income groups. For example, of families admitted in 1939 to 1940, 35% were in the income group from \$600 to \$800.

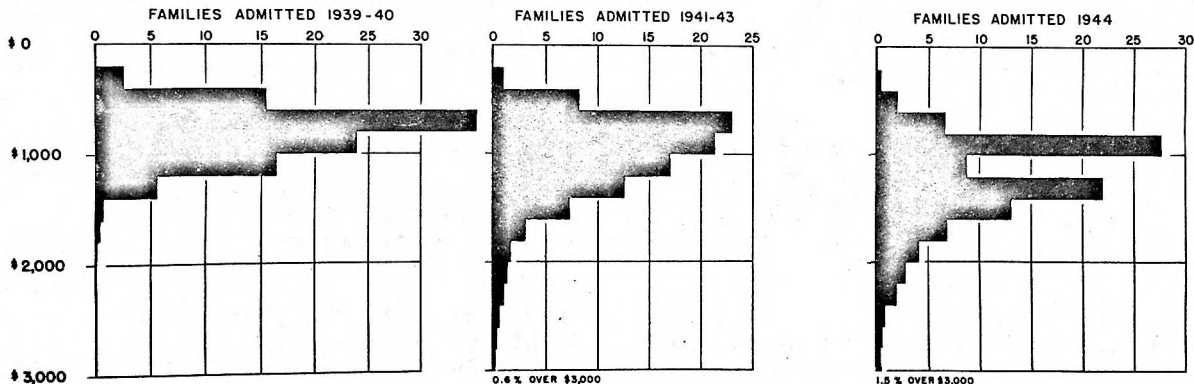
INCOMES OF FAMILIES ADMITTED TO LOW-RENT PROJECTS

DEVELOPED UNDER U.S. HOUSING ACT

AVERAGE INCOME AT TIME OF ADMISSION



PERCENT DISTRIBUTION OF INCOMES AT TIME OF ADMISSION



Incomes at admission since 1941 reflect higher levels of earnings during war period, and admittance of war workers and families of inductees with children.

Chart 11. Gross Rents of Families Admitted to Low-Rent Projects
Developed Under U.S. Housing Act -- Per Dwelling Per Month

When families are admitted to low-rent projects the local authorities determine rents which are appropriate to their incomes, and which meet the requirements of the Act. The requirements of the Act are in terms of gross rent, and Chart 11 is therefore based on such rents.

Gross rent covers the rent for the dwelling itself and also all utilities, including heat, whether paid by tenants as part of rent or bought separately. In public housing projects the shelter rent for the dwelling itself is approximately \$5 a month less than gross rent.

The median gross rent of tenants admitted in 1939-40 and still living in the projects was \$18.26 per month at the time they were admitted. Families admitted in 1941-43 paid a median gross rent of \$19.78 per month, while those admitted in 1944 paid median gross rents of \$22.15 per month.

Chart 11 also shows median gross rents at time of admission for cities in large metropolitan districts, for other cities in the North and in the West, and for white and Negro families in the South. The lower part of the chart shows the percent of families whose gross rent at the time of admission fell in various rent groups. For example, of the families admitted in 1939-40, 16% paid gross rents between \$14 and \$16 per month.

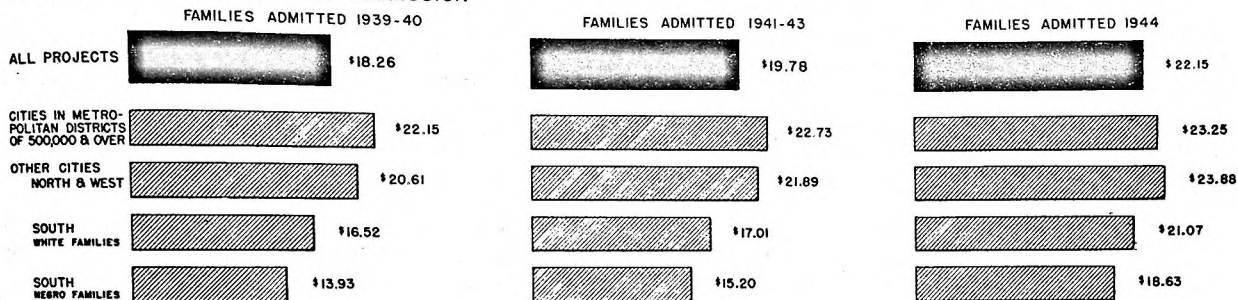
The higher gross rents of the families admitted in recent years is a result of their higher incomes and their higher rent-paying ability. The higher incomes are due primarily to the factors described in connection with Chart 11.

GROSS RENTS OF FAMILIES ADMITTED TO LOW-RENT PROJECTS

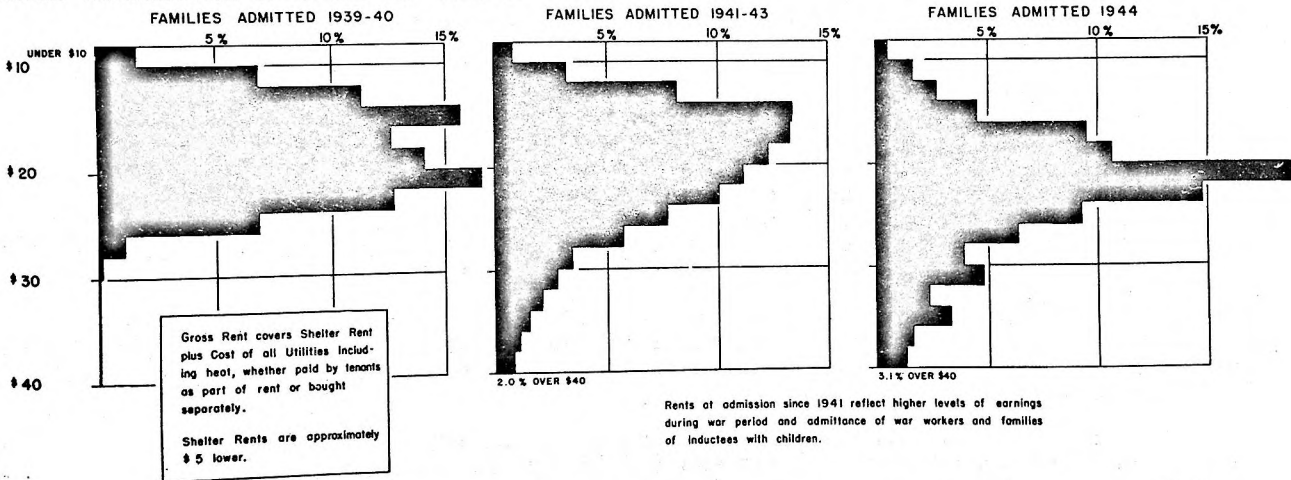
DEVELOPED UNDER U.S. HOUSING ACT — PER DWELLING PER MONTH

yo

AVERAGE RENTS AT TIME OF ADMISSION



PERCENT DISTRIBUTION OF RENTS AT TIME OF ADMISSION



COVERS FAMILIES LIVING IN PA 412 PROJECTS WHOSE INCOME WAS RE-EXAMINED JANUARY 1 TO JUNE 30, 1944 AND FAMILIES ADMITTED APRIL 1 TO JUNE 30, 1944

Chart 12. Income and Expense of Low-Rent Projects Developed
Under U.S. Housing Act -- Per Dwelling Per Month

Chart 12 shows the average income and expense on low-rent projects with 89,240 dwelling units, or the great bulk of all permanently-financed PA 412 projects. It relates to project fiscal years covering the latter part of 1942 and 1943.

The total expense averaged \$29.11 per dwelling per month, comprising operation expense of \$15.15, debt service of \$13.08 including interest and amortization, and payments in lieu of taxes of \$.88.

Details of the operation expense of \$15.15 are also shown. It should be noted that the current expenditures for repairs and replacement amounted to \$2.17, while an additional \$2.35 was set aside as a reserve for future costs. Actual vacancy and collection losses amounted to only \$.24, or about 1% of total rents. The \$1.47 reserved for vacancy and collection losses was at a specially increased rate authorized during the war in order to build up reserves for post-war adjustments to lower family incomes and lower rents.

The total income averaged \$20.73. Of this, \$20.38 was the actual rent paid by tenants, including utilities; the average shelter rent without utilities was \$15.55.

The difference between the total expenses of the projects and their total income amounted to \$8.38 per unit per month. This was the amount of the contributions paid by the FPMA to bridge the difference between costs and the rents which families of low income could afford to pay.

The actual annual contribution of \$8.38 amounted to 64% of the debt service on these projects. The remaining 36% of debt service, together with all the expenses of operation and the payments in lieu of taxes were met out of the rents paid by tenants.

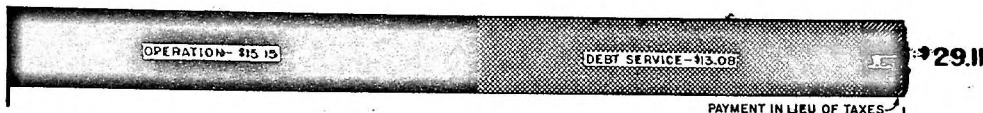
Under the statute, the maximum amount of annual contribution which could be paid on these projects was \$12.13 a unit per month. The \$8.38 actually paid was only 69% of this authorized maximum. An unused authorization of \$3.75, or 31% of the maximum, was left over and not drawn upon for use by the projects in this year.

INCOME AND EXPENSE OF LOW-RENT PROJECTS

DEVELOPED UNDER US HOUSING ACT—PER DWELLING PER MONTH

12

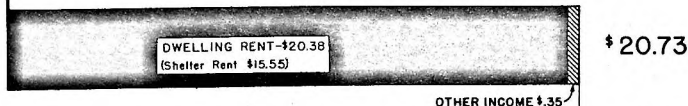
TOTAL EXPENSE



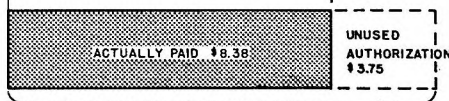
DETAILS OF EXPENSE OF OPERATION

MANAGEMENT, TENANT SELECTION, ACCOUNTING, ETC	\$ 2.50	} \$15.15
UTILITIES	\$ 4.83	
REPAIR AND MAINTENANCE	\$ 2.17 \$ 2.35 RESERVED	
VACANCIES AND COLLECTION LOSSES	\$ 1.47 RESERVED \$.24	
OTHER	\$ 1.59	

TOTAL INCOME



FPHA ANNUAL CONTRIBUTION



MAXIMUM AUTHORIZED UNDER ACT FOR THESE PROJECTS — 12.13
OF WHICH ONLY — 8.36
OR 69% WAS ACTUALLY PAID.

Chart 13. Distribution of Cost of Low-Rent Housing
Under U. S. Housing Act -- Per Unit Per Month

Chart 13 relates to the economic cost of the low-rent projects covered in Chart 12.

Economic cost includes all of the costs actually incurred by the projects, plus the amounts which would have to be paid if they were subject to full local taxation. It covers the cost of all utilities and heat, whether paid by tenants as part of rent or bought separately. Economic cost is thus the rent, including all utilities, which would have to be charged tenants if there were no subsidies either federal or local.

Economic cost is less than the commercial rent which a private owner would have to charge for the same accommodations, since no profits are included and since the capital financing of public housing is for longer terms and at lower interest rates than private enterprise is able to obtain.

The total economic cost of low-rent projects averages \$36.31 per unit per month. Its composition is shown in the left-hand circle. Operating expenses of \$15.15 and debt service of \$13.08 are the same amounts as shown on Chart 12. Full local taxes if paid would amount to \$7.56 per unit per month; this figure is based on the actual reports of the various local authorities.

The circle on the right shows the distribution of the economic cost as between the amounts paid by tenants and the contributions paid by the federal and local governments. Tenants paid \$20.90 per month, being \$20.38 rent and an average of \$.52 for utilities not included in rents. Tenants thus pay 58% of the entire economic cost of low-rent housing.

The FPHA annual contribution amounted to \$8.38, or 23% of economic cost.

The local contribution is the difference between the full local tax amount of \$7.56, and \$.88, which was the amount paid by the projects in lieu of taxes. The resulting local contribution of \$6.68 represents 18% of the economic cost. The U. S. Housing Act requires that local contributions be at least 20% of the FPHA contribution; in this year they amounted to 79% of the actual FPHA contribution, or 55% of the maximum contribution which could have been paid by the FPHA if necessary.

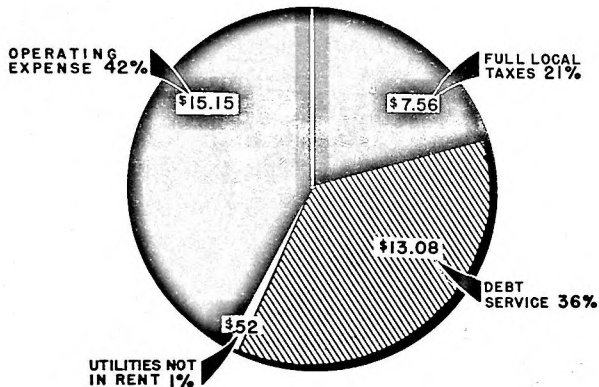
DISTRIBUTION OF COST OF LOW-RENT HOUSING

UNDER US HOUSING ACT—PER UNIT PER MONTH

Yes

13

TOTAL ECONOMIC COST
\$36.31



DISTRIBUTION OF COST
\$36.31

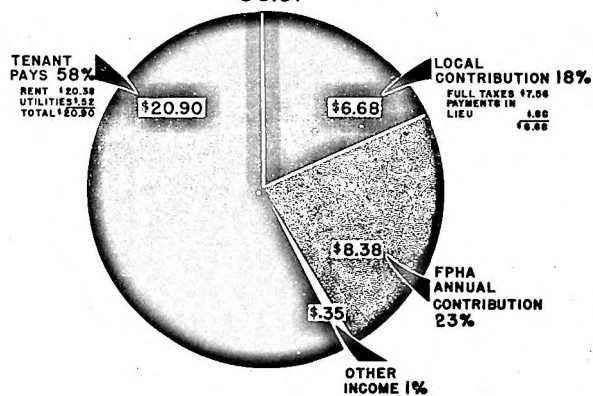


Chart 14. FPHA Contributions for Low-Rent Projects
Developed under U. S. Housing Act

The United States Housing Act, as amended, authorizes the FPHA to enter into contracts with local authorities to pay annual contributions up to a maximum of \$28,000,000 per annum.

Under its contracts with local authorities, the FPHA agrees that it will pay each year an annual contribution equal to the difference between the rents charged families of low income and the cost of operating the projects, subject to the statutory limitation that the contribution on any project may not exceed a percent of the development cost of the project equal to the going federal interest rate at the time the contract was made plus 1%. On all outstanding contracts with local authorities, the maximum percent of development cost which may be paid as an annual contribution averages 3.08%.

The maximum amount of annual contributions committed for the use of local authorities aggregates \$25,437,000 per annum. This includes \$28,000,000 earmarked for projects awaiting formal contracts and Presidential approval.

A margin of safety of \$414,000 has been reserved by the FPHA for use in case there are possible over-runs in the estimated cost of projects on which maximum contributions are calculated.

If the projects now owned by the FPHA are sold to local authorities, annual contributions will be necessary in order to achieve low rents. The unused balance of the maximum contribution authorization amounts to \$2,149,000, which has been reserved for this purpose. An additional authorization of \$808,000 would be required to permit the sale of all such projects.

The amounts of annual contributions actually paid since the passage of the United States Housing Act are also shown on Chart 14. The total for five years amounts to \$38,775,000. This represents the entire cost of the program to the federal treasury, since all of the operating expenses of the FPHA have been paid out of its own revenues, principally the difference between the interest which it receives on loans to local authorities and the interest which it pays on its own borrowings.

FPHA CONTRIBUTIONS FOR LOW-RENT PROJECTS

DEVELOPED UNDER U.S. HOUSING ACT

yes

MAXIMUM ANNUAL CONTRIBUTIONS AUTHORIZED



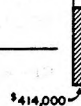
MAXIMUM ANNUAL AMOUNTS COMMITTED

FOR LOCAL AUTHORITIES



EARMARKINGS \$280,000

MARGIN OF SAFETY



FEDERAL PROJECTS IF SOLD TO LOCAL AUTHORITIES



ANNUAL CONTRIBUTIONS ACTUALLY PAID

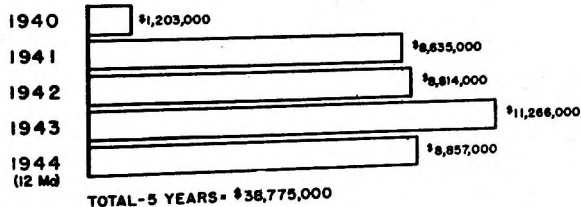


Chart 15. Effects of Low-Rent Housing on Tenants' Welfare
Newark, New Jersey

Chart 15 presents data based on surveys just completed by the Newark Housing Authority. Although these data cover a very small sample of the whole low-rent program, they are, nonetheless, indicative of the salutary effect of low-rent housing on the welfare of families.

The decrease in disease and accidents is based upon statistics for two years, covering three projects with 1,265 families. These are compared with data for three wards in the city, with a population of similar social and economic background. Since the former housing conditions of the project tenants were considerably worse than the average conditions in the three wards, the comparison probably underestimates the decrease.

The decrease in fires for which the fire department was called out is based on a comparison between seven projects and the city as a whole. Had it been possible to compare fires in the projects with fires in substandard areas only, the reduction would have been even more striking.

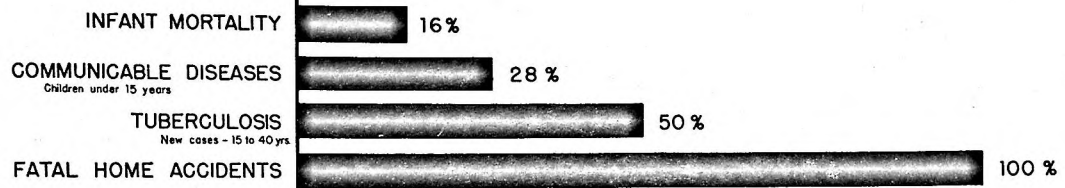
The improvement in school records relates to children now living in the project, before and after they were rehoused.

All of these records relate to low-rent housing experience of only two years. It is reasonable to expect that even greater improvement will be shown over a longer period.

yes

DECREASE IN DISEASE AND ACCIDENTS

Three projects compared with three wards of similar population type



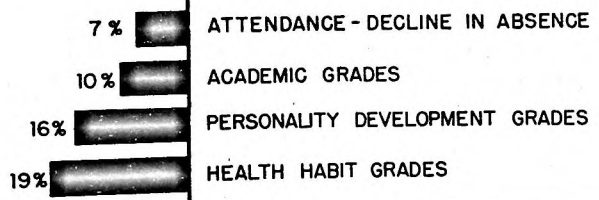
DECREASE IN FIRES

Seven projects compared with all dwellings in the city



IMPROVEMENT IN SCHOOL RECORDS

Children in projects, before and after rehousing



4. Suggested Proposals for the Future

We believe that the results of the low-rent program demonstrate the fundamental soundness of the program. The operation, however, needs improvements. Experience has shown where it can be made more efficient.

Urban Redevelopment

Before I discuss how we can better the low-rent program and lift it out of the field of experiment into the established field of experience, let me digress for a moment and indicate my personal opinion that many of the things which this program seeks to achieve would be rendered easier of achievement if the nation were committed to an urban redevelopment program. I do not mean a program that would be a substitute for the exercise of the important police power of localities to tear down decayed and rotting structures, but rather a program that would permit the wholesale reclamation of misused and abused sections of our great cities on a basis that would recognize (a) the urgent need to take care of families displaced by such activity, and (b) the need to enrich cities and to preserve their future rather than to enrich individual owners of reclaimable property.

While I do not intend to discuss the subject of urban redevelopment in any detail, I do want to direct your attention to the fact that the only reasonable job of large-scale reclamation or redevelopment thus far done has been done under the United States Housing Act. There is much to be said for building on proved experience, rather than seeking new and doubtful formulae.

It seems appropriate, therefore, to suggest that the formula of annual contributions born under the United States Housing Act may have intrinsic merit as the means to absorb the markdown between the acquisition cost of slum and blighted areas and their value in appropriate new uses. The acceptability in financial markets, at low interest rates, of the securities of local public agencies when aided by such annual contributions should be preserved for an urban redevelopment program, rather than undertake the time-consuming and uncertain task of creating a new form of security and developing a market for it.

It is my own conviction that such local public agencies aided by annual contributions will be able to sell their bonds directly to private investors so that, except for an initial revolving fund for interim financing until urban redevelopment projects are ready for long-term financing, it would be necessary for Congress only to provide annual contribution authorizations for an urban redevelopment program. The method of financing through private capital and federal annual contributions would make it possible to carry out an urban redevelopment program to reclaim the dying inner core of our cities and facilitate private enterprise in doing the big part of the housing job which is its responsibility after the war. Such a program would not tie slum clearance exclusively to public housing, but rather would clear slums to make these areas available for redevelopment through an honorable and effective partnership between private enterprise and public housing wherein each would be called upon to operate within its own orbit in so far as housing needs are concerned.

An urban redevelopment program to clear slums and blighted areas should be accompanied by a housing program which is sufficiently comprehensive to assure the provision of decent homes for the income groups who will be displaced. For the families of low income who cannot be adequately served by private enterprise, public housing will be needed.

There is a very close tie and inter-relation between urban redevelopment and housing: first, because the slums and blighted areas to be cleared consist largely of housing; secondly, because urban redevelopment would stimulate the production of housing by making centrally located and other land available which is now denied to normal and proper housing use; and thirdly, because the clearance of slums and blighted areas is dependent upon the availability or production of housing for the families who will be displaced. I am convinced that with the tool of an urban redevelopment program, we can clear miles of slums where yesterday we cleared acres, and can bring into play untold millions of private dollars to act a major role in this dramatic undertaking.

With respect to public housing itself, I wish to present some of the forgotten or neglected aspects, as well as some of the constructive improvements that can be made in the public housing program to make it more serviceable in the post-war world.

Rehabilitation of Existing Housing

We have talked a great deal of late about the rehabilitation of old housing. No one has really made a determined effort to see what can be done toward preserving the value and liveability of our current housing inventory instead of letting much of it decay into slums. Therefore, notions range from the assumption that rehabilitation holds the key to the whole housing problem to categorical statements that it can't be done. While there may be reason for skepticism about rehabilitation, it does offer practical possibilities that we should zealously explore. We can, I am confident, capitalize on some part of our housing asset if we turn from guess-work to a genuine effort to rehabilitate housing that is not too far gone.

The United States Housing Act of 1937 doffed its hat in passing at rehabilitation of existing housing. Under that Act some consideration was given to rehabilitating reasonably good housing. These proposals failed because the formula of the Act did not provide an amount of subsidy which, when added to the anticipated income of the rehabilitated property, would be sufficient to take care of maintenance, operation, replacements, and to amortize the debt during the anticipated life of the rehabilitated property.

If we are to accomplish anything through the medium of rehabilitation, Congressional authority will be required for the means to do so. I suggest that such a program be based on certain principles:

- (1) The objective should be the use of existing buildings for low-rent housing when feasible in lieu of new construction, but only when the existing buildings are located in neighborhoods where the spread of blight can be prevented or arrested by this means.
- (2) Provision should be made for loans and annual contributions to public housing agencies for this purpose.
- (3) Instead of a 60 or 45 year period for the payment of annual contributions, the period should not exceed 30 years. This more closely approximates the expectancy of useful life for rehabilitated existing housing.

- (4) In order to recognize the realities of this situation, the permissible annual contribution should be 1% of development cost higher for rehabilitation than for new construction.
- (5) Within the limits of the economic expenditure of subsidy, public housing agencies should have the option of purchasing or leasing the existing buildings.

Let me make my position completely clear. I do not feel that this tool will produce a large volume of housing. This is particularly true if it is administered faithfully in keeping with the basic concept that remodeling, repair, or reconstruction should be performed only where by so doing the spread of blight can be prevented or arrested in a given neighborhood. It would be tragic if such a tool were used to perpetuate the useful life of buildings which are structurally inadequate and located within neighborhoods which have gone down-grade so far that attempted reclamation would be contrary to the public interest. I believe, however, that within these limitations such provisions will permit an adequate exploration of the possibility of rehabilitating existing housing for use by families of low income. I believe this was the spirit of the United States Housing Act but, unfortunately, its implementing provisions rendered impossible its effective performance.

One might ask why we should incur an addition to annual subsidy equal to one percent of development cost in order to rehabilitate old dwellings rather than to build new ones. The answer to that is simple: If by an expenditure of some slight annual additional amount, we not only provide decent and sanitary housing for families of low income but, at the same time, arrest or prevent the blight of an entire neighborhood, the additional annual cost is well justified.

Rural Housing

Another area that should be brought to the fore as a major phase of a post-war housing program is the sorely neglected field of rural housing. The concentrated, dramatic slums of our cities invited the almost exclusive concern of public housing at its outset. It is amazing how little attention has been given our rural slums, one of the greatest housing evils in our

nation. We will never have a national housing program until we find a formula which will provide an adequate remedy for these shocking deficiencies. The United States Housing Act contemplated that some steps should be taken in this direction. I must pay tribute to the industrious efforts of my predecessors who labored with an urban formula to produce rural housing. Some 515 rural units were actually constructed under the United States Housing Act prior to the oncoming of war and the cessation of normal construction activity, and 7,891 additional units were contracted for with local, county, and regional housing authorities. Construction under these contracts has been deferred pending the return of normal conditions.

In the United States Housing Act, Congress recognized that federal aid in the form of annual contributions was necessary, not only to meet the problems of badly-housed low-income families in urban areas, but also those in rural areas. The Act wisely recognized that all housing, both rural and urban, is a specialized function with techniques and financial methods which can best be administered through a housing agency. This is in no way inconsistent with the recognition that in the case of farm housing there is a very close relationship between the provision of the farm house and the operation of the farm as an income-producing unit.

Some day I hope it will be possible to achieve the objective of increasing farm income and productivity to the point where all families living on farms will be able to afford decent homes. I also hope that some day in the cities it will be possible for workers everywhere to earn enough so that they can afford decent housing without the need of Government subsidies. But that day has not yet arrived either on the farms, in other rural areas, or in the cities.

So long as there are Americans who are living in housing which is unsafe and insanitary and which represents a hazard both to the family and to the community, and so long as these families cannot afford to obtain a home where they can live in decency with standards befitting Americans, it is my conviction that the federal government should provide aid to local public agencies to supply a remedy. The obvious cure is decent homes for such low-income families and the elimination of slums and blighted areas in our cities and of shacks and run-down houses in our rural areas. In this

process of providing decent homes for low-income families, we will stimulate our national economy so that jobs will be available in private industry for the returning veterans and the war workers whose war jobs will have been finished.

In discussing a rural housing program, the first incontrovertible premise is the close relationship between farm housing and the farm economy. In any farm housing program undertaken by a housing agency, it is imperative that there be established by law a close coordination between the programs of the housing agency and the farm programs of the Department of Agriculture. This is not difficult of accomplishment. It was achieved in the limited farm housing program initiated under the United States Housing Act. Before FPHA provides aid to a public housing agency to build a farm house, the Department of Agriculture, through its personnel should certify that the farm involved can be reasonably expected to continue in use and that it does not consist of submarginal land. By such certification there will be complete assurance that the housing program does not operate in a manner which would not be in harmony with the farm program of the Department of Agriculture. We have had some informal discussions with representatives of the Department of Agriculture regarding a rural housing program for families of low income. I do not wish to express the attitude of that Department except to say that our exploratory talks with them have been free of jurisdictional wrangles. We have both been concerned with the need for action to meet the rural housing problem and with the desire to find a means of meeting it most effectively.

The FPHA experience and discussions have convinced us that amendments to the United States Housing Act are necessary which will frankly recognize the distinctive differences between an urban and a rural housing program. The house which is built on a farm should be made available for long-term purchase by the owner of a farm, instead of being available only on a rental basis. In keeping with the problems of farm income, a variable payment plan should be authorized so that any larger payments made in periods of better farm income will be available as an off-set in order that smaller payments may be made in periods of lower farm income. We must recognize the need for a different basis for annual federal contributions in the case of rural

housing. It is our present view that farmers of low income can make payments over a period of years which will approximate the capital cost of an adequate house. The federal contributions would be available to meet interest and other costs with respect to the house. The local contribution formula on rural housing should be adjusted to recognize the limited possibilities for such contributions. The tax exemption of the house should be considered as an adequate annual contribution to support the federal contribution. The requirement for equivalent elimination should permit administrative flexibility to enable the elimination to be accomplished so far as practicable, with adequate leeway for permitting structures to be retained for storage or other farm purposes.

These are merely illustrative of some of the changes which we believe necessary to provide an effective method under the United States Housing Act for meeting the housing needs of the low-income families living in rural areas who cannot afford to obtain or provide themselves with decent housing.

Modifications in the Urban Low-Rent Program

Finally, in developing our program horizontally, we must recognize certain imperfections of our urban low-rent slum clearance program. They are certainly not as many as some charge with reckless abandon. On the other hand, they are not as few as some of our pollyanna friends would like to think. Interestingly enough, the imperfections of the present operation have been discovered not by the critics of the program, but rather by those who have been among its closest friends.

Let me suggest some thoughts for Congressional action that you may wish to consider as needed or desirable for an expanded and more efficient low-rent program under the terms of the United States Housing Act. In so doing, I want to make clear that these and other anticipatory observations that I make are my personal views. While they represent the synthesis of others' thinking as well as my own, the responsibility for their utterance is exclusively mine.

Advance Loans: It would appear desirable that the United States Housing Act be amended to make it clear that the administering agency has the power to make loans to local housing authorities for the advance planning of specific housing projects. This would enable the localities to take necessary action beyond the filing of applications showing the need and the broad outlines of local programs for public housing. It would enable the realistic formulation of specific projects and the preparation of plans and specifications through the employment and compensation of architects, engineers, appraisers and other necessary professional assistants. Thus, developments could be made ready for post-war construction as soon as the condition of the national economy and the availability of labor and materials make it desirable for such projects to be physically started. Moreover, the availability of funds for the advance planning of projects sufficiently ahead of the beginning of construction should result in better planned developments more completely adapted to the communities' needs.

Private Financing: I am convinced that we must move away from federal financing of capital costs and move directly to 100 percent borrowing by local authorities from private investors. This statement is not made in the form of a hopeful objective but rather as a conclusion from the experience which we have had over a period of several years and which will conclusively support such a program.

Some authorities in the larger cities have already moved up to 85 percent direct private financing. With certain amendments to the United States Housing Act, we believe it will become possible for all local housing authorities in small as well as in large cities, and in rural as well as urban areas, to finance 100 percent of the capital cost of their projects out of direct borrowing from private investors.

These amendments should permit FPHA, in the case of a default by a local authority in the performance of its contractual obligations, to acquire a project and operate it as low-rent housing in conformity with the requirements of the United States Housing Act. Upon such acquisition, the FPHA should be empowered to continue to pay annual contributions (up to the statutory limit) necessary to maintain the low-rent character of the project,

which annual contributions are also pledged as security for the outstanding bonds of local housing authorities as required by the United States Housing Act. At the present time, if the federal agency acquires a project by virtue of default the annual contributions stop. This creates difficult internal financial problems, but what is even more serious, it prevents the perfection of the security behind housing authority bonds.

The amendment would accomplish two desirable objectives. First, it would insure that the project would continue to serve the low-rent housing purposes contemplated by the United States Housing Act, and secondly, it would insure the continuity of annual contributions which makes possible the low-rent character of projects and which also is the major underlying security for the bonds. By eliminating the risks involved in a possible breach of contract by a local authority, and, consequently, by assuring continuity in the payment of annual contributions, the security of housing bonds would be perfected and the local authorities would be able to sell 100% of their bond issues directly to private investors at low interest rates.

Moreover, to maintain the integrity of the principle of decentralized and local responsibility, the amendment should provide that when defaults are cured by a local authority the FPHA would reconvey the project to the local authority.

There is a tremendous volume of private dollars eager and anxious to invest in low-rent housing bonds. It would be a very healthy thing if this private capital, operating in its traditional manner, were enabled to take over the entire capital financing of low-rent housing, leaving to the federal government its true governmental responsibility of providing the subsidy support.

Reduction of Contribution Period to Forty-five Years: The proposed financing amendments would make it possible for local authorities to sell all their bonds directly to private investors at even lower interest rates than those already obtained. Under these conditions I believe that we can, and should, reduce the period during which the federal government is committed to pay annual contributions from 60 years, as presently authorized, to 45 years. This would materially reduce the ultimate cost of public housing.

Additional Authorization

To expand the low-rent housing program we will need an additional subsidy authorization from the Congress. The maximum subsidy of \$28,000,000 per year now authorized will be fully absorbed by present commitments and the conversion of war housing built with low-rent funds.

This immediately gives rise to a key question. What size program are we thinking about? The size of the program FPHA would recommend to the Administrator for consideration and submission to the Congress should be based upon the determinations made by the various local communities themselves. We believe that housing is a problem primarily of local concern. While during wartime we were compelled, because of military necessity, to vest ultimate program responsibility in federal agencies, we must recognize that the locality will do its own programming and make its own determinations as to the amount of housing needed in the years after the war. Federal participation in and federal aids to housing, whatever they may be, should be predicated on each community's concept of its own housing needs.

By an Executive Order of the President, all agencies authorized by law to aid projects of localities were asked to prepare and keep up to date advance programs of works which, in addition to supplying needed facilities, would afford employment and provide useful outlets for materials and capital. In keeping with this order and our responsibilities under the United States Housing Act, the FPHA has made available to local housing authorities forms for an Application for Post-War Projects in which the localities can set forth their public housing plans and their low-rent programs for a 3-year period after the war. For the record, I would like to include a copy of that Application, which reflects in concrete form the three simple propositions which we hope will guide localities in determining their public housing needs:

- (a) that no new public housing should be provided where it is possible to fill a need with decent existing housing;
- (b) that no public housing should be provided that will compete with private capital in its appropriate sphere;

- (c) that determinations of public housing need in the locality should leave a gap of from 15 to 20 percent between the top of the low-income market and the lowest possible floor of private capital, in order to leave the way free for private capital to move into the lowest possible markets.

The accompanying chart illustrates the application of these principles in the case of a typical city.

We have suggested, as you will note from the instructions attached to the Application, that local housing authorities confer with other interested groups in their communities such as realtors, builders, etc., in order to reach acceptable conclusions as to the appropriate market sphere of public housing. Some of these applications have already reached us, many others are in the process of preparation. Since we feel that public housing should arise from the communities themselves and not be imposed upon them by the federal government it is our position that any new authorizations should be related to an analysis of this post-war shelf of applications. A similar technique is being employed with rural authorities. In 60 to 90 days a compilation of these submissions should be available -- then we will be prepared to answer the question: How much?

Responsibility of Public Housing

It should be observed that our whole approach to the market for public housing solves one problem and emphasizes another. By the careful application of the principles enunciated in the Application for Post-War Projects and in all our statements on the subject we clearly remove public housing from the field of competition with legitimate private enterprise. We go one step farther and establish a gap between these two segments. While public housing gets out of the path of private enterprise (as it should) what about the families left stranded in the middle -- the "no man's land" of housing production? This is a challenge to private enterprise.

Frankly, it is my cherished hope that public housing will never be called upon to move up in the income scale to serve this "no man's land", but that on the contrary it will be forced progressively lower by the expansion

Chart 16. Example of Local Three-Year Program of Low-Rent Housing
Under U. S. Housing Act

The steps followed by a local authority in formulating a three-year program for low-rent housing are illustrated in Chart 16, using as a typical example a city of 100,000 persons with 25,000 families. The chart is based on applications already received by the FPMA.

The first step is to determine the number of families living in sub-standard housing, and the rents which they can afford to pay. These facts are derived from the 1940 Census of Housing which gives the number of families in dwellings needing major repair or lacking private toilet or bath, and the gross rents, including all utilities, paid by these families. In the typical city 7,000 families, or 28%, are living in substandard housing. Their distribution by gross rent paid is shown in the middle section of the chart.

In order to avoid competition with private enterprise the local authority deducts the number of families who can or possibly can afford to pay the minimum price which private enterprise must charge for adequate housing. In collaboration with builders and realtors it determines the lowest rent (or rental equivalent) at which an additional supply of standard housing seems likely to be provided by private enterprise. In the typical case this minimum figure, including all utilities, is \$35. To allow for a possible further lowering of the market served by private enterprise, the local authority leaves a gap between this figure and the upper rent limit for the families which it will serve. In the typical case a gap of 23% in rents is left, making the upper rental limit for low-rent housing \$27.

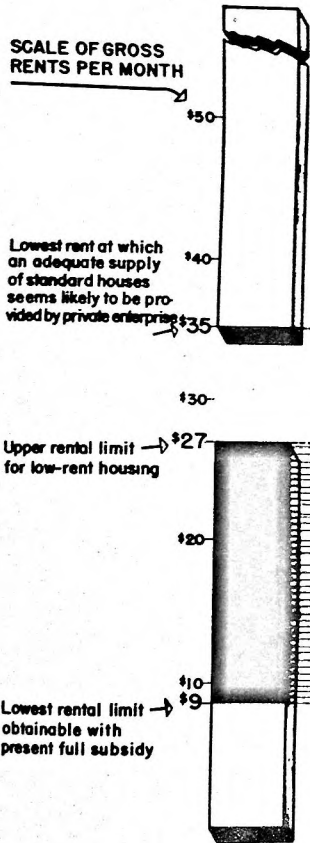
The local authority also determines the lowest rent, including utilities, which it can obtain, making use of the full subsidies available to it, both local and federal. In the typical case this is \$9 per month.

Turning to the center part of the chart it is found that of the families living in substandard housing, 5,040 can pay rent within the low-rent housing limits of \$9 and \$27.

The local authority then decides what portion of the families presently needing low-rent housing it should build for in the next three years. In the typical case, the three-year program provides for 950 families, or 19% of the families living in substandard housing with rent-paying ability within the low-rent housing limits. This amounts to 3.8% of all families in the city.

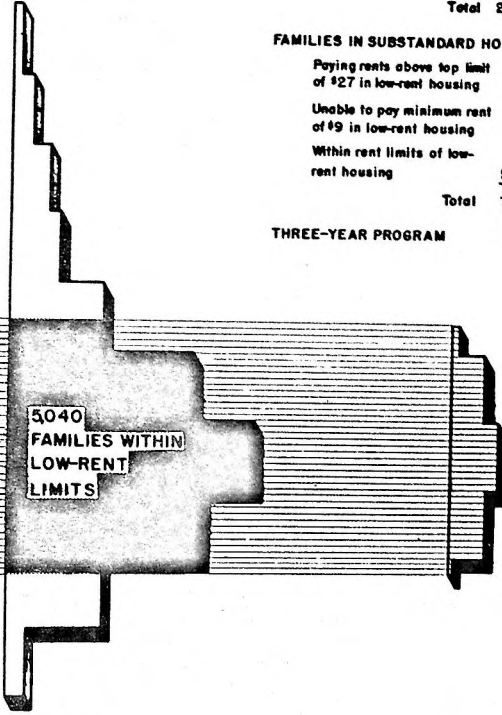
EXAMPLE OF LOCAL THREE-YEAR PROGRAM OF LOW-RENT HOUSING

UNDER U.S. HOUSING ACT



GROSS RENTS PAID BY 7,000 FAMILIES LIVING IN SUBSTANDARD HOUSING

Gap of 23% avoids competition with private enterprise



ALL FAMILIES	Number	Per cent
In standard housing (includes 450 or 1.8% in present low-rent housing)	18,000	72.0
In substandard housing	<u>7,000</u>	<u>28.0</u>
Total	25,000	100.0
FAMILIES IN SUBSTANDARD HOUSING		
Paying rents above top limit of \$27 in low-rent housing	1,260	5.0
Unable to pay minimum rent of \$9 in low-rent housing	700	2.8
Within rent limits of low-rent housing	<u>5,040</u>	<u>20.2</u>
Total	7,000	28.0
THREE-YEAR PROGRAM	950	3.8

THREE-YEAR PROGRAM
950 FAMILIES

Gross Rent covers Shelter Rent plus Cost of Utilities including heat, whether paid by tenants as part of rent or bought separately. Shelter Rents are approximately 15% lower.

BASED ON APPLICATIONS ALREADY RECEIVED

of good, low-cost private housing. The task staked out for public housing is huge and urgently pressing. To attempt to expand it would be unwise and unstatesmanlike. Furthermore, I genuinely believe that the private building industry under the prodding of its own wartime experience can do the job of caring for this middle income group if it will.

I believe that it will, for as I evaluate the discussions now going on in the industry it is preparing to make an about face from the past -- a past in which it sought refuge in archaic methods and in the false security of the high priced housing market. It has been this attitude which put adequate housing on the upper luxury shelf where it can be reached only by the long arm of high income. Housing is a mass necessity which can and must be made available as a decent product for all income groups.

My confidence that private enterprise will reach the middle income "no man's land" is immense for another reason. There have been a number of claims made for the results attained by public housing. One that is rarely mentioned is the contribution it has made to the re-awakening of private industry in this field. In recent years public housing has proved to be the stimulant that the private building industry needed to seek new fields and broaden its horizon. Public housing has shown the way to the creation of community living as distinguished from bare shelter; it has focused attention on maintenance and operation as an important, if not most important, part of the consumer's housing cost; it has proved that families of low-income are as considerate of rental property as any other group; and it has brought about virtual unanimity on the subject of the need to clear slums and the feasibility of doing so. In this role it is the handmaiden of private enterprise, not its competitor. I am certain that with the aid of a clearly defined long-term public housing program which will hew out new pathways of technical and financing achievement, private enterprise with typical American industrial ingenuity will find answers to the "no man's land" of housing need. Without such a program there is real danger that this industry will lapse into yesterday's habits which fell far short of a sound national housing goal.

At the same time that private enterprise is seeking larger markets in the "no man's land", public housing should be allowed to proceed in its own appropriate sphere. It serves low-income families who are not in a marginal but in a sub-marginal group. For these families the choice does not lie between private and public housing -- the only possible choice is between slum houses and decent homes subsidized from public funds. An increase in the annual contribution authorization is necessary if we are to build projects which will house these people decently. Otherwise, these families of low income will be left in slums, and our cities will continue to bear the mounting costs of crime, disease, fire, juvenile delinquency, and destructive community attitudes that multiply in such an environment. Such projects will also be necessary to provide housing for returning veterans of low income who are unable to provide themselves with decent housing through the loan guarantees available to them for the purchase of residential property under the GI Bill. Finally, a public housing program will be needed for its large contribution to the maintenance of post-war full employment.

5. Conclusion

We are on the threshold of a huge housing program. The figures that have been presented in this hearing are the cold statistics that support this premise. Anyone who has viewed the housing inventory of the nation in recent months cannot escape the impression that we have lost ground, (as indeed we found it wise to do) during this war. Havoc has been wrought by deferred maintenance, obsolescence, and by the war-time house necessarily built under a controlled construction program. Add to this the steady increase in the number of the nation's families, the reshuffling of families in the days after the war and the return to yesterday's hometown, the demobilization of millions of veterans seeking to start life anew, and the pent-up demands of many who are prohibited from building and you get a vision of the enormous and thrilling job ahead.

Inter-relation of Government Aids

In this challenging task we need more than simple mathematics. We need to realize certain verities. One of these is that government aids to housing are inter-related. The extent or delimitation of mortgage insurance, the conditions which control or define the flow of government secondary credit, and the amount of subsidized housing are forces which have their consequential effect in the communities of our nation. In that framework you will find few informed persons who will not recognize that these are parts of a common pattern. Over-stimulation or under-stimulation of one or the other of these recognized methods of federal intervention in the demand or supply of housing are acutely noticeable in the places where people live -- their home towns and cities and farms.

The housing inventory of the community is inseparable. Too much public housing adversely affects private capital; too little affects the community's tax structure and well-being; too little middle-income housing forces people who can afford to pay their way either into inadequate shelter or else into excessive debt when they reach for a home above their means; too much higher-income housing may tend to upset the economic soundness of investments in residential mortgages.

Unity of Effort

Out of such a first understanding there logically ensues a second.

We shall need unity of effort -- a conviction that governments, local, state and federal, home-builders, material suppliers, financing institutions, and others must work together. The federal government has the responsibility of showing the way; it has elected to provide specific aids to housing; it must by act and deed recognize the essential oneness of its work in this field. If we are to look with any confidence to a noble role for the home-building industry during the period of reconversion and peace when it must give a substantial answer to the demand for jobs, the federal government will need to show qualities of real spiritual leadership. This can best be done if its own program is based on an amicable and complementary utilization of its own aids to the industry. This it must accomplish without usurping the role of the home-building industry itself. By all this I merely mean that an NHA or its equivalent counterpart will be sorely needed.

I hope you will pardon one personal reference. I came to Washington in the latter days of 1941 as did many others who were anxious and eager to help the war effort. Housing was my avocation -- not my profession. What I found as I started to work was disillusionment and disgust because of the conflicts and confusion that were our daily diet as we tried to provide the housing that was necessary to man our production lines. To some who today question the need for a united federal housing agency I utter a friendly reminder: think back to the confused days of 1941 and the early months of 1942.

The National Housing Agency, created as it was by Executive Order under the War Powers, did not provide the perfect union. An Administrator, whose tenure at best extended only to 6 months after the end of the emergency, presiding over constituents with long-term statutory powers and with long-established relationships with special citizen and professional groups, was confronted with a situation calling for utmost tact and careful administration. His task was to speedily mobilize the construction industry, all our government resources, our manpower, and our financial and material assets to relieve an extreme shortage of housing in areas where it was sorely needed to provide shelter for war-workers without whom our war production effort could not succeed. That job has been performed creditably and economically. Cooperation replaced bickering, and clear cut over-all policy replaced catch-as-catch-can confusion.

In many respects the post-war assignment of our federal housing machinery will possess many of the general characteristics of the war assignment. We will need a speedy mobilization of the construction and housing industry to help take up the slack of cutbacks and to relieve tremendous housing shortages in scattered localities, the existence of which will be increasingly felt as veterans return and families reshuffle, and as temporary war housing comes down.

Of course, the methods will be different -- the role of the locality will assume greater significance. Yet, the role of the federal government will be of tremendous consequence. Its instrumentalities will need to be used in harmony one with the other; to complement and supplement each other to even a greater degree than in the past. In such a situation it occurs to me that we should go forward by perfecting our war-time arrangements, rather than backward to the chaos and conflict of 1941. Certainly, it must be said that those who would reconstruct the conditions of yesterday assume a burden of proof much greater than those who seek to advance and perfect what we have today.

The events in Europe in the past few weeks have dulled us to much post-war talk. It has been difficult to consider plans for tomorrow at a moment when so many of our forces were being pushed back to yesterday's bench marks. Yet, we owe it to them to lay the groundwork and to plan for the period after the war. In this plan housing will be an important factor. The obvious complexities of the problem as it unfolds before you clearly indicate that now is not too soon to begin.

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Klutznick, Philip M.
 Statement before the Sub-
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 Urban Development.

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