Recommendations and Suggestions

on

POLICIES AND PRACTICES IN

HOUSING OF FAMILIES OF GOVERNMENT WORKERS

A Report To

BUREAU OF THE BUDGET

by

FREDERICK M. BABCOCK & CO.

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To: Bureau of the Budget
Executive Office of the President
Washington 25, D. C.

In accordance with the requirements of the contract dated March 23, 1950 between the Bureau of the Budget and our firm, we have prepared this report setting out our recommendations and suggestions with respect to policies and practices in housing of families of government workers. Special emphasis is placed on a statement of housing policy, the establishment of a centralized agency to assist in carrying out such policies, and the provisions for the financing and operation of housing. The report contains the following sections:

Work on this engagement was all done in the period from March 27 to May 29, 1950 and included two trips, one to Chicago, the other to New York.

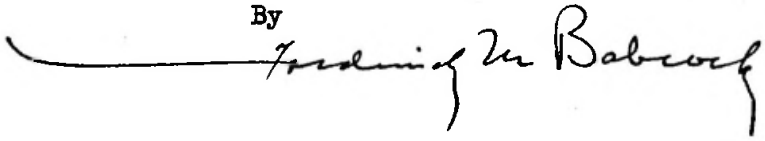
To secure information, ascertain attitudes, and form judgments, interviews were held with a number of persons. Much of this activity was handled on a cooperative basis; we worked with Mr. Mark W. Alger of the staff of the Bureau of the Budget in securing information and ideas from federal agencies and private builders, lenders, and others. The services and counsel of the Housing and Home Finance Agency, the Federal Housing Administration, and other federal agencies was sought and used in formulating the conclusions.

Wherever in this report we describe the attitudes or views of private groups or federal agencies, the statements represent our own interpretations of the attitudes and views and generally state the most frequently expressed opinions. In only a few instances are they officially held positions and when they are, they are taken from published regulations or statements which are cited.

Respectfully submitted,

FREDERICK M. BABCOCK & CO.

By



1028 Connecticut Avenue, N. W.
Washington,6, D. C.

June 1, 1950.

Copy No. _____

SUMMARY OF MAJOR RECOMMENDATIONS

1. Policy Statement: We recommend that the Executive Department develop a statement of housing policy, that the several agencies whose programs require attention to the housing of federal workers should be required to adhere to the provisions of the policy statement, and that the statements be used by the Bureau of the Budget as standard criteria against which to judge the acceptability of requests for appropriations and proposals for legislation.

We present (in Section II) a suggested "Executive Policy on Housing of Government Workers" which covers some, but not all, of the policy statements which require declaration. It provides that

(1) Federal effort and expenditure related to the housing of individuals and families is deemed proper under circumstances where such efforts and expenditures are necessary and justified in carrying out federal purposes and programs provided for by law and assigned to particular federal agencies.

(2) The government gives no rights to federally-provided housing to any group or individual. The government addresses itself to housing matters solely for its own purposes and without accepting any implied responsibility to persons who are or might be housed.

(3) Each federal agency shall be responsible to the President for indentifying conditions requiring and justifying federal attention to housing and for determining housing needs, demonstrating the desirability of the attention, and certifying with respect to the nature and extent of the requirements as they affect the particular programs under its jurisdiction ... Recognized circumstances justifying attention may include: (a) the necessity to provide housing accommodations on federal reservations ... for persons whose duties require their presence at the place ... (b) lack of suitable alternative means for housing resulting from remoteness of location ... dearth of available private housing for rent or purchase in the area, commuting time and costs, and high costs or rents ... (c) demonstrable and marked convenience or economy.

(4) In submitting statements in justification of proposals ... agencies may relate their proposals to the housing of any groups or persons whose occupations or shelter problems have an impact on the programs of the agency.

(5) It is the policy of the government to treat individuals and families ... according to uniform standards ... regardless of the agencies with which they are associated. However, this policy shall not be interpreted as a guarantee of equal treatment and its application... shall be limited by practical considerations.

(6) It is the policy to ascertain and classify identifiable groups according to kinds of families and individuals ... Tests and criteria ...

shall include (a) pay levels, (b) status of employee in agency, (c) permanency of employment arrangement, (d) permanency of assignment to duty at the place, and (e) family size and composition.

(7) Housing provided through the efforts of the government should afford ... good environments ... and a standard of physical shelter comparable with ... other citizens having similar incomes.

(8) Each agency shall be responsible for the determination of rules governing the occupancy of housing procured through government effort ... Occupancy privileges shall not be given to any person for the purpose of increasing his compensation.

(9) It is the policy to attempt to establish rental rates ... at fair rates ... which are as high, but no higher, than the rents ... of privately owned housing of a comparable grade in typical or comparable communities but in no case higher than ... a fair percentage of the income of the typical family to be housed ... Rent subsidies shall not be granted.

(10) In the procurement and ownership of housing for government workers, it is the policy ... to use methods which necessitate the least expenditures of government funds, the minimum assumption of liabilities and obligations, and the greatest possibilities for the recovery of investments.

(11) The use of appropriated funds shall be avoided in all instances in which housing can be suitably procured by inducing private enterprisers ... to undertake to furnish the housing ... Builders and sponsors shall be selected on the basis of competence and by a bidding process.

(12) The government may provide funds to private enterprisers by means of mortgage loans secured by leasehold estates located on government-held land provided (a) the FHA has insured the loans ... (b) the loans are offered for sale ... at the highest price obtainable ... after completion of construction, ... (c) mortgage accommodation was not available from private sources, and (d) the mortgage shall not be made on terms which are more attractive to the borrower than those available in connection with private lending operations.

(13) The securing of occupancy for government workers in privately-owned dwelling units by means of government leasing and ... subleasing ... or by the guarantee ... of the payment of rents, is deemed proper.

(14) It is the policy to induce private sponsors to undertake the provision of housing ... when the housing is colonized and is located on government reservations.

(15) It is the policy to finance and operate housing procurement programs in a manner which equalizes the difference between such programs and sound typical private housing enterprises in the same areas so as to prevent unfair competition between such projects.

The government shall not produce government housing ... where private landlords, builders, and lenders can and will provide housing suitable for the purpose.

(16) The absorption by the government of a part of the total required initial investment in a privately-sponsored housing project shall be permitted only when necessary and to the extent necessary. ... to achieve proper levels of rents and proper standards of housing. Subsidies shall not be granted.

Centralized Services: We recommend the establishment of a governmental unit charged with the responsibility of handling many of the functions associated with the housing of federal workers. The purpose would be to secure a degree of warranted standardization in operations, to minimize the duplication of housing staffs, to secure economies in operations, and to secure direct accountability and review of housing proposals.

We present (in Section III) a suggested method of organization and distribution of functions.

(1) We recommend that the proposed functions be assigned to the General Services Administration as a new activity and that the GSA establish a special branch to handle most of the functions except those associated with real estate tenure and financing and that these functions be assigned to a newly-formed company with a corporate form of organization which will operate under the supervision of the GSA.

We recommend the following names for the new facilities: (a) Federal Housing Service, General Services Administration, and (b) Federal Housing Investment Company.

(2) The federal agencies whose programs require the federal attention to housing would retain the responsibility for making legislative and budget proposals, making justifications and certifications with respect to their housing needs, establishing rules governing occupancy and selection of families to be housed, and certain other activities connected with procurement and operation of housing. Their use of the proposed new centralized service facility would be optional.

(3) The GSA would be responsible for a number of actions, including the receiving of requests and transfers of appropriated funds from the federal agencies, the checking of needs for housing, the classification of families, the undertaking of procurement through contract or private channels, selecting and negotiating with sponsors, the setting of housing standards and rental rates, and the management of housing.

(4) The FHIC would purchase equity stock of housing corporations, make FHA mortgages and sell them, acquire and operate housing under certain circumstances, reinsure the FHA, enter into leases and sublet private housing units, and dispose of real estate or other assets acquired through housing operations.

- Ownership and Financial Operations: We recommend that broad powers be given by legislation to the various federal agencies and to the proposed new centralized service facility to enable the procurement and financing of operations associated with the housing of federal workers to be accomplished in a variety of ways. The method most suitable under any particular set of circumstances may differ considerably from the methods used at other places and under other circumstances.

We present (in Section IV) a suggested set of financing formulas. Each is applicable to a particular kind of case. Typically the formulas are adaptations of the methods now used for military housing under Public Law 211, 81st Congress.

(1) Various methods of ownership and financing will undoubtedly be proposed from time to time by federal agencies. Many of them will be desirable departures from those now used or those herein recommended. Therefore the formulas described herein represent those which we deem to be desirable at present in view of prevailing legislation (including Public Law 211). Our proposals for new legislation deal mostly with the granting of listed powers to agencies to meet situations now not covered adequately or they extend existing formulas so as to be more generally applicable.

(2) Sites should be made available to private sponsors under the provisions of long-term ground leases which contracts should embrace agreements with respect to occupancy limitations and utility and municipal services.

A ground lease would be awarded to a sponsor, as lessee, who has qualified as the most capable operator among applicants and who has offered the lowest construction bid or purchase price. Proposals would be judged largely on the basis of the prices offered. Each lease should be drafted so as to be acceptable to the FHA. There would be no cancellation clause. It should give the lessee an option to purchase the leased fee at a stipulated price if the government elects to make such a sale.

Legislation relating to the outleasing of government-held land should give clear authority to the outleasing federal agency to render utility and municipal services so as to secure private participation and ready acceptance by the FHA.

Ground rents should be based on percentages of land value. Use of nominal ground rents would not be permitted. Utility and related services would not be made a part of the ground rent but would be separately charged.

(3) Five methods of building procurement are recommended: (a) leasing by the government of privately-owned dwelling units now in existence or presently to be built and the subrenting of the units to tenants, or the guaranteeing of the payment of rents in such units, (b) new government construction of units either to be retained or to be sold at auction on completion to private sponsors, (c) new private construction, on leaseholds on government-held land (Title VIII type of formula), of either permanently- fixed or movable structures, (d)

acquisition by the government of movable permanent houses and trailers through purchase or lease to provide a mobile supply for use at temporary locations and to protect, in part, the investment of the government, and (e) no provision for buildings but merely the out-leasing of government-held land to a sponsor or government employee who will erect structures.

The proposal to utilize movable structures presumes that it will be possible to solve the engineering problems involved and that a type of structure can be designed which can be dismantled, moved, and re-erected without entailing the loss of a considerable portion of the investment. As far as we are aware, such houses have not yet been designed.

(4) Five methods of financing the procurement of housing are recommended: (a) use of direct appropriations, (b) insurance of privately-made FHA mortgages, (c) making the government of FHA mortgages to be subsequently sold to private investors, (d) becoming lessee under leases on dwelling units privately owned or the guaranteeing of the payment of rents on such units, and (e) absorption of a portion of the initial investment in housing.

(5) Direct appropriations would be used in all cases where the housing is to be on government-held land not outleased to sponsors. The method usually entails acquisition at higher costs than other methods and is therefore considered the least desirable alternative. The method would also be used in the acquisition of movable structures to be used by the government or to be leased out to private sponsors or employees.

(6) The recommended major sources of funds for financing the housing is the FHA-insured mortgage loan made by a private lender under any of the rental-housing provisions of the National Housing Act. Sec. 207 mortgages might be used in some cases. Title VIII should be made available for financing projects to house any government workers and not restricted to military housing as at present. New provisions should be added to the Act to permit the insurance by the FHA of special mortgages on movable structures (90% loans on leaseholds and buildings, interest rate $4\frac{1}{2}$%, amortization of "upper" 10% to be accomplished in the relatively short period there is an assured need for the units, and amortization of the "lower" 90% in 25 years).

(7) The proposed new central facility should be authorized to make the foregoing types of FHA loans to private sponsors on terms equivalent to those in private lending. Such loans should not be permitted if private sources are available and the government should be required to offer and sell them after completion of construction.

(8) The proposed legislation would permit the government to enter into short-term gross leases, short-term net leases, or even long-term net leases on rental units privately owned or to be presently built provided such commitments are necessary to attract private investment and to achieve proper levels of rent.

(9) The proposed legislation should permit the government, in some cases where necessary and desirable, to absorb a portion of the required initial investment in new housing projects to enable the rental rates for adequate and suitable standards of housing to be set in relation to the incomes of the families instead of the cost of producing the units. Three formulas are suggested: (a) The equity stock formula in which the government invests in the stock of private housing corporation and foregoes dividends and sustains losses on the stock investment to the extent required, (b) The build-and-sell formula in which a builder constructs the housing under government contract and the project is sold to a private sponsor on completion; in this formula, the builder agrees to be one of the bidders and the amount of absorption of initial investment equals the difference between the cost of the project and the price secured at the sale, (c) The direct absorption of costs in which the government pays for some of the items, usually the costs associated with land preparation and the installation of utilities.

I. HOUSING OF GOVERNMENT WORKERS

This report recommends legislation and lines of action in the executive ınch of the federal government to improve, expedite, and standardize policies ıl procedures relating to the procurement and operation of housing for federal -kers. Specifically it suggests the adoption of a housing policy, the estab- ɜhment of an administrative unit of government to facilitate federal-worker ısing, and the utilization of certain methods for the procurement and financ- ɜ of the housing.

The report is submitted as a part of the general project of the Bureau of ɜ Budget to review federal family housing program and methods. Our work ɜs not relate to the determination of the specific needs, methods, and -licies now used by the several federal agencies. Therefore this report ɔuld be read in conjunction with the reports and findings of members of the aff of the Bureau of the Budget.

We are generally familiar with many aspects of the problem and of the eds of many of the agencies. We believe that analysis of the problems sociated with the housing of federal workers will reveal the need finally give joint consideration to matters of community operation, schools, chelor housing, overseas housing, and other related matters. We are con- nced that a completely separate treatment of "family housing in the ntinental United States" will not be possible, that the Bureau project will necessity be expanded and that final solutions will embrace the several oader fields of investigation and planning. Furthermore, we are convinced at suitable solutions of the problems connected with the procurement and eration of housing cannot be completely separated from the associated prob- ms connected with the ultimate disposal of real estate and the incorporation government towns as non-governmental communities.

Needs and Practices of Agencies

At present the responsibilities connected with the housing of federal rkers are placed by law in each of the 23 agencies which find housing a ncern in the conduct of its agency program. The numbers of families involved several hundred thousand. The problem embraces the major requirements of e three military services and the Atomic Energy Commission. Other agencies ve housing problems involving somewhat fewer but substantial numbers of milies. In all cases there is sufficient complexity in the problems to stify an examination of prevailing practices and a study of methods by which improve policies and practices and to attempt to achieve greater economies.

Most of the housing now in use is government owned. Some units are old, me new. Some are located in large colonies on military reservations or vernment towns. Others are in smaller settlements containing one or a very w families. The types of units include trailers, temporary dwellings, and od, substantial, permanent houses. In a few cases apartment designs have en used.

Some of the dwellings are connected with spaces and structures used for ner than residential purposes including offices, warehouses, shops, garages, ables, and other uses. Some units contain considerable areas; others are finitely small. Some have some furniture, equipment, and furnishings pplied by the government; a large proportion do not. Some of the agencies ve established standards applicable to new housing procurement. Others have adquarters architects to design housing. Some have employed private archi-cts. In general the designs of most of the houses are in local styles or tch the architectural treatment of other government-owned buildings on the ne reservations. Some of the units were produced by prefabrication. Some e movable structures which have been moved to their present locations.

Various schemes are utilized for the operation and maintenance of the uses. Some are managed by the agencies themselves; some are managed by ivate management contractors. Some agencies have their own maintenance affs; some contract the work. In still other cases, the occupants contribute bor toward much of the maintenance; in one agency there is an evaluation of ntributed time and the regular job descriptions of the employees include e doing of such work. At least one agency uses the services of federal isoners both in the building and maintenance of the housing.

A wide variety of methods are used to establish rental rates and service arges to be paid by the tenants. In some agencies there are quarters allow-ces which are withheld from the employees when they occupy government housing. other cases the rents are deducted from the pay checks. Some tenants pay r utilities in addition to rent; others pay rents which include some or all the utility items. In some instances the rents established on government arters are nominal and are set with the frank intention of adding to the ployee's compensation. Some rents are low to create additional incentives to compensate for the remoteness and isolation of the location. In most of e government towns the rents are somewhat lower than those which currently evail for equal grades of housing in typical non-governmental communities.

Many of the agencies have only limited needs for additional housing. wever, some of the agencies, notably the three military services, are over-elmed by the need for thousands of units to accommodate families. The ident requirements of all the agencies for new additional units to house owing numbers of families or to replace temporary units and obsolescent ructures, if supplied out of direct appropriations, will necessitate the penditure of some billions of dollars of federal funds.

For the most part the policies followed by the several agencies are not bject to criticism. In most cases they have grown up through trial and ror and reflect practical experience with the housing problem. It is only en the housing policies of the agencies are compared that it becomes apparent at there are considerable differences in the approaches to solutions.

Some of the Departments and Bureaus have reduced their policies to writing. most cases the methods and programs relating to housing are closely associa-d with their general personnel policies and procedures. The policy to rotate rsonnel periodically has been followed by some of the agencies including, of urse, the military services. This practice affects their housing solutions. ruiting considerations, the maintenance of morale and contentment, and the

ire to induce reenlistments color the housing programs and are reflected in e policy statements of the agencies. One agency declares that it "desires e residents to enjoy the facilities, services, and activities which are operly a part of American community life." Most of the agencies consider that eir housing programs are solely for the purpose of supplying a portion or all the deficiency in the supply of available private housing.

Procurement of housing has been almost exclusively by government contract i the use of appropriated funds. The presentations made in support of the iget requests for housing have displayed wide variations in the kinds of its requested and in the estimates of costs. In some cases there have been gal cost ceilings set by Congress. In one case Congress insisted on a square-ot limitation.

Some agencies have supplied housing near local communities and have had to ve consideration to the feeling of local residents and the local building dustry. There is a distinct resistance to the government construction of using and private builders and investors usually consider future governmental ilding as a contingency and as serious competition.

Nature and Classification of Housing Needs

There is implicit in the present situation with respect to the housing of vernment workers the presumption that a unification of policies and a andardization of practices might be highly advantageous and desirable. A high rcentage of the agencies consider housing to be an incidental but vital por-on of their programs and look on it as an unwanted chore. The attention they ve to housing is a diversion of the efforts of executives from the main elds of endeavor in which they are skilled and in which their personal terests lie.

Any plans to unify and standardize practices with respect to the housing federal workers and any programs to find cheaper and more effective ways to ocure, operate, and maintain such housing should be comprehensive. They ould not be fragmental solutions but should encompass all conceivable con-tions and circumstances. Consequently the programming and planning for using should proceed from an initial classification of the different kinds of milies to be housed and the different places in which the housing must be cated. Location differences and differences in families are discussed in ccession below.

Location Differences: The locations of the housing show wide variations characteristics. They differ with respect to the nature of the places, the gree of colonization, the degree of permanency, geographical and climatic stribution, and the presence of nearby towns affording community life or using.

Character of Places: The kinds of places in which government housing is cated include military reservations (some in cities, some near towns, some all isolated stations and posts, some located in deserts and remote places), vernment towns (Boulder City, Richland, Oak Ridge, etc.), small colonies (in all towns or cities or in National Parks or other federal reservations), very all colonies (permanent camps at dams and irrigation works, for example, or

,11 colonies in small towns), and isolated places (weather and ranger stations, - example).

Degree of Colonization: The numbers of federal workers at various places ;fer through a wide range from the isolated lone family at a remote spot to ,atively large cities of 25,000 to 30,000 persons. The numbers of families or near military reservations show wide variations from very few up to ɔusands at single installations. There is a tendency to consider the problems housing government workers largely in terms of the large government towns or g military posts because the problems at such places appear to reach their ximum complexity. However, these should not be over-emphasized in considering e general problem; they represent only one aspect of the problem. They assume is status in considerations because they impose all the additional problems town management, community operations, and the provision of municipal serv- es. Actually all the agencies which are responsible for the large government wns have long since come to the conclusion that the main federal purpose will better served if ways are found which enable the residents of the towns to joy more normal community life, to assume greater responsibility in local fairs, and to free themselves to a greater degree from direct reliance on the vernment or their government-contractor employers.

It is presumed to be desirable to create a pattern in which the government contractor is not, at once, both employer and landlord. The long experience many industries with the problem of the "company town" has indicated the akness of the system and gives weight to the wisdom of seeking to establish her arrangements if possible and feasible. In view of the relative degree of rmanency felt by many of the residents of such towns, it may be safely sumed that a reasonable number of them will develop a real local consciousness d a desire to assume an increasing measure of responsibility for the conduct the affairs of the communities.

Many of the agencies responsible for the conservation and development of tural resources station their main supervisory staffs in small towns or ities with populations ranging from 2,500 to 40,000. Many of these staff embers are subject to rotation of assignment and, in general, they provide for eir own housing even though their assignments are limited in point of time. e same situation applies to many military officers who house themselves in ɔcal communities, especially when the assignments to duty are near large ities. The regional offices of some of the agencies require the colonization from 60 to 130 employees at one place and are practically always located in tablished towns; usually three-quarters of the people are permanently located d the local population is drawn upon for employees of lesser rank in the gencies. The government is required to give attention to the housing of rkers in such places principally to expedite the finding of homes for new- mers or to offset a lack of available local housing. Descriptions of situa- ons reveal a wide variation in conditions and solutions ranging from happy lutions in which the local landlords and building industry simply meet the eds for housing to other solutions aimed at the prevention of unfair exploita- on of the government workers. There is some indication that the intensity of e problem increases in smaller towns or as the ratio of the federal population the local population increases. There is also some evidence that the problem s been much more severe and by and large has appeared for the first time only nce the war and is related to the problem of high postwar construction costs.

There are also a surprisingly large number of federal workers who reside very small colonies of two, three or four families in relatively remote and olated places. Some of these find housing in small towns. Others have ties which require them to be located on federal reservations. They, like e completely isolated single families, are completely dependent in most cases federal action to provide needed housing for their families.

Degree of Permanency: The housing problem is further complicated by the ct that the housing is not always permanently required at the particular ace. There is the complete range of degrees of permanency from mere seasonal exceedingly short-term need to obviously permanent needs. In many disturbing stances, including among others many military reservations, there is no way forecast the degree of permanency. The officials simply do not know. The ct that the government may have made great expenditures at a place may not tually mean that there is a relatively permanent need for housing at the ace. Or the difficulty may arise with respect to what portion of the riously-needed number of units at a place will be required permanently or for fairly temporary period. Thus the clear classification of housing require-ats between "permanent" and "temporary," even when required by law, is dis-actly misleading and any planning related to the methods of providing housing federal workers should recognize the existence of in-between cases and the bility of even the most conscientious administrators to make reliable fore-ts. It must, for example, be frankly recognized that the certifications of d by the military and the designation of military stations as "permanent" required in Public Law 211, 81st Congress) is relative only and that the lity with respect to the degree of permanence may be quite different from the larations made.

The degree of permanence takes various forms. Some agencies actually are ed with the problem of providing two houses for a single family, one for mer use, the other for winter use at another place. And both houses would be sidered to be "permanent." Some must supply bunk houses for seasonal crews. Forestry Service finds it necessary to move its operations deeper into back ntry from time to time as the locale of timber sales progresses. Much of the sing need at particular places is obviously temporary but very real. Some ncy programs show the phenomenon of a progressively diminishing requirement housing. This applies, for example, to the dam projects of the Bureau of lamation. Much housing is needed during the construction period (say, 3 to 5 rs), less is needed during the succeeding operation period. But even in se cases, the forecasting is difficult. The installation of additional erators and the unanticipated rate of growth of recreational facilities along newly-created lakes may modify the numbers of federal workers needed at the ce and upset earlier predictions.

It is therefore evident that the degree of permanency is not readily ertainable and that varying degrees will actually exist in fact. This suggests t planning measures should embrace the idea of confining the more costly and manently-fixed housing types to a "solid core" at each colonized place and t special attempts should be made to conserve investments in the balance of furnished supply. Devices which enable the housing to be reused or which imize the initial investment will prove economical in the long run.

Geographic Distribution: The need for housing is widely scattered in all tes and territories and in all kinds of environments and climates. The very

t that the federal attention to housing is needed primarily because of the k or inadequacies of nearby private supplies of housing or the unattractive-s of the investment opportunities for private capital implies that the places non-typical and peculiar. Federal enterprises are themselves widely ttered. The Bureau of Reclamation, among other activities, is concerned with least 60 dam projects. Many of the military and AEC projects require remote isolated location. The custodianship of the public domain implies scattered sing requirements. There are literally thousands of places involved; this is arly appreciated after glancing at the locations shown on the maps of the agencies.

Reliance on Nearby Towns: All the federal agencies have fully explored the sibility of housing their employees in nearby towns and many federal workers of course, provide their own housing in this manner. Many practical considera ns enter into the solutions. Wintertime commuting conditions are a factor. tances, road conditions, and means of transportation must be considered. The ects of these factors on absenteeism, tardiness, and morale are evident. e employees have duties which require their regular presence on the federal ervation or at the facilities under their custodianship. Sometimes the near-towns are not only too distant but actually afford living conditions which not satisfactory and suitable. At the same time, some workers do elect to e in nearby towns simply to secure social and community life for their fami-s and they appear to be willing to travel considerable distances to secure h advantages. Evidently the larger the nearby city the greater the attraction nas as a place to live. The problem of housing federal workers diminishes in presence of larger urban communities. Even in those cases where the govern-t has built towns, numbers of the workers do not live in them. At present ut 40% of the employees at Oak Ridge and 8% of the employees at Richland live side the towns. The 40% ratio at Oak Ridge seems to porsist even though total loyment has decreased somewhat. Of course, in some cases the families are ll living in off-reservation homes from which they were originally recruited.

Location Classification: Any attempt to develop a specific classification the various kinds of locations of housing will undoubtedly lead to rigidities programs and solutions and preclude the flexible application of housing hods which the nature of the actual locations seems to invite. It is prob-e that simple recognition of the fact that certain differences in financial utions may be applicable to places where there is considerable colonization uld suffice. The only other solution which requires a recognition of the ferences in locations is the method used to determine fair rentals. Such a hod should be developed for general application to all of the housing secured ough governmental efforts and the system should reflect the differences in tions by setting different rent levels based on the relative attractiveness locations to the tenant occupants. This can be achieved in a more satisfac-and realistic way if there is no rigid classification of types of locations there is, rather, a process which reflects the actual complex of character-ics of each individual location as compared with all others.

Differences in Families: There is apparently a marked diversity in the s of families to be housed. To begin with, the federal-worker housing prob-relates not only to actual federal employees but to government contractors their employees, concessionnaires and their employees, and others including ees of government land. That is, the families may be any whose presence is ssitated or desirable to carry out the program of some federal agency.

The kinds of families differ in no important respects from the generality ypical American families of similar income levels. Family sizes and composi- are the same. The age groups are usually the same. They aspire to security home ownership in a like manner even though many of them have committed them- es to careers which make them renters. Rotation policies will prevent many entertaining proposals to purchase their own homes. They are thwarted in r attempts to procure adequate housing at the present time and to the same nt as non-governmental workers by high construction costs or high rents. they achieve home ownership or adequate housing by renting by using many of same devices as are used by non-governmental workers.

There are four factors which can be used to classify the families and use hese classification factors will serve a very useful purpose in determining ing policies, housing programs, and rent determinations. These factors are pay levels, (b) status in agency, (c) permanency of employment, and (d) anency of assignment to duty at a particular place. These factors, combined arious ways, afford the basis for a specific classification of each family leaves only one variable, namely, the size and composition of the particular ly. The latter will affect the size of the accommodations required but not qualities or other characteristics of the housing needed.

Pay Levels: Classification of families according to their pay levels, her or not they are government employees, affords the basis for providing ssigning different grades of housing to different families. Actually such ouping according to incomes has the effect of paralleling the situation and ess which occurs in non-governmental housing. The families with higher mes occupy better housing. Housing is recognized as a consumer's good and grades of housing used vary approximately with the incomes available to the lies.

Status in Agency: This refers to the matter of the nature of the position by the employee. It is not an important classification factor in any case requires some recognition, especially in connection with the assignment of ing. It relates to the requirements of certain high executives to have er housing to enable them to maintain a reasonable degree of prestige, to rtain more elaborately than other more average-status families, or to ve other ends of a similar nature. It would appear appropriate to suggest the practical recognition of status in the agency as a basis for providing r housing must always be readily traced to tangible benefits which will e to the program of the agency.

Permanency of Employment: The third factor in classification is the nature ployment insofar as permanency of employment is anticipated. The presump- behind the use of such a classification factor is that career or permanent yees will properly be housed in higher grades of accommodations than will rary employees. This, in turn, rests on the assumption that a temporary yee will be content with the lower grade of housing and that the government not make or support the higher costs implicit in the use of the higher s of housing for such employees. What would constitute "temporary" and anent" for this purpose should be related to the effects on the families, o the official personnel classifications used by the government. The ing might be three ways: (a) seasonal employment, meaning 12 months or less, emporary, meaning 12 months to 36 months, and (c) permanent, meaning more 36 months.

Permanency of Assignment: The fourth classification factor is the degree rmanency attaching to the employee's assignment to duty at the particular . It would be presumed that the families which expect to remain for the er periods of time at any given place will accept a somewhat lower grade of modations and that the government may properly assign such families to the qualities of housing. It also assumes that the family which cannot look rd to a change of location will not retain good morale if it is not assigned suitable grade of housing. Some agencies employ permanent workers but ct them to periodic rotation of assignments to duty at particular places. practice is not confined solely to the military services. Sometimes the of duty average two years, sometimes four or some other length of time. would constitute "temporary assignment" and "permanent assignment" for this se should be related to the effects on the morale of the families. The ing might be three ways: (a) seasonal, (b) temporary, and (c) permanent, sed in practice only by combining the groupings with those suggested for nency of employment. This might result in the following four-way grouping assification:

a) Permanent employment and permanent assignment at the place.
b) Permanent employment and temporary assignment to duty at the place.
c) Temporary employment.
d) Seasonal assignment (with either permanent or temporary employment).

The suggested classification system can be used directly in connection with ng methods and will serve to identify all the major significant variables, , pay levels, status in agency, permanency of employment, and permanency signment. It does not include the remaining significant variable, namely, nd composition of the family. The latter factor, in practice, will be eparately (See II-3. Housing Standards, below).

Problems and Solutions

There are evidently two major objectives sought by the Bureau of the Budget examination of the problem of federal-worker housing practices. These) to achieve uniform legislative and administrative treatments and (2) to efficiency and economy in housing operations.

he first objective embraces the goals of securing legislation which is for the housing of the several agencies or is actually combined legislation. ludes the purpose of formulating a single policy applicable to the problem less of the agency of government in which the housing problem may arise. ludes the idea of giving fair and uniform treatment to the families regard- f the agencies which employ them and suggests the need for housing stand- f general application. It also includes the thought that uniform policies ng to rental rates, occupancy control, and tenant services and privileges be formulated.

he second objective embraces the consideration of the formulas used to , maintain, and operate the housing in the most efficient and economical . It invites the exploration of financial formulas which will minimize d for appropriations, including exploration of the possibility of using capital. It also includes the goal to examine the possibility of taking

s to combine some of the administrative organizational units now in existence s to secure a less costly operation and the benefits of the automatic dardizations which might result from such a realignment.

The problem which the Bureau of the Budget has brought under consideration es principally because of the urgency of the need for family housing for the tary services and the perplexities and confusions which result from the npt to judge budget requests and legislative proposals flowing from all the cies. It arises only in small part from any apparent lack of competent ling of housing matters in most of the agencies.

. If the problem is of the character described and the goals do include e set out, then it would seem proper to recognize that there is a strong ability that the practices which have grown up in the several agencies are least a good point of departure in seeking solutions. Furthermore, prevailing tices and conditions will have to be taken into account. The government does several towns. The rents in the towns are low. The FHA legislation and ods are factors in the use of private capital. The present supply of rnment housing will vary from any standard which will be set up. The ained traditions with respect to the provision and utilization of government ing are realities which must be taken into account. Some rent policies xly attempt to offer additional compensation. The prerogative of agencies andle their own housing problems, to request appropriations, to submit ifications, and to operate the housing must be recognized and considered careful appreciation of the close connection between housing practices and cy programs.

In spite of the fact that the solutions cannot be applied to a new and unpied zone of action, there is the strong desirability to take steps toward two objectives. We believe that at least three major fields should be pred:

1) There should be developed a statement of housing policy representing the views of the Executive Department. The several agencies should be required to adhere to the provisions of the policy statement. Further, the statements should be used by the Bureau of the Budget as standard criteria against which to test and judge legislative proposals and requests for appropriations.

2) There should be organized a centralized unit of government charged with the responsibility of assisting agencies to procure, operate, and dispose of housing. To the extent reasonably possible and desirable, the proposed agency would relieve the several agencies of many technical tasks and administrative burdens. It would, by its mere existence, serve to achieve some of the desired standardizations and uniformities.

3) There should be developed new procurement formulas which relieve the nation of much of the financial burden inherent in the provision of housing largely by direct appropriation of funds. The procurement and financial formulas should be of such a character and variety that they provide housing under the permanent, quasi-permanent, and temporary situations. They should envision the possible savings to be secured by the use of movable structures.

In the remainder of this report, we present our thoughts and recommendations respect to each of the above three fields.

II. UNIFORM POLICY AND TREATMENT

This section discusses steps which might be taken to bring about uniform tment of the problems associated with the housing of federal workers. It rs (a) the need for a stated federal policy covering such matters and the rability of uniform legislation, (b) a recommended statement of policies ring federal-worker housing and related matters, (c) suggestions with respect he type of standards which should apply to physical accommodations and the ods which should be used to set such standards, (d) a recommended method for determination of rental and other charges, and (e) a discussion of those cies relating to the use of subsidies.

Need for Policy and Uniform Legislation

The prevailing legislation and policies followed by the several agencies he federal government with respect to the housing of their workers are far uniform. They have grown up separately through the years under differing umstances and to meet housing situations which are, themselves, far from orm.

In our opinion the current project of the Bureau of the Budget with respect ousing of federal workers should result in a written statement of executive icy relating to government participation in the housing of families of govern- workers. Such statements should embrace both broad principles and more cific rules leading toward

(1) A clear delineation of the nature and extent of the government's responsibility and requirements in this field.

(2) A declaration of rules and the setting of limits which result in equal and uniform treatment of families of equal status regardless of the agencies by whom they are employed.

(3) A single program of legislation and housing operation which eliminates duplications of effort and reduces the costs of handling the housing program.

(4) Establishment of suitable and effective criteria against which to test recommendations and requests from federal agencies for family housing legislation and appropriations.

Recommended Statement of Policy

The following "Executive Policy on Housing of Government Workers" is here- presented and recommended by us for consideration as the basis for the ired policy statements. It does not cover many matters which should be the jects of policy statements. The rules described in the policy statement are lected in our other proposals with respect to government organization to handle ing problems of this type and financial formulas recommended; that is, we recommended methods and formulas which adhere to the requirement set out in policy statement.

EXECUTIVE POLICY ON HOUSING OF GOVERNMENT WORKERS

NATURE OF GOVERNMENT INTEREST IN HOUSING OF GOVERNMENT WORKERS

1. Interest Relates to Government Programs: Federal effort and expenditure related to the housing of individuals and families is deemed proper under circumstances where such efforts and expenditures are necessary and justified in carrying out federal purposes and programs provided for by law and assigned to particular federal agencies.

   Federal attention to such housing matters must relate to the national welfare, the conservation of resources, the national defense, or some other federal purpose and shall in every case be associated with a federal program which is advanced by the attention to housing or is accomplished in a more economical manner.

   The federal attention to housing is not deemed proper if its objective is solely or primarily for the purpose of increasing the standard of living, providing greater comfort, or improving the housing of individuals or families. Such immediate goals will justify federal attention to housing problems only if their achievement aids the programs of one or more federal agencies.

   The justification for federal attention to housing must show, in every instance, that an agency program will be impaired if attention to housing is not given. Such impairment may comprise inefficiencies in agency operations, inability to carry out custodial responsibilities in a suitable manner, introduction of risk of loss to the federal government, or the imposition of additional costs or expenses on the government. In this sense, and in this sense only, the federal government has a definite responsibility to give attention to matters related to the housing of government workers.

2. Housing Not an Inherent Right: Under all circumstances, government workers shall arrange for their own housing. The government gives no rights to federally-provided housing to any group or individual. The government addresses itself to housing matters solely for its own purposes and without accepting any implied responsibility to persons who are or might be housed.

CIRCUMSTANCES JUSTIFYING ATTENTION TO HOUSING

1. Agencies Shall Make Justifications: Because individual federal agencies are charged with the responsibility for their particular federal programs, and because the sole justification for federal attention to housing is related to the conduct of such programs, each federal agency shall be responsible to the President for identifying conditions requiring and justifying federal attention to housing and for determining housing needs, demonstrating the desirability of the attention, and

certifying with respect to the nature and extent of the requirements as they affect the particular programs under its jurisdiction.

Consequently, the origination of all proposals of this nature will be in federal agencies and shall be judged and tested against the programs of the several agencies rather than against abstract standards of housing. However, in cases where the dearth of suitable available housing in private markets is cited by an agency as the basis for the justification, the agency will not be held responsible for submittal of detailed proofs and evidences of inadequacies in such private markets.

In all instances where FHA mortgages are used, the federal agency shall make its certification in the form prescribed by law and regulation and shall indicate that there is a need for the housing of families associated with the agency program, its own expectations with respect to the degree of permanency of the program at the place and predictable fluctuations in the employment with which the housing is concerned, and information on the families to be housed, including facts with respect to the numbers of families, age groups, sizes and composition of the families, and expected ranges of family incomes.

2. Agencies May Cite Justifying Circumstances: In submitting statements in justification of proposals for attention to such housing requirements, agencies may cite any set of circumstances deemed by them to indicate sufficient reasons to warrant the federal attention. Recognized circumstances justifying attention may include:

   (1) the necessity to provide housing accommodations on federal reservations or within federally-held real estate for persons whose duties require their presence at the place for any valid reasons including custodianship or responsibility for property, availability for emergency call, need for control over personnel, or security considerations.

   (2) lack of suitable alternative means for housing resulting from remoteness of location with respect to towns, dearth of available private housing for rent or purchase in the area, commuting time and costs, and high costs or rents in available housing in relation to the incomes of the persons to be housed.

   (3) demonstrable and marked convenience or economy such as that related to the provision of quarters for persons on short or temporary assignments to stations.

3. Groups Which May be Housed: In submitting statements in justification of proposals for attention to such housing requirements, agencies may relate their proposals to the housing of any groups or persons whose occupations or shelter problems have an impact on the programs of the agency. Proposals need not relate solely to government employees but may relate to other persons. Recognized groups to whose housing problems attention may properly be given include:

(1) All federal government civilian employees, regardless of status.

(2) All military personnel on duty or actively connected with the Department of Defense.

(3) All Coast Guard personnel.

(4) Government contractors and the employees of government contractors, provided federal programs are thereby advanced and the housing accommodation is afforded only during the period the conditions of the contracts are being carried out.

(5) Concessionnaires and the employees of concessionnaires, provided federal programs are thereby advanced and the housing accommodation is afforded only during the period for which the concession runs.

(6) Lessees and the employees of lessees of government-owned real estate, provided federal programs are thereby advanced and the housing accommodation is afforded only during the term of the lease.

The proposals may relate to individuals or to natural family groups or both. They may also relate to the housing of married persons assigned to stations without their families.

I. UNIFORM TREATMENT IN SOLUTIONS

1. Uniform Treatment an Objective: It is the policy of the government to treat individuals and families permitted to occupy housing provided by federal effort or expenditure according to uniform standards applicable to all the employees or workers engaged in work associated with federal programs regardless of the agencies with which they are associated. However, this policy shall not be interpreted as a gurantee of equal treatment and its application to housing practices shall be limited by practical considerations.

It is the policy to set defined limits which result in equal and uniform treatment of persons of equal status regardless of the agencies by whom they are employed, to foster the adoption of a single program of legislation and housing operation applicable to all such housing problems, and to establish suitable and effective criteria against which to test recommendations and requests from agencies from housing legislation and appropriations.

2. Classification of Persons and Families: It is the policy to ascertain and classify identifiable groups according to kinds of families and individuals for whom housing arrangements might be made. Tests and criteria to be used for this purpose shall include:

(1) Pay levels.
(2) Status of employee in agency.
(3) Permanency of employment arrangement.
(4) Permanency of assignment to duty at the place.

In addition, families shall be classified according to their sizes and composition.

Such classifications shall be used in determining the types, grades, and sizes of housing units to be procured at any time at any place and in determining the proper assignment of units to particular families. However, the classification factor "Status of employee in agency" shall not be used except to secure a tangible benefit to the agency program.

3. Standards Same as in Private Employment: Housing provided through the efforts of the government should afford, to the maximum feasible degree, good environments in which to live and a standard of physical shelter comparable with that enjoyed by other citizens having similar incomes. In all cases where the housing attention has been justified, the policy is to attempt to procure and provide rental housing accommodations or quarters which are the equivalent, within practical limitations, of the types, sizes, and grades of housing and housing environments and community facilities found in like situations, if any, and for like groups of people employed by private employers in typical non-governmental communities.

The standards of housing procured by governmental efforts and expenditures shall be determined so that they are as high, but no higher, than the grades of accommodation generally used by similar groups of people with similar levels of income in typical communities and under similar conditions of employment.

It is the policy to presume, whether actually true or not, that such standards are sufficiently high to make the housing adequately serve the purposes of the agency involved by giving sufficient inducements or affording sufficient comfort and convenience to secure recruits, to achieve employee contentment, to reduce absenteeism and tardiness, or to achieve any other specific agency objective.

4. Basis of Determining Standards: In determining standards, the following considerations shall be taken into account:

(1) The standards shall be graded so as to reflect the differences in requirements of the four following classes of persons or families to be housed:

(a) Those whose employment and place of assignment to duty is presumed to be permanent.

(b) Those whose employment is deemed to be permanent but whose assignment to duty at the particular place is temporary or limited in point of time.

(c) Those whose employment is temporary or limited in point of time.

(d) Those whose assignment to duty at the particular place is very short or is seasonal.

For this purpose "temporary" shall mean 12 months to 36 months and "seasonal" shall mean less than 12 months. The classification shall apply equally to both military and civilian personnel and to government employees and the employees of contractors, concession-

ionnaires, and lessees.

(2) Where numbers of families or individuals are to be housed at some one place, the housing efforts and expenditures may properly extend to the provision of suitable environments and adequate community facilities and services which permit, to the extent feasible, normal and good community living, safety, health, recreation, and cultural and social advantages. Justifications shall be made according to the same principles as are prescribed with respect to the housing itself, including the tests related to the costs involved and the dearth of equivalent facilities at the place.

Standards relating to community facilities and services shall be based on the needs associated with agency programs and shall be as high, but no higher, than the grades of facilities and services generally afforded to residents in well-governed and operated American communities.

Such standards may relate to listed environmental provisions, community services, and community facilities including water supply, sewage disposal, gas, electricity, roads and streets, transportation, fire and police protection, shopping facilities, recreational facilities, schools, and churches.

(3) Space and livability standards applicable to dwelling units shall be graded so as to reflect differences in pay levels, status of employee in relation to the agency's enterprises, permanency of employment, permanency of assignment to duty at the place, and the typical sizes and composition of families at or to be assigned to duty at particular places.

In setting space and livability standards, the sizes and accommodations of dwelling units shall be made adequate to house the typical families expected to receive successive assignments to the particular station or place. However, where there are a number of families to be housed at a particular place, a variety of sizes of units shall be furnished and the numbers of each size shall be determined on the basis of the probable ratios of families of different sizes and composition expected to utilize the housing through coming years. Further, at such places, the government shall be expected to supply units of suitable sizes to particular families only if proper-sized units are available in the supply and larger-than-standard sizes for particular-sized families shall not be assigned unless smaller units are not available.

(4) Quality standards and standards affecting equipment items, fixtures, and furnishings shall be graded so as to reflect differences in pay levels, status, permanency of employment, and permanency of assignment at particular places, but shall be the same within each classification.

Structures should be characterized by structural soundness and the capacity to resist the elements and continued use.

Structures should be architecturally attractive and conform with or improve the design standards of other structures, private or

public, in the same area.

(5) In establishing standards, the costs of procurement and erecting housing, the rental levels required, and the amounts of housing allowances shall not be controlling factors.

Occupancy Privileges and Priority Policy: Because the justification for federal attention to housing is found solely in the programs of agencies, each agency shall be responsible for the determination of rules governing the occupancy of housing procured through governmental effort or expenditure. The following policies shall apply:

(1) Occupancy privileges shall be controlled, if necessary, to make certain that the housing serves either the specific federal program by which its procurement was initially justified or some other federal program in connection with which there is a current housing need which can be met by imposing the occupancy control.

In exercising the control over occupancy, the federal agencies, or any other agency to which they may delegate their responsibility, shall give due consideration to the relationship between the available forms of occupancy control and matters of security, recruiting of workers, and the maintenance of the morale of workers. Within reason, units may be held vacant against probable future needs.

A federal agency may delegate the administration of occupancy regulation to another federal agency or to a management contractor but such an arrangement shall be subject to cancellation without notice and shall not relieve the agency of full responsibility for control over the occupancy of units.

(2) Occupancy privileges shall not be given to any person for the purpose of increasing his compensation or in such a manner as actually to increase his compensation unless he is assigned to unoccupied available accommodations for the convenience of the government and for the purpose of saving government expenditure.

(3) If the housing is provided by private owners who have been or are being aided in any manner by the government in the provision of the housing, the agency concerned shall retain legal control over the selection of occupants and the periods of occupancy during the period such aids continue or until evident benefits to the government have expired. In such instances private sponsors may be permitted to rent vacant units to non-preference tenants for limited periods.

(4) If the control of occupancy is no longer necessary or if the extent of the control can be relaxed without impairing the federal purposes for which the housing was procured, such controls may be removed or relaxed subject to the following considerations.

(a) The property shall be disposed of subject to the advantage of the government if there is no evident federal purpose served by retaining it.

(b) Any interest of the Federal Housing Administration in the property shall be taken into account in arriving at decisions.

(c) If the housing is provided by private owners who have been or are being aided by the government in the provision of the housing, their reasonable rights shall be taken into account in arriving at decisions.

(d) Consideration shall be given to the effects of disposals or other actions on private investments in housing in the area and the decisions shall be made with a view toward creating a minimum of unfair competition with private owners and investors.

(e) Consideration shall be given to the advantages which might accrue to the government by retaining occupancy control and using the housing to advance a program of some other federal agency.

(5) The character and extent of the control over occupancy shall be determined by the agency whose program originally required the government effort and expenditure to procure the housing. Such control shall continue for such a period of time as the original purposes continue. If the occupancy control requires the application of a system of priorities to secure the maximum advantages to the government, the agency concerned may establish such a system under which it will nominate persons or families to occupy units according to the following rules:

(a) Priority for available housing shall be given first to persons whose occupancy of the housing is deemed to be most important or most advantageous to the agency's programs.

(b) Next priority shall be given according to declared tests such as length of service, need for space for lower-income families, position on formal waiting lists, or the public drawing of lots. There shall be no unfair preferments in assigning occupancy privileges.

(c) At places where the housing is colonized, to the extent feasible and in conformity with the priority system prescribed, families shall be permitted to select the units they prefer to occupy from the total available supply of vacant housing.

<u>ermination of Rental Rates:</u> It is the policy to attempt to establish tal rates, in housing controlled by the government for government kers, at fair rates. Effort shall be made to set rents which are as

high, but no higher, than the rents occupants would have to pay for occupancy of privately-owned housing of a comparable grade in typical or comparable communities but in no case higher than the level of rent determined to represent a fair percentage of the income of the typical family to be housed. That is, the aim shall be to establish rents in each case on the basis of rental values determined by comparison with rentals in similar grades of housing or on the ability of typical occupant families to pay, whichever is lower. In applying this broad principle, consideration shall be given to the following:

(1) If the housing is government-owned or government-controlled, the rental rates shall be determined on the basis of fair rental values determined by making comparisons with the rental rates paid for similar housing in typical communities, except that if such rental rates are higher than rates representing the reasonable ability of the families to be housed, ascertained from average ratios of rents to incomes of privately-employed families in similar communities.

In establishing rents applicable to government-controlled housing located at any particular place, the rents shall be set so that they reflect actual relative rental values of the units. Consequently the process of establishing rents required in the foregoing shall apply to the determination of the general level of rents, not to the specific rents applied to particular units or families.

In establishing the rental rates consideration shall be given to the typical percentages of family incomes devoted to shelter. The basis of comparisons need not be the rental rates prevailing in nearby towns and communities but may properly be based on wide comparisons which themselves embrace consideration of percentages of income devoted to rents in family budgets throughout wide regions.

No rental rates shall be established at a low rate for the purpose of giving additional compensation to a worker.

Whenever possible, the rents established on government-owned housing shall not be at levels which preclude the construction of private competitive construction on an economic basis and the government shall encourage the provision of housing facilities by private investors for the express purpose of minimizing the amounts of housing procured by governmental efforts.

(2) The determination of rental rates shall be independent of the costs required in providing the housing. If the absorption of costs by the government is necessary such absorption shall be deemed proper provided there are both an effort to minimize the amount of the costs absorbed and the amount is calculated and recorded.

The costs and expenses involved in operating and maintaining the housing at any particular place shall not be taken directly into

consideration in determining rental rates unless the expenses are to be borne by the tenants and are higher than normal charges in ordinary non-governmental communities; in such cases it shall be deemed proper to reduce the rental rates to levels which exactly offset the amounts to which such expenses exceed the normal charges.

Personnel of the Department of Defense and any others who receive, under law, allowances in lieu of quarters, and who occupy housing procured as a result of federal effort and expenditure, shall pay rental rates determined by the prescribed process and the amounts of the housing allowances shall not be considered and used as a dtermining factor.

(3) If the housing is furnished by a private owner who has been or is being aided by the federal government in providing the housing, control over the rental rates shall be retained by the federal agency, or a federal agency to which it has delegated its responsibilities with respect to housing, except that this policy may be modified to the extent needed if the private owner is the mortgagor under the provisions of a mortgage insured by the Federal Housing Administration. In such cases, the rents may be determined so as to be acceptable to the FHA provided they are not higher or lower by 5% than the rents determined under the general rule applicable to government-owned or controlled housing.

(4) The rental rates charged in federally-owned housing shall be subject to review and adjustment once each year. Adjustments shall be made to bring the rents to the levels indicated by the general rule, except that, if the required adjustment to accomplish such a purpose involves an increase in excess of 6% or the rent then applicable to a unit, the portion in excess of 6% may be deferred until the year next following. Such deferment of excess increases is not mandatory and shall be made only in the interests of morale of workers whose possible dissatisfaction might impair the agency's program.

(5) Rent subsidies shall not granted.

Community Services: It is the policy, when the housing for government workers is located on government reservations, for the government to provide such community services as are necessary and appropriate to create satisfactory living conditions and to protect property and health. The standards applicable to such services shall be the same but no higher than are generally found in non-governmental communities in which families of the same general income levels live and having the same general population sizes.

PROCUREMENT AND OWNERSHIP OF HOUSING

Economy Shall Control Decisions: In the procurement and ownership of housing for government workers, it is the policy of the government to use methods which necessitate the least expenditures of government funds,

the minimum assumption of liabilities and obligations, and the greatest possibilities for the recovery of investments required to achieve the housing in accordance with the needs of federal agency programs and with the adherence to the policies relating to standards, rent establishment, and occupancy.

In examining proposals for the procurement of additional housing or the future utilization of existing housing, preference shall be given to methods which afford the greater economies over long periods of time. That is, the proposals involving lower expenditures of government funds for the periodic future costs to the government of operating and maintaining the housing, combined with the initial cost of production of the housing, shall be utilized in preference to other proposals which may require lower initial costs but greater total costs and expenses in the long run. OK
The achievement of maximum economies shall be in part by giving careful consideration to the future trends of requirements for housing units at particular places and surveys of requirements shall embrace investigation of not only immediate and urgent needs but long-range requirements and prospects for long-continued utilization of housing units by government workers at the place.

Consideration shall be given, in every case, to the degree to which there may be a total or partial recovery of government investment in housing through the disposal of units when they become surplus and the probable amounts which may be so recovered shall be taken into consideration in judging between proposals.

2. Use of Direct Appropriations: In the procurement of housing for government workers, direct appropriations shall be used in given fiscal years to provide the funds needed for housing enterprises which have been justified by the agencies for the particular years in which it is intended to procure the housing, except that

(1) The use of appropriated funds shall be avoided in all instances in which housing can be suitably procured by inducing private enterprisers, including landlords, builders, project sponsors, and lenders, to undertake to furnish the housing, except as provided in (3) below.

(2) The use of appropriated funds shall be mimimized, whenever possible, by inducing private enterprisers to undertake projects which rely on the provision of part of the required initial investment by the government but such provision of government funds shall be for the minimum amounts necessary to induce the private enterprisers to undertake suitable projects.

(3) The use of appropriated funds will be deemed to be proper in instances where there will be a recovery of a considerable portion of the investment by the government within two additional fiscal years.

In all cases where appropriated funds are used to procure housing,

builders and project sponsors shall be selected on the basis of competence and by a bidding process which enables the government to secure the savings which may result from competition among private enterprisers.

Use of Government-made Mortgages: In connection with the procurement of housing for government workers, the government may provide funds to private enterprisers by means of mortgage loans secured by leasehold estates (and buildings) located on government-held land provided

(1) The FHA has insured the loans or has issued commitments to insure the loans, and

(2) The government loans are offered for sale, after insurance by the FHA, to private lending institutions at the highest price obtainable in the mortgage market within a period of two years after the completion of construction of the housing project.

Use of Movable Structures: It is the policy of the government to procure movable structures in preference to permanently-fixed structures for the housing of government workers whenever suitable units are available and long-range economies can be demonstrated. Such structures should be used when there is question with respect to the permanence of the need for housing units at a particular place.

Use of Nearby Towns: The programs of federal agencies should be adopted and located only after consideration has been given to the requirements for the housing of government workers. To the maximum extent feasible, federal enterprises shall be located in places which enable the maximum number of families to provide for their own housing, either by purchasing or renting dwellings.

Use of Present Government-Owned Housing: The policy of the government is to conserve funds and government housing assets so as to minimize the needs for procuring additional housing. However, this policy shall be subject to the policy to renovate or demolish obsolete substandard housing and secure the reasonably prompt replacement of substandard temporary housing units. The policies relating to the procurement of new housing shall be applied in the making of determinations with respect to the continued utilization of present government-owned housing.

Incorporation of Government Towns: In all instances where federal agencies create or own towns it shall be the policy to convert them to non-governmental towns as soon as possible by the orderly disposal of real estate to private owners and the incorporation of the towns, provided the programs of the federal agencies will not be impaired by taking such steps and provided further that the long-range interests of

the residents of the towns are served by taking such action. The interim steps leading toward such lines of action shall embrace the establishment of rent levels and the adjustment of utility and municipal service arrangements in such a manner as to make the ultimate town incorporation feasible and fair to as many interests as possible.

Justifications and Certifications: In all instances where federal agencies request appropriations or legislation related to the housing of government workers, such requests shall be accompanied by suitable presentations which justify the requested proposed lines of action.

(1) If the lines of action include the use of the specialized services, powers, or financing aids granted to the Housing and Home Finance Agency or the Federal Housing Administration in connection with the housing of federal workers, the federal agency shall also execute a certification indicating that there is a need for the housing of families associated with the agency program, its own expectations with respect to the degree of permanency of the program at the place and predictable fluctuations in the employment with which the housing is concerned, and information on the families to be housed, including facts with respect to the numbers of families, age groups, sizes and composition of the families, and expected ranges of family incomes.

(2) Use of the specialized services, powers, or financing aids granted to the Housing and Home Finance Agency and the Federal Housing Administration in connection with the housing of federal workers shall be optional with the federal agencies.

Procurement by Lease or Guaranteed Rents: The securing of occupancy for government workers in privately-owned dwelling units by means of government leasing, as lessee, and the subleasing of units, or by the guarantee by the government of the payment of rents, is deemed proper.

(1) Such procurement through short-term gross leases is deemed proper when there is a short-term or temporary government need to command an existing local supply of housing, it is necessary to secure reductions in rents for limited periods when market rental values are beyond the reach of the families to be housed, and there is a need to speed the occupancy of families in housing now in existence.

(2) Such procurement of housing through long-term net leases is deemed proper when there is an assured long-term government need to command an existing or new local supply of housing and where it is necessary to secure reductions in rents for very long periods.

(3) Such procurement through government guarantees to landlords of short-term tenant leases is deemed proper when there is a short-term or temporary government need to command an existing local supply of housing, it is not necessary to secure rent reductions for the tenants, and there is a need to speed the occupancy of families in housing now in existence.

0. Use of Private Sponsors: It is the policy to induce private sponsors to undertake the provision of housing for occupancy by government workers when the housing is colonized and is located on government reservations.

(1) Selection of sponsors shall be by an open-bidding procedure.

(2) A successful bidder shall become the lessee under the provisions of a ground lease. The ground rent shall be based on a percentage of the fair value of the site. The lessee shall have an option to purchase the leased fee in the event the town in which the housing is located is incorporated as a non-governmental community. It is deemed proper to guarantee, within reason, the rendering of needed utility and municipal services to projects located on such leaseholds.

(3) It is the policy to establish the charges for utility and municipal services at levels which are typical or normal for such services in similar or comparable non-governmental communities regardless of the costs to the government of rendering such services.

1. Competition with Private Operations: It is the policy to finance and operate housing procurement programs in a manner which equalizes the difference between such programs and sound typical private housing enterprises in the same areas so as to prevent unfair competition between such projects. The government shall not produce government housing in instances where private landlords, builders, and lenders can and will provide housing suitable for the purpose with respect to location, rents, and standards.

In instances where the procurement of housing is achieved through private sponsors who become lessees of government-held land, the government may make FHA mortgage loans to the sponsors. However, if a government-made FHA loan is made

(1) There must be a showing that mortgage accommodation was not available from private sources.

(2) The mortgage shall be offered for sale to private lenders, and

(3) The mortgage shall not be made on terms which are more attractive to the borrower than those available in connection with private lending operations of the same character.

12. Absorption of Initial Investment: The absorption by the government of a part of the total required initial investment in a privately-sponsored housing project shall be permitted only when necessary and to the extent necessary in the particular case to achieve proper levels of rents and proper standards of housing.

Subsidies shall not be granted; it is deemed improper to make any government investment to reduce the initial investment of a private sponsor beyond normal and typical levels.

. Housing Standards

The foregoing policy statement provides the principles to be 'ollowed in establishing and applying housing standards for housing to be ›rocured through federal effort or assistance. This subsection comments ›n the need for standards, the kinds of standards involved, the methods to ›e used to determine standards, and the application of the standards in the ıousing of federal workers.

A distinction should be made between two subjects, namely, (a) ›tandards and (b) the amenity-comparison process described in a later subsection. The subject "standards" refers to the rules to be followed in :he designing and erection of new housing and to the rules controlling the ıssignment of housing from available supplies to families. The "amenity-:omparison process" refers to the method used to make comparisons in the ›rocess of rent determination and applies equally to old and new housing.

(1) Need for Standards: Past experience in some agencies has inlicated the difficulties which arise from the assumption that there is a logical and rigid interrelationship between costs, rents, and standards, the three sides of a triangle in which the dislocation of any one side noves the other two. This has been particularly apparent in the attempts to secure housing for the military services under the original version of the Title VIII legislation (Public Law 211, 81st Congress). If comfortably low rents were first set they led to a ceiling on possible costs which, in turn, fixed a standard of housing found to be too low. Or, if the standard was first set, it determined a cost level which, in turn, determined a rent level which was frequently too high.

In our opinion, the need to break the rigidities implicit in the assumption of a logical constant relationship in this triangle is now self evident. If the recommended policy to provide the families the grades of housing they would normally secure for themselves in private employment is adopted, then the standard becomes a fixed point of departure from which to work and rents and costs can be made the variables. If the housing of these families is a governmental concern, and if the justification for federal attention is related to the agency programs, then the housing standard becomes significant in its own right. Minimum standards would be independently applied and would be just high enough to serve the purpose. The policy of the government would then be to attempt to procure and provide rental accommodations which are the equivalent, within practical limitations, of the

›es, sizes, and grades of housing found in like situations, if any, and : like groups of people employed by private employers in typical non-govern- ıtal communities. That is, the standards of housing should be determined that they are as high, but no higher, than the grades of accommodation ıerally used by similar groups of people with similar levels of income in ›ical communities and under similar conditions of employment.

(2) Kinds of Standards: The standards, when finally worked out, ll probably relate to five matters associated with shelter and surroundings:) environments, (b) community services, (c) livability of units, (d) construc- on, and (e) furnishings.

(a) Environmental Standards: The environment is frequently the .e circumstance over which the government can exert the least control. It y be desirable to establish some sort of standards relating to surroundings, ıe cultural environment, schools, churches, land planning, non-service ighbors, convenience, shopping, and recreation. However, a practical con- .deration of the nature of these things suggests merely that when there is colonization of federal workers, the standards shall embrace merely the ovision of land planning according to the land planning requirements es- ıblished for ordinary FHA projects and a few standards which set minima with espect to retail shopping facilities, churches, schools, and recreation.

(b) Community Service Standards: The same attitude toward tandards would prevail with respect to community services. They would pply solely to places where the families are colonized and would relate to he following facilities: transportation, land improvements, streets and oads, sewer and water systems, electric and gas services, and other kinds f facilities, including municipal services such as police and fire pro- ection. The basis of the standards might be found in certain FHA minimum equirements but it is more probable that the typical grades of facilities ound in similar non-governmental towns should control.

(c) Livability Standards: Livability standards will prove to be he most important ones in the series. Livability standards relate to the .welling units themselves in terms of unit designs, sizes, and qualities. 'hey cover all factors of relative desirability of different units except hose relating to durability and methods of construction. Standards should e established so as to apply to all kinds of dwelling accommodations: railers, houses, and apartments; furthermore, they would apply to residen- ial structures and units attached to shops, warehouses, and other spaces ısed for non-residential purposes.

The resulting standards should be so graded that they describe ets of different sizes and qualities of housing on a scale from a low mini- num tolerable grade upward to a large size and high quality of housing. There is a requirement for many grades ranging from small units to be used by seasonal and temporary workers with low incomes to very adequate houses to be used by permanent government employees with permanent assignments at the places and with high incomes.

Size of accommodation and quality of housing should be separately treated. The standards should be classified first according to the size of

ie accommodations measured, probably, solely by the number of bedrooms. In ffect this prescribes that the standards shall be different for families f different sizes and composition.

For each such class, that is, for each unit containing a given umber of bedrooms, graded quality standards would be established. Such uality standards would apply to families of different incomes, different egrees of permanency of employment or of permanency of assignment to duty t a particular place, and other differences. The standards would vary, on ncreasing scales, and would probably relate to three types of features: 1) those which affect the size of the house (areas, rooms, etc.), (2) hose which affect the list of items and components included in the unit equipment items, number of outlets, etc.), and (3) those which relate to he qualities of items and components (grades of equipment, quality of finishes, ardware, etc.). The suggested grouping of these quality factors is shown n greater detail in the table "Quality-Standard Features" in the next ubsection.

The graded quality factors would be determined in such a manner hat they apply appropriately to houses with different numbers of bedrooms. hus those quality factors which affect the size of the house might be xpected to vary in houses with different numbers of bedrooms while those hich affect the lists of included items or the qualities of the items would, n general, tend to be the same in all houses regardless of the number of edrooms.

Styles of architecture would not be subject to standardization ut would be controlled solely through consideration of cost factors, aintenance-expense factors, and judgments with respect to appropriateness.

In establishing quality or livability standards, no attention hould be given to matters relating to structural durability unless they lso affect directly the livability of the units. Thus the quality standards ould relate to factors which normally affect the use of the units by enters rather than to factors which affect the wisdom of investment in the ousing or the cost of maintenance.

(d) Construction Standards: Other provisions, possibly hrough standards, should be made for the control of those factors which ive structural durability, low initial cost, and low maintenance cost. hese standards would represent a code (or would be established by reference o codes or minimum construction requirements of the FHA) aimed at sound conomical investment in housing by the government, not at the provision f features affecting livability of units. Such standards should, if past xperience is a guide, strike a balance between initial investment and period- c maintenance costs.

(e) Standards for Furnishings: The same lines of procedure would pply to the setting of standards on government-supplied furniture, equipment, nd furnishings. There would be standards relating to (1) the items to be furn- shed under different circumstances, (2) the qualities of the items, and (3) he types which appear to be most economical from the point of view of initial ost and subsequent maintenance, repair, and frequency of replacement.

(3) Determination of Standards: Ultimately the standards might properly be based on special field studies and incisive research. However, the immediate need is for a set of workable practical standards, as simple as the problem permits, based on the empirical judgment of qualified persons. Thus the standards can be based on direct observation and experience of technicians who are familiar with housing matters.

The ultimate final responsibility for the setting and enforcement of the standards should be fixed in a single governmental organization. This suggestion is reflected in our proposal to establish a centralized federal agency such as is described in Section II below.

There should be a careful examination of the housing standards now in use by various government agencies. Study should also be given to the standards used by the FHA and the PHA. These studies will reveal much useful material for use in determining the standards needed for the control of housing procured for federal workers. At the same time, no attempt should be made to adapt any of these standards to the federal-family housing problem merely because they are now in use unless such a step is the logical and best way by which to determine the new standards.

In setting the standards, consideration should be given to the desirability of securing housing units which afford a maximum degree of marketability. The government may wish to dispose of the houses at some future time and should have an opportunity to do so to advantage. Of course, this suggestion is also in line with the objective merely to substitute the grades of housing which would be available to similar families in private employment.

The method of procurement of the housing and the methods of construction should not affect the standards. Thus, the livability standards would be identical for permanently-fixed and movable housing and the same for privately-sponsored and government-built housing.

In establishing the standards, no attention should be paid to costs or rents except that the construction standards should reflect cost considerations. Both the size and quality standards should be based on the reasonable needs of the typical families throughout the scale of income levels and the criterion of "reasonable needs" is the grades of housing they occupy or would occupy in non-governmental communities.

The accompanying table, "Quality-standard Features," suggests the three kinds of factors on which livability standards might be set.

(4) Application of Standards: Once the standards have been set, they would be used to control the characteristics and qualities of housing provided through federal efforts. The practical problem will be to match the families with the housing standards. This would be accomplished by rule, not by the introduction of any extraneous conception of an American standard of living. The American standard of living is an observable reality and under the process here recommended would be used directly as the basis for setting the standards in the first place.

The standards are graded with the express purpose of assigning different grades of housing, whenever possible, to various families according to the

QUALITY-STANDARD FEATURES

	1BR	2BR	3BR	4BR
Size and Amount of Accommodation				
1. Gross building area				
2. Rooms included (Storage space by classified kinds, living, dining, and other spaces; porches, garages, extra lavatories, extra bath)				
3. Sizes of included rooms (Room dimensions or areas of named rooms)				
4. Sizes of unnamed spaces (Areas in passages, stair wells, etc.)				
5. Size of lot or usable yard				
Presence of Features				
6. Items of Equipment (named items included)				
7. Feature items (Shelves, counters, cabinets, mantle and fireplace, etc.)				
8. Number of electric outlets				
9. Extra finished spaces (Attics, recreation room, etc.)				
10. Amount of woodwork (Trim features, doors, etc.)				
11. Special features (Soundproofing, etc.)				
12. Yard Improvements (Drives, walks, etc.)				
Qualities of Included Items				
13. Grades of equipment items				
14. Quality of finishes and surfaces (including grades of trim, woodwork, and surface flooring; drywall v. plaster)				
15. Quality of hardware and fixtures				
16. Grade of sheathing & roof material				

ollowing classification factors:

(a) Pay levels.
(b) Status of employee in agency.
(c) Permanency of employment.
(d) Permanency of assignment.

Size and composition of the family is used as a separate variable o control assignments to housing units having different numbers of bedrooms ut not to control the grades of housing assigned. The assignment process ould not be carried out with respect to pay, status, permanency of employment, nd permanency of assignment in a rigid manner. For the most part, the ssignments would be by groups of families. This is the same as saying that he government would supply grades and sizes of housing suitable to the needs f groups of families expected to live at a place. Actually the accommoda- ions would be offered to families out of available supplies of housing ccording to the standards matching the family sizes and pay levels on a while they last" basis and, in supplying new housing at a given place there ould be an attempt to provide a balanced supply of houses of different sizes nd qualities selected on the basis of anticipated needs. The government dministrators in charge of such housing operations should recognize that the ousing requirements of the various families differ and they should attempt, ithin reasonable limits, to provide the varieties of housing facilities, or ccess to such facilities, required.

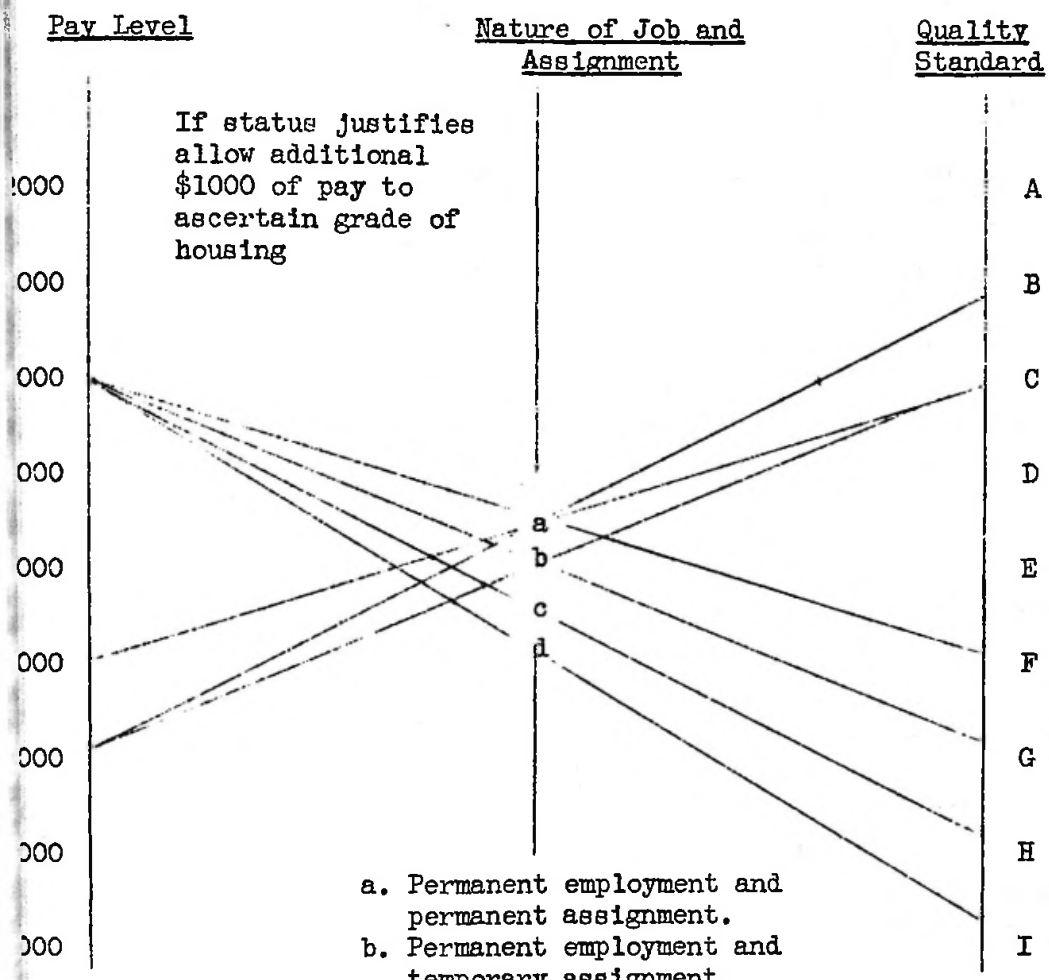
Thus, in applying the four classification factors above, "pay levels" efers to groups, not individual families. "Status" however, would refer to ndividual family heads and the policy might be to provide a better grade of ouse for a high ranking individual to establish his prestige and enable him o discharge entertainment or other obligations which may be significant in erms of the agency program. The plan embraces the throught that higher tandards of housing will be supplied for permanent workers than for temporary nes; again, this is based on the maintenance of morale of career workers whose oss would impair the agency program. In line with the same thought, lower tandards of housing would be assigned to workers whose particular assignments t the place are shorter than others.

Consequently, one of the needs in operating the government-family ousing program is a classification of the kinds of families to be housed and a atching of the classifications with the standards of housing. A rough idea f the way in which assignments might be made is suggested in the accompanying hart, "Assignments to Housing of Varying Standards." In using the chart a uler, which is placed so as to intersect the general pay level of a group of amilies and one of the four "permanency" points, will show the quality stand- rd of the housing applicable to the group. Having determined the quality tandard for any group, the housing assigned would be further selected on the asis of the needs of the families for larger or smaller accommodations in erms of numbers of bedrooms.

. Rental Determination

The foregoing policy statement specifies the principles and rules to e followed in determining the rentals and other charges to be paid by tenants ho occupy housing procured through federal efforts or assistance. This sub- ection explains the reasons for the recommended policy statements and suggests he method we believe should be followed in the practical determination of ental rates.

ASSIGNMENT TO HOUSING OF VARYING STANDARDS



a. Permanent employment and permanent assignment.
b. Permanent employment and temporary assignment.
c. Temporary employment.
d. Seasonal assignment.

(1) Rent Theory and Policy: The theory to be followed in setting ents is parallel to the theory behind the general policy to provide housing nly to substitute for a lack of available private housing. The substitution s not only physical but extends to the rental rates as well. Thus, if ossible, the rents are set at levels equal to the rental values of comparable rivate housing.

This theory of rent determination is also in accord with the policy ot to provide additional compensation through the device of low rents and ith the policy not to reduce rents solely for the purpose of creating incenives to tenant-workers. In addition the recommended theory of rent determinaion precludes, to some degree, unnecessary competition with private housing. f followed meticulously it would remove differences between the rents charged n governmental and private housing; it should achieve a workable relationship etween private rents and rents in either government-owned or government-aided ousing. The theory is in line with the policy which requires federal workers o house themselves whenever possible. Further, when any formula for the ousing of federal workers involves the use of private capital and FHA mortgage nsurance, the FHA itself has a stake in the securing of protection against nfair competition with insured projects in neighboring communities.

Thus the basic rent-determination theory is that rents shall be set t levels equal to rental values of comparable private housing. It follows hat certain other factors are not rent determinants and should not be taken nto consideration in the process of rent determination. The following three actors are not, in our opinion, elements entering into the setting of rents nd charges:

(a) Costs as Rent Determinants: The costs entailed in producing ousing at a particular place are not proper rent determinants. While it is rue that a private enterpriser would ordinarily not undertake to produce new ental housing unless he believed that the net income to be derived from the roperty in the future will provide both for a fair rate of return on the nvestment and for a recapture of the total initial investment over the years s the property depreciates and obsolesces, nevertheless, the actual rents he oes secure are determined by rental market factors. His costs are not one of hese.

Furthermore, much of the government-owned or government-aided housing s in locations in which the actual costs of producing the housing are aberrant. he differences are not properly charged against the occupants in such cases. he policy of the government to endeavor to give equal treatment to employees ill require the absorption of excess costs rather than the reflecting of the osts directly into the rents to be paid by the tenants at the particular place.

The need to permit the housing formulas to provide for an independent ixing of the rental rates is especially apparent during periods when construcion costs are exceptionally high. In all periods there is likely to be some eed to reduce rents on newly-constructed dwellings where there is currently a imited supply of older dwellings and where an adequate number of units can be rovided only by new construction.

While the costs of projects cannot become the basis for rent deterinations, they may serve one purpose in the process. The relative costs of

ɔducing different units might conceivably be used as one of the determinants the relative rental values of the units by making the rents proportional the costs and adjusting for operating and maintenance expenses. This use costs as a rent determinant might be feasible in those instances where the lative desirability of the several units is obviously the same except for the ɔunt of space they provide. The costs would not be used to determine the vel of rents but only to determine the percentage relationships between ıts. But investment return is only a part of the rent in any case and the lculations would also have to reflect the differences in the maintenance and ɜrating costs. Consequently, the general conclusion can be safely drawn that ɜ costs entailed in producing housing are not rent determinants.

(b) Operating Expenses as Rent Determinants: The yearly expenses of ıntenance and operation are also not rent determinants. The same line of ısoning applies. The expenses differ in many government towns. It defeats ɜ equal treatment policy to reflect the differences directly in the rental ɜes. As will be mentioned below, differences in the amounts of items charged tenants should be taken directly into account in setting the rental rates ; the costs of services to the landlord-government should not enter into the ıt calculation.

(c) Housing Allowances as Rent Determinants: The amounts of the ısing allowances or commutation of quarters allowed by law in the military ·vices and in some other federal agencies should not be the actual determi- ıts of the rental rates. It is unfair to set rents which do not reflect the 'ferences in the rental values of the houses. The allowances might be con- ıered as a measure of the average levels of family incomes and, through that ınnel, become a factor in the establishment of the general level of rents ɔperly applied to groups of units at a particular place but they should not the specific determinant of the rents in particular houses. Actually, it ɔht be considered more logical to have the rental rates determine the amount the allowances.

(2) Factors in Rent Determination: The process of rent determina- ɔn must attempt to set rental rates at levels equal to the rental values of ɔparable private housing. This is certainly a proper goal to seek. While s principle is generally acceptable as a policy, it is nevertheless difficult apply in practice even under favorable circumstances. Real properties are from uniform. Different rents are charged for comparable accommodations. rents in existing properties are based on lease contracts made at different ɜes in the past. Federal regulation of residential rents introduced aberra- ns and has frozen former erratic rents. The rents asked for new rental ts are sometimes misleading because they have been based on changing con- uction-cost levels or on what the traffic will bear in markets which are rt of housing. Under rapidly changing economic conditions, rerenting may at different levels from prevailing rents under older lease arrangement.

In spite of the practical difficulties involved in the attempt to ermine rents on a comparative basis, the principle is appropriate and should applied to rent establishment whenever possible. If the actual process of parison embraces a grading system which takes into account the amount and out of space, the number of rooms, the nature and grade of construction, the unt and quality of equipment, the age and condition of the property, the ative advantages of the location in terms of neighbors, transportation, and

onveniences, and appeal of the property, then it is possible to form a udgment with respectto the general level of rents applicable to the housing. t is this somewhat nebulous "general level" which properly constitutes the orrect rents to establish for many of the housing units to be built or rovided through federal assistance.

But when there is little or no underlying local supply of older nits available and when all or most of the needed housing has to be newly onstructed, the rents determined by the comparison process may be beyond he means of many of the families to be housed because they would normally ive in older properties. If the comparisons are made not only between the ousing units but also between the rents paid by families having similar inomes, the results will provide a more suitable basis for the determination f rents in the new housing.

The rental rates charged for equivalent private accommodations hould be the major determinant of proper rents in the new units but the omparisons can deal only with the general levels of the rents because it is mpracticable to attempt to make such comparisons on a unit-by-unit basis. ental rates which bear a proper relation to the family incomes cannot be liminated from the rent determination process. It is futile to attempt to o so, both in ascertaining what kind and grade of accommodation to provide n the first place and in establishing the rental rates. Typically it is the ercentage of income devoted to shelter, not the actual incomes which constiute the basis of comparison. Again, the comparisons can deal only with the eneral level of rents because it is impracticable to attempt to set rents in irect relation to the incomes of individual families; such a premise might ead to the fixing of different rents on identical housing units, a result hich would lead to complaints and will be difficult to support on any ogical basis.

In the process of rental-rate determination there appear to be three inds of situations which may require different treatment:

(1) Where families are isolated and not colonized (Might be applied to all cases where there are not more than five families located at some one place)

(2) Where families are colonized (Here rents cannot be reduced on particular houses because of low incomes of particular families. The rents must be graded according to the real relative rental values of the units)

(3) Where the housing is provided by private sponsors, it is necessary to allow the FHA to set the rents (Also note the possible case where Government rents and FHA rents have to prevail side by side if Title VIII projects were to be built in government towns).

In typical government towns, rents in private projects and rents harged in government-owned housing are in direct competition. It is certain hat the FHA cannot permit rents in private projects to be unduly high in elation to government rents. This does not necessarily mean that the privateroject rents must actually be as low as the government rents but that they

st not be much higher. The FHA will wish to set the rents at a level fficiently low to make certain that the new project would not be drained tenants if there were times when numerous vacancies occur in the total using supply. Furthermore, a government agency would hesitate to have two dically different scales of rents operating at once in the town. Such an rangement would lead to much dissatisfaction and many complaints.

The rental determination process applied to government-aided private using must reflect the underwriting analysis related to the insurance of a rtgage by the FHA and the level of rents the FHA will establish will inevi- bly be related largely to the levels of rents it finds in government-owned using in the same towns.

) Rent Determination

The process of rent determination is thus simply to make the rents ual to the rental values of comparable private rental housing unless such nts exceed the normal percentages of income the families can afford to pay. the latter case the rents are set at the levels typically paid by such milies in private housing. Thus the rents are set at the rental values of e dwellings or the maximum reasonable rents matching the family incomes, ichever is less.

There are three types of situations requiring separate treatment:) houses which are isolated from all other housing, (2) government-owned and erated dwellings in colonies or government towns, and (3) privately-sponsored using financed with FHA mortgages. The first two situations are handled in e same manner except that the second, which involves the need to consider e problem resulting from the colonized settlement of groups of families, quires the setting of rents in such a manner as to be graded according to e relative rental values of the properties. The third situation is handled the same way but is subject to the adjustment of the rents to meet the quirements of the FHA itself.

(a) Steps in Rent Determination: The steps to follow in setting e rents are, in order, set out below:

1. The government housing (or government-aided housing) is described with respect to the sizes, styles, ages, standards and grades.

2. The typical rental rates charged in comparable or similar sizes and grades of housing in private rental markets are ascertained in terms of general levels.

3. The private housing deemed comparable is rated by the amenity comparison process to establish indexes based on the characteristics of the government housing as 100%.

4. Using the indexes found in 3, a general level of rents applicable to the government housing is established by adjusting the typical rental rates ascertained in 2 above.

5. If the government housing is colonized (2nd situation), the amenity comparison process is also used to establish valid relative rental values on the housing so that

the rents bear a logical relation one to another based on the relative desirability of the units at the particular place.

6. Data is secured which shows the typical ratios of rents to family incomes in the region in private families.

7. Furthermore, the typical levels and ranges of incomes of the families to be housed are ascertained (in the first situation these may be the actual incomes of actual families; in the 2nd situation the data may relate only to the general levels of incomes within the groups, not to particular families).

8. The rental rates established in 4 (or 5) above are then adjusted downward, if necessary, so that they do not exceed the typical percentages, found in 6, of the family incomes found in 7 above. (This downward adjustment would presumably be necessary only in cases where the available grades of government housing are above the standard normally procured for the group. Normally the very standard (See 1 above) would have tended to remove any need for the downward adjustment.)

9. The amounts of the items to be met by government tenants for operating expenses, services, maintenance, or other items associated with the utilization of the housing are then ascertained.

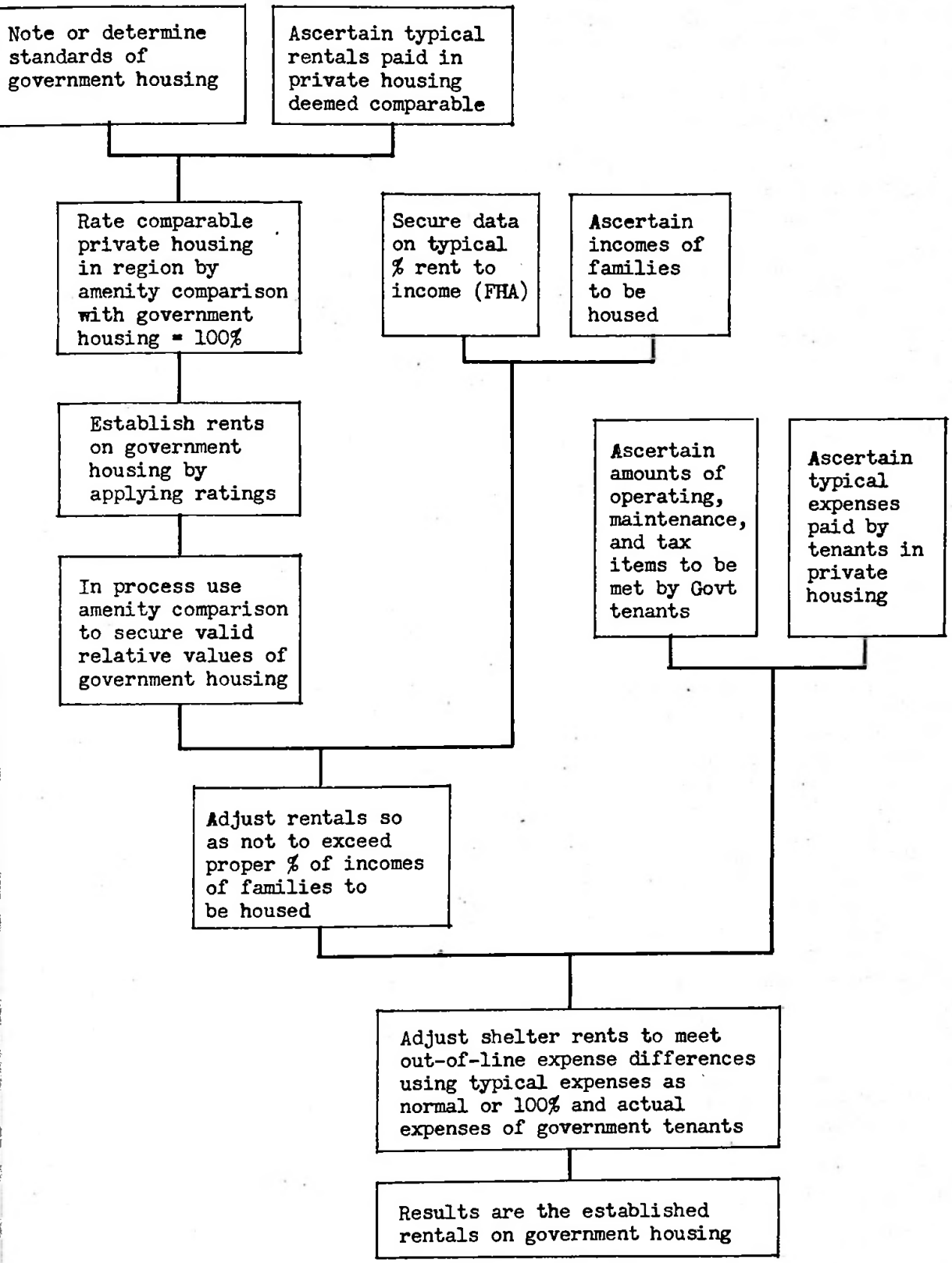
10. The amounts of the same items, including taxes, met by families who occupy the private housing used as the basis of comparison in the region (See 2 above) are then ascertained.

11. Considering the items found in 10 to be normal, the differences found in 11 are ascertained and the shelter rents set in 8 are reduced (or increased) so as to approximately compensate the government tenants for the differences. (This follows the policy not to pass on to tenants the benefits of low costs for operations, maintenance, and utilities in those cases where government costs are unusually low.)

12. The adjusted rents so determined then become the established rents to be charged the government tenants. (In the 3rd situation, where the FHA has the legal power to accept or reject the rental rates, it would be deemed proper to accept a different level of rents provided it is not more than 5% over the rates determined above.)

In the foregoing rent-determination process several kinds of data re required including: (1) descriptions of the government housing, (2) ypical rents in private housing deemed to be comparable, (3) data on typical

STEPS IN RENT DETERMINATION



tios of rents to incomes in private communities, (4) data on the income vels of the families to be housed, (5) data on the operating, maintenance, d service charges to be charged to government tenants, and (6) data on the erating, maintenance and service charges and taxes typically paid by milies in the private housing deemed comparable.

The process relies heavily on the careful and fair application of e amenity-comparison process.

(b) Amenity Comparison Process: The suggestion to use an amenity-mparison process stems from the need to establish rental rates on bases her than the costs of producing houses or the expenses of operating housing. e process assumes that reliable comparisons cannot be made on the basis of rect judgments dealing simultaneously with all the factors which give houses fferent rental values but that fairly reliable comparisons can be made if e attention of the raters is applied to the individual factors separately d then assembled into final conclusions by an arbitrary system.

We believe that the development of the amenity-comparison process ght be assigned to the Underwriting Division of the FHA. This suggestion based on the fact that the FHA has used a similar process for the determina-on of the relative degrees of risk attaching to the dwelling mortgages it sures. The emphasis is different however; the FHA risk rating system asures mortgage-investment risk; the needed amenity-comparison process would asure the differences in the desirability of housing units in terms of the rvices the properties are capable of rendering to tenants. That is, it would dicate the relative rental values of the properties to typical occupants.

We believe that one of the principal ways to secure uniformity of cisions in the application of the amenity-comparison process will be to lace the use and operation of the system in the hands of a single organization. e system's use requires the repeated application of judgments with respect to lative factors and is therefore incapable of producing uniform results auto-tically. Thus one of our recommendations (See Section III) relates to the e of centralized facilities for functions of this character.

The process recommended would rate the compared units from the point view of tenants intending or expecting to occupy the units for a period of e year only. It would be possible to make the comparison by rating 11 atures of relative desirability in units. Each of the 11 features can be ated best by considering it from the point of view of a number of subfeatures. e features and subfeatures suggested are listed in the accompanying "Rating rid."

In using the grid (which applies to one particular dwelling unit) marks are placed in the columns to the right. X marks toward the left epresent low ratings; those to the right higher ratings. Each feature is iven but one mark. The middle column represents a very typical or average ondition.

AMENITY COMPARISON RATING GRID

For use in establishing the relative rental values of dwelling units by the amenity comparison process

The resulting ratings are in points based on a theoretical possible 100 points. It is assumed that the rental values of properties are in direct proportion to the ratings

PHYSICAL PROPERTY	1	2	3	4	5	RATING
Accommodations	0	5	(10)	15	20	10
Gross building area			X			
Rooms included			X			
Garage facility		X				
Lot improvements; lot size				X		
Architectural Attractiveness	0	(1)	2	3	4	1
Exterior design		X				
Setting		X				
Interior		X				
Livability and Functional Plan	0	3	6	(9)	12	9
Site utilization		X				
Dwelling space utilization					X	
Room characteristics				X		
Room orientation				X		
Circulation					X	
Privacy			X			
Closet and storage space			X			
Kitchen efficiency				X		
Service facilities				X		
Insulation				X		
Natural Light and Ventilation	0	1	2	(3)	4	3
Natural light				X		
Natural ventilation				X		
Condition of Structure	0	2	(4)	6	8	4
Foundation					X	
Walls					X	
Partitions, doors, and trim			X			
Floor construction and surfaces				X		
Ceiling construction and surfaces			X			
Roof			X			
Interior decoration			X			
Exterior of dwelling structure	X					
Yard improvements	X					
Mechanical Equipment (Presence and condition)	0	(2)	4	6	8	2
Plumbing system		X				
Heating system	X					
Electric system		X				
Supplementary equipment				X		
RATING OF PHYSICAL PROPERTY						29

						RATING
Rating of Physical Property						29
LOCATION						
Neighborhood Character	(0)	3	6	9	12	0
Geographical position; degree of isolation	X					
Character of neighborhood structures		X				
Natural physical features and landscaping	X					
Neighborhood design	X					
Adequacy of Civic, Social, and Commercial Facilities	(0)	3	6	9	12	0
Schools; quality and accessibility	X					
Shopping	X					
Churches, recreational facilities, and theaters	X					
Sufficiency of Utilities and Services	0	(3)	6	9	12	3
Municipal services; police, etc.			X			
Doctors, hospitals, etc.	X					
Sewer, water, and disposal facilities		X				
Adequacy of Transportation	0	(1)	2	3	4	1
Diversity, cost, quality, and frequency of service			X			
Distances and time required to destinations	X					
Road access			X			
Special Hazards and Nuisances	0	1	2	3	(4)	4
Health factors					X	
Safety; natural and other risks					X	
Traffic hazards					X	
RATING OF LOCATION						8
TOTAL AMENITY RATING OF DWELLING UNIT						37

Use of Subsidies

The recommended policy statement includes a recognition that there no inherent relation between the net revenues the government will receive om tenants and the costs of procuring and operating the housing. To the tent that the net rents will fail to support the initial government invest-nt or the costs of operating, maintaining, and sevicing the dwellings, the cess should be recognized merely as a cost of carrying out an agency program. e government doesn't enter the "housing business" to make money or even to y to break even. It goes into such enterprises simply because it is neces-ry or advantageous to do so to advance an agency program.

Thus the excess costs and excess expenses which may be involved in oviding the housing under some of the less favorable circumstances should not considered to represent subsidies. They are simply part of the cost of nning the government.

As used in this report, the word "subsidy" refers only to extra yments or exemptions given by the government to private operators or private dividuals to enable them or to induce them to take some line of action.

Thus the following lines of action, when taken to enable a private onsor to provide housing for government workers, are considered to be bsidies:

Absorption of initial investment:

(a) Government investment in the equity stock of a private housing corporation, to the extent that the amount of the stock so held exceeds the amount necessary to induce private investors to undertake the project.
(b) Government absorption of the costs of land preparation or any other item of initial cost of a project to be undertaken by a private housing corporation, to the extent that the amount exceeds the amount necessary to induce private investors to undertake the project.
(c) Government absorption of a loss on a project which it builds and sells at a figure less than the cost, to the extent that the amount of the loss exceeds the amount necessary to induce private investors to undertake the project.

Operating Deficits:

(a) Reduction of any charge against a private operator below a level equal to a normal or typical charge for a service.
(Reduction of any such charge from, say, the cost to the government entailed in rendering such a service but to a level above a normal or typical charge would be deemed not to be a subsidy but merely a government cost)
(b) Reduction of a payment in lieu of taxes, or exemption from such a payment, below a level equal to a normal or typical charge for municipal or other services.
(Reduction of such payments from, say, the cost to the government of rendering the public services but to a level above a normal or typical payment would be deemed not to be a subsidy but merely a government cost)

(c) Reduction of rents to tenants or to operators to levels below the rental values set by the rent determination process outlined in a foregoing subsection.

(Reduction of such rents from, say, the levels required to support the government's investment in the housing or the costs to the government entailed in operating and maintaining the housing but to a level above the rental values of the properties determined by the rent-setting process outlined in a foregoing subsection, would be deemed not to be a subsidy but merely a government cost)

Because the foregoing interpretation of the meaning and significance the word "subsidy" is sensible and in general alignment with the general licy statements, it is proper to establish, as a policy, the principle that bsidies shall not be granted. This declaration therefore appears in the licy statement. In this context it indicates that (1) it is proper for the vernment to pay excess costs and expenses higher than normal or typical sts if circumstances make such payments necessary, and (2) it is improper make any government investment to reduce the initial investment of a ivate sponsor or to make any reduction in charges, payments in lieu of taxes, rents to increase the net earnings of a private sponsor beyond normal and pical levels for the services rendered.

In interpreting the words "normal" and "typical" the intention is indicate the levels in normal communities -- not nearby communities. The st frequently occurring levels in the generality of communities throughout de regions in the continental United States are the test, not the levels in e neighboring towns or under like environmental conditions. (For example e generally higher prices for services prevailing throughout Alaska would not used as a test, but rather the prices and costs in the northwestern states.)

III. CENTRALIZED SERVICES FOR AGENCY USE

The process of supplying housing in accordance with the policies outlined the preceding section will be materially aided by the organization and use centralized services. We therefore recommend the establishment of a ernmental unit charged with the responsibility of handling many of the ctions associated with the housing of families of government employees and ers.

Reasons for Recommendation: Establishment of a centralized agency is irable for the following reasons:

(1) It will lead to some degree of warranted standardization of operations. There will be an automatic equalization of treatment of problems and families of different agencies. Housing standards would become uniform. It will bring an independent point of view and degree of control into all federal actions relating to the housing of government workers.

(2) It will minimize duplication of housing staffs in several federal agencies. The majority of federal agencies consider housing to be an incidental and somewhat irksome activity related to their main purposes and programs. A focused central agency containing competent housing talents would be a facility free of other obligations and interests and therefore presumably motivated to address itself fully to the central purpose of securing housing for the agencies. At present the housing officers of the several agencies report to administrative officials who generally are not familiar with housing techniques.

(3) It would secure economies in housing operations. It would combine housing procurement. It would consolidate much of the effort in one agency. Experience and data would be accumulated in one office and this would mean efficiency and economy. Builders and sponsors who deal with the government would have a central place to come to to discuss projects and in some cases larger procurement orders would result in savings. Furthermore, there would be a single set of criteria for the selection of sponsors and open reporting of the bases for the making of actual selections.

(4) It secures direct accountability and review of housing proposals. Congress and the Bureau of the Budget would be able to examine proposed housing budgets in combined form as well as individually. It would bring a new independent point of view to bear on such problems. Irresponsible motives would be eliminated and it would clarify the mechanisms by which accountability for actions is achieved.

. Recommended Organization

Proper organization for the purpose involves careful consideration of the istribution of functions according to the limitations imposed by natural otives of administrators and by logical zones of responsibility. The major

tribution of functions should be as follows:

t of functions:	X = major concern. o = minor concern.	Fed. Agy.	Cent. Agy.	Bud-get.	HHFA	FHA
g Range Programming						
. Establishment of policies		o	X	X	o	o
. Making of legislative proposals		X	X	X	o	o
. Requesting of budget authorizations		X	o	X		
. Programming of housing enterprises			X	o		
hnical Guidance						
. Setting of housing standards			X		o	
. Technical assistance			X		o	o
. Design supervision			X		o	
. Research			X		o	
. Market analysis		X	X		o	o
. Rental and operating data			X		o	o
uests from Agencies						
. Surveys and market analysis		X	X		o	o
. Determination and justification of need		X	o		o	o
. Certification of need		X	o			o
curement						
. Selection of method of procurement		o	X			
. Design of housing		o	X			
. Selection of sponsors			X			o
. Mortgage financing			X			o
. Mortgage insurance			X			X
. Absorption of initial investment		X	X	o		o
rations						
. Rent determinations		o	X			X
. Occupancy control		X	o			o
. Management supervision		o	X			o
. Maintenance and operation		o	X			o
. Absorption of operating costs		X	X			o
. Community operations		o	X			
. Commercial operations		o	X			
todianship						
. Real estate		X	X			
. Government-owned movable dwellings		o	X			
. Disposals		o	X			
eragency Finance						
. Accounting		X	X	o		
. Transmittal of funds		X	X	o		
. Reimbursements		X	X	o		
. Operating statistics		o	X	o		

Below the same list of functions is given under headings representing e agencies to whom the functions should be assigned in whole or in part. e heading "Federal Agency" refers to agencies whose programs require the deral attention to housing.

Federal Agency

Major Concern:

2. Making of legislative proposals
3. Requesting of budget authorizations
9. Market analysis
11. Surveys and market analysis
12. Determination and justification of need
13. Certification of need
19. Absorption of initial investment
21. Occupancy control
24. Absorption of operating costs
27. Custodianship of real estate
30. Accounting
31. Transmittal of funds
32. Reimbursements

Minor Concern:

1. Establishment of policies
14. Selection of method of procurement
15. Design of housing
20. Rent determinations
22. Management supervision
23. Maintenance and operation
25. Community operations
26. Commercial operations
28. Custodianship of government-owned movable dwellings
29. Disposals
33. Operating statistics

New Centralized Agency

Major Concern:

1. Establishment of policies
2. Making of legislative proposals
4. Programming of housing enterprises
5. Setting of housing standards.
6. Technical assistance
7. Design supervision
8. Research
9. Market analysis
10. Rental and operating data
11. Surveys and market analysis
14. Selection of method of procurement
15. Design of housing
16. Selection of sponsors
17. Mortgage financing
18. Mortgage insurance
19. Absorption of initial investment
20. Rent determinations
22. Management supervision
23. Maintenance and operation
24. Absorption of operating costs
25. Community operations
26. Commercial operations
27. Custodianship of real estate
28. Custodianship of government-owned movable dwellings
29. Disposals
30. Accounting

31. Transmittal of funds
32. Reimbursements
33. Operating statistics

Minor Concern:

3. Requesting of budget authorizations
12. Determination and justification of need
13. Certification of need
21. Occupancy control

Bureau of the Budget

Major Concern:

1. Establishment of policies
2. Making of legislative proposals
3. Requesting of budget authorizations

Minor Concern:

4. Programming of housing enterprises
19. Absorption of initial investment
30. Accounting
31. Transmittal of funds
32. Reimbursements
33. Operating statistics

Housing and Home Finance Agency

Major Concern:

None

Minor Concern:

1. Establishment of policies
2. Making of legislative proposals
5. Setting of housing standards
6. Technical assistance
7. Design supervision
8. Research
9. Market analysis
10. Rental and operating data
11. Surveys and market analysis
12. Determination and justification of need

Federal Housing Administration

Major Concern:

18. Mortgage insurance
20. Rent determinations

Minor Concern:

1. Establishment of policies
2. Making of legislative proposals
6. Technical assistance
9. Market analysis
10. Rental and Operating Data
11. Surveys and Market analysis
12. Determination and justification of need
13. Certification of need
16. Selection of sponsors
17. Mortgage financing
19. Absorption of initial investment
21. Occupancy control
22. Management supervision
23. Maintenance and operation
24. Absorption of operating costs

Consideration should be given to the possibility of assigning the responsibilities and functions listed for the "new central agency" to some existing governmental agency such as the Federal Housing Administration, the Housing and Home Finance Agency, the Reconstruction Finance Corporation, or the General Services Administration. We recommend that the functions be assigned to the General Services Administration as a new and additional activity. We further recommend that the GSA establish a special branch to handle most of the functions except those associated with real estate tenure and financing and that these functions be assigned to a newly-formed company with a corporate form of organization which will operate under the supervision of the GSA.

These recommendations are based on the fact that the list of functions which would be assigned to the new agency includes a number which can best be carried out if they are assigned to a corporation instead of an administrative agency. We recommend the following names for the new facilities: (1) Federal Housing Service, General Services Administration, and (2) Federal Housing Investment Company (or, possibly, Federal Housing Service Corporation). The proposed company is more fully described in a subsequent subsection.

As described herein, the proposed new centralized governmental facility would address itself exclusively to the problems associated with the actual housing of federal workers' families. Because these problems are closely related to the housing of bachelor workers and to the operation of government communities, including both community operations and commercial problems, it will be wise to envision the expansion of the GSA facility to embrace the wider fields as well as the family housing operations.

2. Functions of Federal Agencies

This subsection describes the nature of the functions which would be retained by each of the federal agencies which requests and uses the assistance of the proposed new centralized housing facility.

(1) Agency Surveys and Justifications: Each federal agency would remain responsible for keying its planning operations to embrace consideration of housing. Its long-range planning of its programs would necessitate the forecasting of new housing needs over coming years and it would be required to submit yearly proposals relating to legislation and requests for budget authorizations related to housing of its workers. (See functions 2 and 3 in foregoing.)

In addition, each specific housing enterprise at any given place would require participation by the agency. It would be responsible for making the needed surveys and presenting the justifications as set out in the policy statement. (See functions 11, 12 and 13.) In fact the policy statement indicates the exact nature of the responsibility which extends to all forms of justification except those which depend on market-analysis techniques the agency could scarcely be expected to know or to have sufficient market data to handle properly.

Principal justifying factors include (1) necessity of employees to be on the station and (2) lack of available private housing at nearby places. In some instances (3) convenience of the service.

Agencies will present their request for assistance in connection with housing to the GSA. The latter will review the requests, determine the validity of the justifications, and undertake the procurement of the housing.

The three military services are required by law to certify to their requirements for housing and to declare stations permanent when they undertake to procure housing under the provisions of Public Law 211, 81st Congress (Title VIII). The total amount of the housing required by the military services is impressive. All the services insist that they intend to use Title VIII solely to secure housing to meet an urgent deficiency in existing supplies.

While the announced policies of several of the military services is that Title VIII is to be used only for those permanent installations which have been officially designated as "isolated," nevertheless, many of the actual programs have been for stations relatively close to urban places. In some cases the actual sites selected for projects or posts have been inferior to locations available in nearby towns. This has led to various forms of agreements with the FHA not to locate Title VIII projects in places which will compete in a damaging way with existing FHA projects.

At the same time many in the military services have recognized the vital importance of the responsibility delegated to the service Secretaries for determining the continuity of demand and the consequent risk taken by the government in underwriting Title VIII housing. They have insisted on extreme care in arriving at the number of units recommended for certification and indicate that the number of units certified must represent a realistic estimate of the long range continuing minimum housing requirements for the post. Each of the services has prepared and issued to local commanders forms on which to calculate the results of surveys and to determine the number of units needed according to military and civilian married families, families of different sizes and composition, officers and enlisted personnel, and the levels of family incomes.

The recommendations of local commanders, together with the survey reports, are reviewed and revised (usually downward) before certification is given. The FHA relies on the certification, not the surveys and market data. Thus, the instructions to local FHA offices say, "It is anticipated that the Commanding Officer will furnish the FHA Insuring Office with a copy of a study relating to the number of personnel, setting out (1) rank, (2) rate of pay, (3) subsistence allowance, and (4) other pertinent data. Such data is primarily for the military but will be useful to FHA Chief Underwriters . . . However, submission of this data is not required."

The specific provision in Public Law 211 states that "no mortgage shall be insured under this title unless the Secretary of Defense or his designee shall have certified to the (FHA) Commissioner that the housing with respect to which the mortgage is made necessary to provide adequate housing for such personnel, that such installation is deemed to be a permanent part of the Military Establishment, and that there is no present intention to substantially curtail activities at such installation."

The certification relieves the FHA of the responsibility of making a determination of the present and continuing demand for housing for the military at or in areas accessible to military installations.

The policy of the services to use Title VIII only to build to meet a real existing housing deficiency is reflected in the agreements between the military and the FHA. Conferences have clearly indicated that the intention is not to certify in places where the housing needs have already been met and where the erection of additional housing will have an appreciable detrimental effect on existing housing. Local FHA offices have been instructed that in cases where actual certifications have not been made in accordance with this objective they must confer further with the local military authorities and with FHA headquarters in Washington.

Under the form of governmental organization proposed by us, each of the federal agencies which has a housing problem and which elects to solve it through the use of the centralized facilities would be required to assume the same responsibilities as are assumed by the military services under Public Law 211. They would be required to make the surveys of housing needs, to present the justifications set out in the housing policy, and to certify to the existence and extent of the need, the facts regarding the workers to be housed, and the nature of the places, whether considered to be permanent installations or temporary. The purposes to be served by requiring the certifications are the same as in Public Law 211. The FHA and the GSA would be relieved of full responsibility for the findings, except to the degree that they are necessarily responsible for verification of data relating to market matters. The direct connection between agency programs and housing would remain and if, subsequently, the GSA or FHIC were required to sustain a major financial loss because of the shrinkage of a market or need for the housing, they could not be considered to have mishandled the procurement program unless the method selected or some other technical aspect of the procurement were improperly handled.

(2) Occupancy Control: The contemplated distribution of functions anticipates that the federal agency whose program necessitated the federal attention to housing will remain fully responsible for the control of occupancy of the units procured. This is based on the theory that the only reason for the federal attention is found in the agency's program requirements. Therefore, the agency must assume responsibility for naming the tenants to be accommodated and for indicating the conditions, priorities, and all other aspects of occupancy. The only exception might be where there is excess housing under private sponsorship; in this situation, the sponsor would be permitted, if feasible, to seek other tenants. This exception is also necessary to give the FHA some assurance that the housing will be used as completely as conditions permit, thereby minimizing the probability of losses resulting from mortgage insurance claims.

The rules governing occupancy of units would be determined by the using federal agency with only the broadest limitations imposed through the policy statement. Different agencies may have different matters to consider in establishing their rules governing occupancy. Some will have to give consideration to matters of security, the relative importance of various types of people to the programs of the agency, and other aspects of the problem. (See function 21 in the foregoing.)

In cases where the GSA provides the housing it may be possible to delegate the operation of occupancy rules and restrictions to the GSA itself. However, the ultimate responsibility would remain in the using agency. Under

such an arrangement the GSA (acting through the FHIC) would require private housing corporations to grant occupancy priority to the tenant families named by the federal agency requesting the housing and would retain the right to control the character, location, cost, quality and rents.

The specific provisions to be made for the control of occupancy are outlined in some detail in Section IV, subsection 3.

(3) Cooperation on Procurement and Operation: Federal agencies are required to cooperate in connection with a number of matters related to the procurement of the housing and its subsequent management and operation (See functions 9, 19, 24, 27, 30, 31 and 32 in the foregoing). While the purpose of the arrangement with GSA is to relieve the agency of a maximum number of its housing tasks, nevertheless, the smooth operation of the system and financial necessities make this partially impossible.

Agencies will have to assign land to the custodianship of the GSA under various of the programs and formulas recommended in Section IV. In many instances, the agencies will have to furnish utility and municipal services to private housing corporations or to housing projects directly under the supervision or management of the GSA.

(4) Optional Use of GSA and FHIC: The federal agencies need not be required to use the GSA and FHIC facilities and services unless they wish to. Reliance on GSA may be made optional. While GSA and FHIC would set standards for housing federal workers and would be available for reports and comments to Congress and to the Bureau of the Budget on any such housing matter, the transfer of funds and functions could be left optional with the agencies.

If this optional offering of the facility is not granted it is probable that a number of the agencies would request exemption from the legislation. This might result in lack of uniformity in methods of operation as apparent as that which exists at the present time. If use of the centralized service is optional, agencies would probably come to use it one by one as the GSA showed good performance simply because most of the agencies look on housing as an unwanted chore. However, they can hardly be expected to turn their housing problems over to another agency before they appraise the probable effects on the morale of their employees and on their agency programs.

3. GSA and FHIC Functions

The functions assigned to the GSA will include all the functions listed above for the "new centralized agency." The GSA will have complete supervision over the operations of the FHIC. In the tabulations below the listed functions are divided between the GSA and the FHIC to indicate those for which the GSA has sole responsibility and those assigned to the FHIC. It should be understood, however, that those operations assigned to the FHIC also come under the GSA though its supervision of FHIC operations.

(a) GSA Functions: The following functions, duties and powers would be assigned to the GSA:

a. To receive and consider requests from federal agencies for assistance in connection with the housing of federal workers.

To review and check on the extent, urgency, and character of the needs, especially with respect to the market conditions in surrounding private housing. To check the classifications of the people for whom the housing is requested. To check proposals against the established housing policy. To undertake to provide the housing by using the powers in its possession (See functions 9, 10 11 and 12).

b. If requested to do so by a federal agency, to undertake to procure and manage housing. To apply its housing formulas on behalf of the agency. To receive and use, in connection with such undertakings, transferred appropriated funds from the agency (See functions 14, 15, 16, 17, 18, 19, 20, 22, 23, 24, 27, 28, 30, 31, 32 and 33)

c. To set housing standards. To revise housing standards yearly to keep up with technical advancements. To engage, if desirable, in architectural design (See functions 5, 6, 7, 8 and 9)

d. To set rental rates and charges to be paid by tenants. This applies to all government housing and to participation with the FHA in setting rents on privately-sponsored projects (See function 20)

e. To purchase, erect, move, and reerect movable structures. To use such structures or to lease them to federal agencies or private sponsors or government employees (See function 28)

f. To procure housing through private channels. To determine criteria for the selection of sponsors, builders, and operators of housing. To negotiate with sponsors and to make selections of sponsors. To enter contracts for land planning, utility extensions, land preparation, design of residential structures, and erection of buildings (See functions 14, 15, 16, 17, 18 and 19)

g. To inspect and rate existing government-owned housing with which it is concerned, once each year. To set new rent schedules. To determine programs for the use of government-owned housing facilities (See functions 4 and 20)

h. To build government housing under contract. To request, receive, and handle bids and award contracts. To supervise construction (See function 19)

i. To collect rents from tenants in government housing. To make contracts for the management of government housing. To maintain and repair housing (See functions 22, 23 and 24)

j. To assist the Bureau of the Budget in the establishment of official executive policies relating to housing of federal workers. To give consideration to legislation relating to such housing (See functions 1 and 2)

k. To enter into contracts and to finance experimental research and development of movable residential structures suitable for government use and to reimburse other qualified agencies which enter into such experimental contracts for the same purpose.

(b) FHIC Functions: The following functions, duties and powers would be ssigned to the FHIC:

l. To subscribe to and purchase stock shares of private housing corporations which undertake to provide rental housing for federal workers under prescribed programs. (See function 19)

m. To make FHA insured mortgage loans to private housing corporations to facilitate housing programs (See function 17)

n. To sell FHIC-made FHA mortgages to private lending institutions which are approved mortgagees of the FHA (See function 29)

o. To guarantee, if it finds it prudent to do so, a minimum rate of dividend return on fully-subscribed and purchased stock shares held by private common stockholders of private housing corporations which undertake to provide rental housing for federal workers under prescribed programs.

p. To acquire full ownership of private housing corporations which undertake to provide housing under prescribed programs by purchasing for $1.00 the common stock shares of the corporations, providing the underlying mortgage is in default, and to pay off the mortgage, to convey the property in satisfaction of the mortgage, or to permit the mortgagee to foreclose.

q. To pay the FHA the difference between the amount of any claim, made by an approved mortgagee on the FHA for settlement under an FHA mortgage-insurance contract in connection with a project executed under the provisions of legislation providing for the housing of federal workers, and paid by the FHA to the lender, and the amount the FHA ultimately secures for the property when it is disposed of.

r. To enter leases on residential units privately owned and to sublet such units to government workers. To enter into agreements guaranteeing the payment of rents by government workers who occupy privately-owned residential units (See functions 14 and 16)

s. To receive land on permit from federal agencies, to buy land, to lease land, and to outlease land to private sponsors. To manage residential land, leased fees, and residential properties owned by the government (See function 27)

t. To sell to the best possible advantage (a) to private purchasers

determined to be qualified and acceptable, fee simple real estate, leased fees, and leasehold estates, together with the buildings thereon, (b) to approved mortgagees of the FHA and the Federal National Mortgage Association, mortgage loans made by the FHIC in the furtherance of the specified purposes, (c) to private purchasers, the real estate of rental projects, if surplus, acquired by the FHIC as a consequence of the purchase of the stock shares of private housing corporations, and (d) to new private investors who will undertake to operate projects, stock shares of private housing corporations acquired as a consequence of the purchase of the shares by the FHIC (See function 29)

(c) Organization and Ownership of the FHIC: The legal provisions needed to create and control the proposed Federal Housing Investment Company should make the FHIC wholly-owned by the federal government. Its stock would be subscribed to by the GSA from appropriated funds or funds transferred by other federal agencies. Its principal office would be in the District of Columbia. Its affairs would be directed by the Administrator of the General Services Administration. The management of the company would be vested in a board of directors consisting of five persons, each serving for a term of three years or until his successor is appointed and qualified, and the Administrator of the GSA would be chairman of the board.

(d) Accountability and Budgets: Within six months after the close of each fiscal year, the GSA and the FHIC would be required to make a report to Congress containing financial statements, balance sheets, statements of income and expenses, and an analysis of accumulated net income. The report would contain schedules showing the status of each investment and each loan in which the company has a participation or an agreement to participate, and within the same period the FHIC would be required to pay over to the Treasurer of the United States a dividend on its capital stock in the amount by which its accumulated net income, if any, exceeds some stipulated amount. All FHIC transactions would be audited by the General Accounting Office and a report of each audit for each fiscal year would be made by the Comptroller General to Congress. It would show the assets and liabilities of the FHIC, its capital and surplus or deficit, its income and expenses, a statement of the sources and application of its funds, and information relating to each project in which the GSA and the FHIC is engaged.

Annually, the GSA and the FHIC would be required to prepare a budget program to be submitted to the Bureau of the Budget. It would set forth a plan of operation, including provision for emergency needs and for contingencies, and contain estimates of the probable operations, together with estimates of administrative expenses, during the fiscal year or the appropriations required for the restoration of capital impairments. The budget programs would be considered by Congress and legislation would be enacted making necessary appropriations.

(e) Custodianship of Agency Lands and Real Estate: The laws establishing the FHIC and assigning these housing functions to the GSA should make provision for the transferring of the custodianship of real estate from federal agencies to the GSA or FHIC. These provisions might be in much the same form as those which permit agencies of government to declare properties

surplus, except that the transfers would always be made with reference to the provision of housing according to a stated program.

The same delegations would also transfer the power to enter into long-term ground leases. In many instances the federal agency making a transfer of real estate would have to undertake to continue to render community services, furnish utility services, and other services.

(f) Sources of Funds and Transferred Appropriations: The funds with which the FHIC would operate would be derived from the following sources: (a) Purchase of capital stock of the FHIC by federal agencies, in turn secured from direct appropriations of funds to defray the operating expenses of the FHIC and to meet the operating deficits of the FHIC, (b) dividend income on preferred stock shares in private housing corporations, (c) dividend income on common stock shares in private housing corporations, (d) net incomes derived from the operation of government-owned or government-acquired projects, (e) payments made by private housing corporations to retire FHIC investment in preferred stocks of corporations, (f) proceeds of the sales of real estate of private housing corporations fully acquired by the FHIC, and (g) proceeds of sales of common stock shares of private housing corporations fully acquired by the FHIC.

The assets of the FHIC would be used for three principal purposes: (a) the purchase by the FHIC of preferred stock shares of private housing corporations, (b) meeting the costs of housing projects built under government contract, and (c) the making of mortgage loans to private housing corporations.

(g) FHIC Authorizations and Scope of Investments: The FHIC would have the power to adopt and use a corporate seal, to make contracts, to lease or purchase such real estate as may be necessary for the transaction of its business, to sue and be sued, to complain and defend itself in court, to employ officers, employees, attorneys, and agents, and to prescribe, by its board of directors, bylaws, rules, and regulations governing its business. The total amount of investments, loans, purchases, and commitments made should not exceed at any given time a total to be stipulated.

Any sums at any time received by FHIC representing repayments or recoveries of funds disbursed out of amounts allocated or made available would be covered into the general fund of the Treasury, except that whenever, under applicable provisions of law or otherwise, such funds represent amounts which continue to be available or required to be expended for the purposes for which originally allocated or made available, they would not be covered into the general fund of the Treasury until the expiration of the period during which they are so available or required to be expended.

(h) Tax Exemption, Termination, and Yearly Appropriations: The FHIC, including its capital, reserves and surplus, and its income, would be exempt from all taxation, except that any real property of the company would be subject to special assessments for local improvements and would be subject to county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

The powers granted to the FHIC would terminate on a specified date but the termination of the powers would not be construed to prohibit the

disbursement of funds in connection with commitments or agreements made prior to the stated date or to affect the validity or performance of any such agreement.

Because of the nature of the operations contemplated the FHIC is not expected to make sufficient profits and incomes but is rather charged with the responsibility for minimizing, to the degree possible, the ultimate cost to the government of providing the needed housing in the manner prescribed.

(i) Relations with Private Groups: The housing procurement formulas (See Section IV of report) embrace plans which involve the use of private capital and private sponsors. The FHIC is authorized to make ground leases to such sponsors, to make equity stock investments in their housing corporations, to absorb portions of the total required initial investments to create housing, and to absorb parts of the costs of maintenance and operation of the properties. In every instance the FHIC would be required to adhere to the policy relating to such assistance and any aids which can be defined as subsidies would be prohibited.

The private housing corporations and other sponsors, for their part, would be required to give occupancy priority to tenants named by the federal agency for whose workers the housing is intended, to establish rental rates at levels acceptable to the GSA (and frequently to the FHA), and to comply with such other reasonable limitations as will make the housing serve the federal purpose which justifies GSA and FHIC assistance.

Furthermore, the FHIC would be authorized to make sales of government-made FHA mortgages to private investors who are approved mortgagees of the Federal Housing Administration. In every instance where the government (FHIC) makes a mortgage loan, the ultimate intention shall be to dispose of the mortgage fairly soon after completion of construction of the project. This will necessitate the anticipation of the nature of the mortgage market and the making of the loans on terms which are typical and characteristic of private mortgages being sold in the same markets. That is, the rates of interest, terms, amortization plans, etc. should parallel current practices so that there will be no unfair competition with private lending and so that the prices available in the markets will be applicable to the government-made loans. If this is done, the making of such mortgages by the government will constitute merely an arrangement for (a) advancing construction funds to sponsors or builders, and (b) taking advantage, for the government, of premiums available for mortgage investments for the purpose of reducing to a minimum the amount of absorption of initial investment in private projects.

IV. OWNERSHIP AND FINANCIAL OPERATIONS

This section deals with methods and formulas which may be used by the government to procure, operate and dispose of housing. It may be presumed that various methods will be proposed from time to time by federal agencies and that many of them will be desirable departures from those now used or those herein recommended. Therefore the formulas described herein represent those which we deem to be desirable at present in view of prevailing legislation (including Public Law 211, 81st Congress). Our proposals for new legislation deal mostly with the granting of listed powers to agencies to meet situations now not covered adequately or they extend existing formulas so as to be more generally applicable.

The subsections below deal with the following matters: (1) procurement formulas, (2) financing of procurement, (3) operating formulas, (4) debt retirement and disposals, and (5) illustrative cases.

1. Procurement Formulas

The field of "procurement" here refers to the steps, of whatever character, taken by the federal government to secure housing or to bring housing units under federal control for occupancy by families of government employees or others associated with government programs.

(1) Code System: For convenience, the methods and formulas recommended are identified by a numerical system. Each procurement formula is ascribed a number containing three digits. The digits have the following meanings:

Realty-tenure Method Used

1.00 - Housing is on government-held land, is permanent construction, and is government-built and owned.
2.00 - Housing is on government-held land, is movable construction, and is government built and owned.
3.00 - Housing is on land leased out by the government, is permanent construction, and is privately owned.
4.00 - Housing is on land leased out by the government, is movable construction, and is privately owned.
5.00 - Housing is on land leased out by the government; government makes no provision for the structures.
6.00 - Housing is controlled by the government through short term gross leases on dwelling units in privately held real estate.
7.00 - Housing is controlled by the government by the guarantee of tenant leases on dwelling units in privately held real estate.

Financial Method Used

.10 - Appropriated funds only are used.
.20 - Housing is financed in part by privately-made FHA insured mortgage loan.

.30 - Housing is financed in part by FHA insured mortgage loan made by the government and subsequently sold to a private investor.
.40 - Government leases government-owned movable structures to a private sponsor.

Absorption of Initial Investment by Government

.01 - No absorption of initial investment.
.02 - Government makes investment in the equity stock of a private housing corporation.
.03 - Government absorbs loss, if necessary, by building dwelling units with appropriated funds and selling the units on completion to a private sponsor.
.04 - Government absorbs a part of the initial cost of a privately-sponsored project.

The above code system is used to afford a quick description of the general pattern of ownership and procurement of the housing. The number to the left of the decimal point indicates the form of land tenure, whether the structures are permanently-fixed or movable, and the method of procurement. The two numbers to the right of the decimal point indicate the provisions made to finance the procurement of the buildings.

Examples: (a) 2.10 refers to a project on government-held land where the government builds and retains ownership of movable structures and where financing is achieved by the use of appropriated funds. (b) 3.22 refers to a project on land leased out to a private sponsor by the government, where the sponsor pays for and owns permanently-fixed buildings, where the sponsor finances his operation in part with the proceeds of an FHA insured leasehold mortgage loan made by a private lender, and where the government makes an investment in the equity stock of the sponsor's corporation.

(2) Land Tenure: In the various procurement formulas, the arrangements for the tenure of land may include any method which properly serves the purpose. The accompanying chart illustrates seven possible forms of land tenure. These seven are reduced to three for convenience in isolating principal cases: (1) Government-held land, (2) Government-held land leased out to a private sponsor (or to a government employee), and (3) Privately-held land.

Land tenure methods adopted in particular situations will be made to conform with various requirements, including Economy considerations, Policy with respect to competition with private operators, Financial formulas selected (some require long-term land tenure to secure leasehold financing), and Availability of utilities and municipal services.

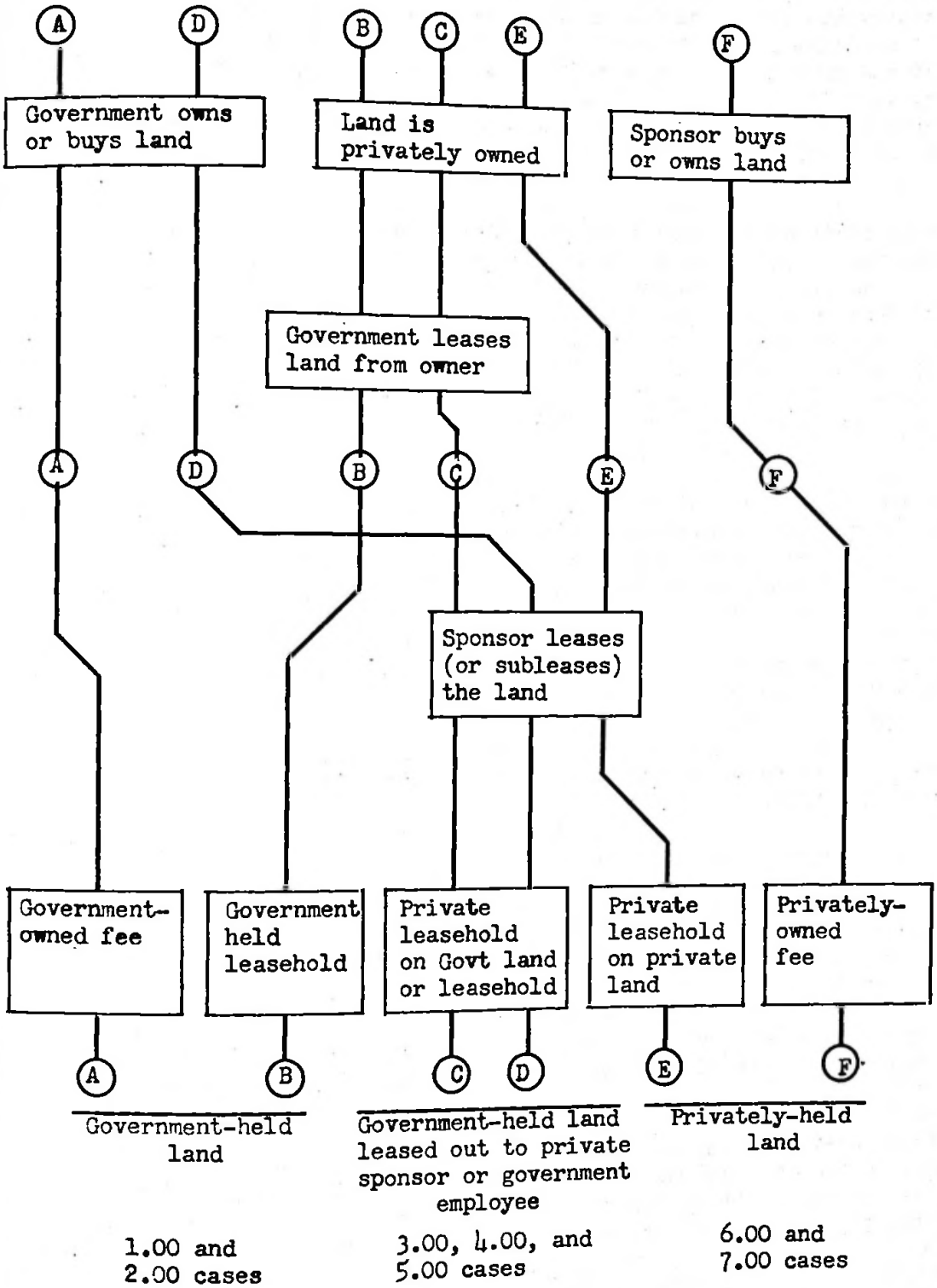
(a) Ground Leases: In all 3.00, 4.00 and 5.00 cases (outleased government-held land), the problem involved is to frame a workable ground lease. If FHA mortgagees are used, it may be presumed that the standards established with respect to locations by the FHA as conditions precedent to the acceptance of mortgages for FHA mortgage insurance will provide adequate assurance that locations are acceptable.

LIST OF POSSIBLE CASES

1.10	Govt-held land	Permanent hses.	Appropriated funds.	
2.10	Govt-held land	Movable hses.	Appropriated funds.	
3.21	Govt outleases land	Permanent hses.	Private FHA	No absorption
3.22	Govt outleases land	Permanent hses.	Private FHA	Equity stock
3.23	Govt outleases land	Permanent hses.	Private FHA	Build & sell
3.24	Govt outleases land	Permanent hses.	Private FHA	Absorbed costs
3.31	Govt outleases land	Permanent hses.	Govt FHA	No absorption
3.32	Govt outleases land	Permanent hses.	Govt FHA	Equity stock
3.33	Govt outleases land	Permanent hses.	Govt FHA	Build & sell
3.34	Govt outleases land	Permanent hses.	Govt FHA	Absorbed costs
4.21	Govt outleases land	Movable houses	Private FHA*	No absorption
4.22	Govt outleases land	Movable houses	Private FHA*	Equity stock
4.23	Govt outleases land	Movable houses	Private FHA*	Build & sell
4.24	Govt outleases land	Movable houses	Private FHA*	Absorbed costs
4.31	Govt outleases land	Movable houses	Govt FHA*	No absorption
4.32	Govt outleases land	Movable houses	Govt FHA*	Equity stock
4.33	Govt outleases land	Movable houses	Govt FHA*	Build & sell
4.34	Govt outleases land	Movable houses	Govt FHA*	Absorbed costs
4.41	Govt outleases land	Govt outleases Movable houses.		No absorption
5.00	Govt outleases land	No provision for buildings.		No absorption
5.04	Govt outleases land	No provision for buildings.		Absorbed costs
6.00	Govt becomes lessee of units in existing or new construction.			
7.00	Govt guarantees rents in existing or new construction.			

* Either regular Title VIII terms or special interest rate and amortization provisions applicable to movable houses.

POSSIBLE FORMS OF LAND TENURE



1.00 and 2.00 cases

3.00, 4.00, and 5.00 cases

6.00 and 7.00 cases

In each such instance the project site will be made available to the sponsor under the provisions of a long-term ground lease. The legislation need make no provision for the sale of land to private sponsors because it is necessary to use the ground-lease contract as the basis for agreements with respect to occupancy limitations and utility and municipal services. It may be possible to sell land to the sponsor after a government town has been incorporated but the very market relationships with respect to rents and costs which would make incorporation feasible would also permit a private developer to produce housing without the special aids envisioned in the legislation.

The ground lease would be awarded to the particular would-be sponsor as lessee, who has qualified himself as being the most capable operator among the applicants and who has offered the lowest construction bid or purchase price, depending upon the formula used. Before any bidding or review of proposals, the government would evaluate the qualifications of applicants in terms of their capital, credit, experience with FHA rental housing operations, and ability to maintain and manage rental property of the types contemplated. Then the proposals of those invited to bid would be judged largely on the basis of the prices offered.

Lease provisions would be prepared prior to the bidding and would contain most of the clauses appearing in the ground leases now used in connection with the military housing program. Each lease would be drafted so as to be acceptable to the FHA. There would be no cancellation clause. The lease should contain one clause which does not appear in the military-housing ground leases: It should give the lessee an option to purchase the leased fee at a stipulated price if the government elects to make such a sale. The clause would also provide that in the event the lessee does not choose to purchase the fee after notice that he may do so, the government may sell it to anyone subject to such protections for the FHA and the leasehold mortgage holder as the FHA may require. The option price may be made low or even nominal if it is considered necessary or desirable to prevent any undue increase in tenant rentals after the sale.

The amount of the ground rent would be fixed in advance of the bidding by which sponsors are selected and, in general, would be for a yearly amount representing a percentage of the fair value of the land.

The proposed method would give clear authority to the outleasing federal agency to render utility and municipal services to new private housing corporations. Lessees would be given contracts specifying what services are to be rendered and setting a scale of charges subject to adjustment. To secure the approval of transactions, the charges for utility and municipal services will have to be set on the basis of reasonable or typical charges which may prove to be less than the actual cost to the government of rendering the services. The legislation would expressly provide for this and it may represent one form of assistance required to enable private participation to be secured and to secure acceptance of mortgages for insurance by the FHA.

The government would have to guarantee continuing operation of the services for such period as the government remains as the operator, either itself or through contractors, of the service facilities. In addition, the government would guarantee that if it were to sell or convey any of the utility and

municipal facilities to an incorporated town or to a private utility company, such sale will be made subject to an agreement by the purchaser or donee to provide the same grades of service and adhere to the same agreements with respect to charges. The guarantee would relate solely to the requiring of an assumption of the obligation by the new operators, not to the actual future rendering of the services. For this reason, any such conveyance of the facilities would be made subject to acceptance by the FHA. This would mean that the federal agency could not rid itself of the continuing obligation unless there were a demonstration that the proposed new arrangement is feasible and gives adequate protections. Actually any workable plan for the incorporation of government towns and for the general disposal of government-owned real estate in such towns would presumably embrace provisions for utility and municipal services which would meet the requirements FHA might be expected to impose.

The FHA and the military services have attempted to work toward a standard form of ground lease. Typically the leases contain the following provisions:

Term of Lease: Most versions of the leases provide for a term of 75 years without cancellation clause except for termination in the event FHA refuses to insure a mortgage or the lessee fails to erect the housing. Currently under discussion are proposals to use shorter term leases.

Reduction in Land Area: The leases limit the use of the land to housing and name the approximate number of units to be built. They refer to the plans and specifications approved by the FHA and provide that in the event the FHA approves a less number of units the lease may be renegotiated to reduce the land area and the ground rent, if any.

Occupancy Agreement: The lessee agrees to lease all units in the project to military and civilian personnel designated by the commanding officer. Provisions are made for notification that units are available. Such tenant leases are on a month-to-month basis. The lessee may rent remaining space to other persons for terms not to exceed one year and extendable thereafter on a monthly basis.

Tenant Rentals and Charges: The leases provide that during the period when there is an unpaid FHA mortgage secured by the leasehold, the rental rates and other charges against tenants shall not exceed the rates established by the FHA. After the mortgage is paid, the rates are to be determined by agreement between the lessor and lessee. Provision is also made that if the FHA acquires the leasehold and resells it, the rates shall not be reduced below the prevailing schedule without the consent of the new lessee.

Utility Services: The government agrees to furnish listed utility services on a reimbursable basis during the term of the lease. In one version of the lease the commitment runs only for such period as the facilities from which the services are supplied remain under the control of the military service. The lessor is not bound to expand its existing facilities nor to furnish any services which it itself purchases from private sources unless it has been found that such services cannot be furnished directly to the lessee from the private source. The lessee is given the right to permit public utility companies to extend water, sewer, gas, telephone, and electric power lines on the leased land to furnish services to the project.

Taxes and Municipal Services: The lessee agrees to pay any taxes or special assessments which may be levied against the property by local taxing authorities. Provision is made that in the event the federal government at some future time authorizes the taxation of government-owned property by local jurisdictions, the lease shall be renegotiated so as to accomplish an equitable reduction in the rent.

Management and Maintenance Standards: The leases used by the Army and Air Force provide that if and when the property is no longer security for an FHA insured mortgage, the standards of maintenance and repair shall be mutually agreed upon by the lessee and the commanding officer. The Navy lease requires the lessee at all times to protect, maintain and repair, and, after payment of the FHA mortgage, to abide by all rules and regulations the Navy Contracting Officer may prescribe.

Reversion of Buildings: Upon expiration of the lease the lessee is permitted to remove the improvements and restore the premises. However, if he does not do so the improvements become the property of the government without compensation.

Transfer of Leasehold: The lessee is not permitted to transfer or assign the lease (nor any interest therein in the case of Navy leases) without the consent of the lessor, except that contingent conveyances to secure mortgages and the leasing of dwelling units are, of course, allowed.

Safety and Security Regulation: The leases all provide that the leased premises shall be subject to all rules and regulations prescribed by the commanding officer for military requirements for safety and security "consistent with the use of the premises for housing."

Customary Clauses: In addition, all the leases make the customary provisions covering diligence to prevent damage and destruction of the property, repair of damage to buildings, maintenance of adequate insurance, observing local laws, saving lessor against liability suits, indemnification, right of entry by lessor, reservation of fissionable materials, assignment of government interest in land, prevention of benefits to officials and Congressmen, joint obligation of several named lessees, definition of commanding officer, handling of disputes, requirement for written notices, and addresses for notices.

Amount of Ground Rent: If the policy statement in Section II of this report were followed, ground rents would be based on percentages of land value. However, in virtually all the military cases, the ground rents have been set at $1.00 for the entire 75-year term. The only few exceptions are where there has been some improvement of the site and the military service has felt that a "token" ground rental should be charged.

In Section II, subsection 5, we delineated the conditions which could be described as "subsidies." It will be noted that if the government policy is to refuse to grant any form of subsidy, then the use of nominal ground rents would not be permitted in connection with the outleasing of land by the government.

The maximum possible ground rent acceptable to the FHA is set by a rule which provides that "The annual ground rents to be charged for a site under a

leasehold shall bear a reasonable relationship to the available market price of the land in fee simple unencumbered by the lease and without consideration of possible severance damage, and as a percentage of that price the ground rent so charged must not exceed the interest rate prevailing in the area for prime mortgages secured by properties which are similar to the one under consideration."

FHA rules also provide that "If the lessor is the United States and if the ground rent is a nominal amount it is not necessary to make an estimate of fair market price for this parcel of land in fee simple, nor will any consideration be given to the possibility that the ground rent so charged would most likely be less than that obtainable for the site in the open market under other circumstances."

In no cases are any of the charges for utility or related services, some of which might be construed as municipal services, made as a part of the ground rental. They are separately identified and charged for under contracts. While there might be some validity to an argument to the effect that tax exemptions, originally considered likely in many Title VIII projects, is valuable and may properly be used as a basis for higher ground rents, the practice does not prevail. This practice would consider that the amount of the tax equivalent, instead of being the typical of average tax levels in other communities, might be considered a rate percent return on the capitalized value of tax exemption itself, determined by the same formula as that used to compute any typical ground rent. Such a calculation might, of course, form a basis for ascertaining a claim for a capital sum in the event continuation of free services had to cease. However, in the military ground leases, the rents are independent of services, are charged solely for the use of the land, and are, so far, nominal in amount.

(b) Utility and Service Contracts: Public Law 211 and the regulations of the military services and the FHA appear to have provided adequately for utility services for privately-sponsored projects on government reservations. However, the law does not offer an adequate solution of the problems associated with municipal services and the supposed exemption of projects from charges for such services, originally planned as the main source of rent reductions for low-income families to be housed, probably will not materialize in a large number of projects.

Public Law 211 authorizes the military services to furnish utilities and related services to privately-sponsored projects on military reservations for the term of the FHA mortgage, provided the services are not otherwise available from local private or public sources and where provision of such utilities and services is deemed to be in the interest of the national defense or in the public interest. The law amended Public Law 284, 80th Congress, in this respect and gives clear authority to render the services over long future periods and to make expenditures to install needed facilities and extensions.

Various sources of services are permitted depending on the available local facilities and the determination of arrangements and charges which the FHA and sponsors will accept. Sponsors are permitted to provide their own facilities and services if feasible. They may, with FHA approval, purchase fire protection and water from neighboring communities and some towns are reaching into

the reservations to supply services. When the utilities are brought in from neighboring towns the arrangement is subject to a contract. The FHA instructions to local offices covering this matter provide that:

"When utilities and services are not available from the local government or public utility companies, contracts between the sponsor and the military or private interests for providing such utilities and services are acceptable provided that they assure continuous service of adequate quality and quantity at reasonable rates. These contracts may relate to such items as water supply, sewage disposal, gas, electricity, street lighting, street maintenance, fire protection, police patrol, garbage collection, drainage facilities, and bus service. The contract for essential utilities services must run for a term of 75 years or more and in case of leaseholds will be separate and apart from the lease. If the contract is with private interests there must be reasonable assurance that those interests are capable, financially or otherwise, of continuously and satisfactorily rendering the services."

The fact is that the FHA rule, which requires the contracts to run for a term of 75 years or more, is unnecessarily onerous because it permits no exceptions in the form of acceptable substitute sources of services at future times. The rule has been under attack by the military services and sponsors and, no doubt, less rigid arrangements will be permitted in the future.

One practice may be subject to some criticism. In some cases the military does not now have the funds required to extend its utility lines up to the borders of the housing project and the cost of extensions has been passed to the private project by including under the lease a long "tail" of land. This enables the sponsor to make the extensions "on his own land."

The typical form of utility contract has been standardized and is used in connection with most of the projects. The principal provisions include the following: (a) the Purchaser (private housing corporation) shall pay for the services at the specified rates monthly, (b) if the cost to government of rendering the services should change appreciably, the contract rates shall be adjusted to conform, (c) the government may terminate the contract in event the charges are not paid after notice to security holders. The latter may resume payments. The government may not terminate as long as the FHA has an interest either in the mortgage or property without the consent of the FHA, (d) the government shall not be obligated for the cost of making connections and the Purchaser shall operate and maintain facilities subject to approval of the government's officers, and (e) Services may be resold to tenants only and at approved rates of charge.

It was originally expected that military housing projects would all be practically exempt from the payment of taxes or any other charges for public services. However, Public Law 211 does provide for taxation after foreclosure and acquisition of the property by the FHA. Sec. 807 states that "Nothing in this title shall be construed to exempt any real property acquired and held by the Commissioner under this title from taxation by any state or political subdivision thereof, to the same extent, according to its value, as other real property is taxed." The FHA, in early instructions to local offices, reflected the belief that most projects were exempt. These instructions read, "An 'on-installation' project may not be subject to taxation or possible special assessments due to the fact that the structures are

to be erected on a military reservation. If the property is not to be reached by taxing authorities . . . leave the line 'taxes' blank."

Actually some of the projects have proceeded on the theory that they will not be taxed. Many of the state laws are vague on the matter and discussions by the courts are required. It is not a matter of taxing federally-owned property but of taxing private leasehold estates and structures located on federal reservations.

Most of the military authorities and the FHA officials hazard the guess that all the states will refurbish their tax laws and that within two years all military housing projects will be subject to local taxation. The effect of the imposition of taxes on the projects will be that much higher rental rates will have to be charged. The main fear of some of the services and the FHA is that they will no longer be able to look to Public Law 211 to secure rents low enough to house many of the families and there are bound to be FHA rejections of some cases which it originally believed it could accept for mortgage insurance.

(3) Building Procurement: The methods which can be used for the procurement of dwelling units and buildings fall into several classes. The five major methods are listed in the table below. It shows, by code numbers, the cases in which each method is applicable.

	Government land	Outleased Govt. land	Private land
A. Existing Buildings (or new buildings privately built)			
a) Government leases units under short term leases			6.00
b) Government guarantees rents			7.00
B. New Government Construction			
a) Government builds and retains	1.00 2.10		
b) Government builds and sells		3.23 3.33 4.23 4.33	
C. New Private Comstruction			
a) Permanent housing on land leased from government		3.21 3.22 3.24 3.31 3.32 3.34	
b) Permanently-fixed housing on privately-held land			See text
c) Movable houses on land leased from government		4.21 4.22 4.23 4.24 4.31 4.32 4.33 4.34	

	Government land	Outleased Govt. land	Private land
). Government-acquired Movable Houses or trailers			
a) Government-owned movable houses:			
(a) Government uses them	2.10		
(b) Government leases them		4.41	
b) Privately-owned movable houses leased to government:			
(a) Government uses them	2.10		
(b) Government subleases them		4.41	
E. Government Makes No Provision for Buildings			
Government leases out land		5.00	
		5.04	

Each of the above-listed building procurement formulas is discussed below:

A. Existing buildings (6.00 and 7.00 cases): While reference is made to the procurement of housing from existing supplies of housing in the community, the classification also applies to housing which might be presently built by private operators in response to the incentive secured through the closing of a government lease on individual dwelling units or a government guarantee of the payment of tenant rents. Procurement from existing supplies of housing would be achieved through one of two methods:

a) Short-term gross leases: In this method, if permitted by new legislation, the federal agency needing the housing, or the FHIC, would be permitted to make short-term leases, on a gross basis, on existing housing units (or on units presently to be built), either apartments or houses, and to subrent them to personnel or employees. If FHIC makes the leases it is reimbursed by the agencies for any differentials in the rents resulting from subrenting to tenants at rates less than those paid to the owner by the government.

b) Guarantee of Rent Payments: In this method, if permitted by law, the federal agency needing the housing, or the FHIC, would guarantee the payment of tenant rents, on a gross basis which does not exceed market rental rates, for short periods, in existing units (or units presently to be built) in exchange for occupancy priority for personnel or employees of the agencies. If FHIC grants the guarantees it is reimbursed by the agencies for any claims it pays.

Acquisition or control of housing through the above formulas is described in some detail below in this section (See Section IV - 2-(4)).

B. New Government Construction: Procurement of housing through direct construction of the government itself is recommended to meet the circumstances surrounding a number of situations. There are two versions of the plan, as follows:

a) Government builds and retains: (1.10 and 2.10 Cases) In this plan, the entire cost of construction, land preparation, and installation of utilities is met by the government from appropriated funds and it is the intention of the government to retain, maintain, and utilize the housing.

b) Government builds and sells: (3.23, 3.33, 4.23 and 4.33 Cases) In this plan, the construction of the housing is achieved by letting a government contract to a builder but requiring that prior to the awarding of the contract the builder must agree to purchase the property on completion for a stipulated minimum figure. Typically the government would offer the property at auction upon completion and sell to the bidder making the highest offer. The builder's bid would be included among any others received. Thus construction itself is contingent upon conditional sale before construction.

C. New Private Construction: The procurement of housing by inducing rivate sponsors and private investors to build on land outleased by the overnment enables all or much of the expenditure. to be made without recourse o major amounts of appropriated funds. The method utilizes a form of government aid to secure the actual substitution of private housing for government ousing. The use of the method follows the general policy which provides that t is appropriate for the government to enter the housing field solely to rovide a substitute for lacking private housing. New private construction n outleased land supplies the lacking private supply in kind.

The typical transaction is one which is made under legislation similar to ublic Law 211 (Title VIII). Our recommendation is to secure legislation which pplies the Title VIII and similar types of FHA mortgages to the housing probems of all federal agencies.

Use of private sponsors who build off government land also saves direct ppropriation. If such construction can be secured without the use of special overnment incentives other than the regular operation of the FHA insured ortgage program, and if the housing so produced actually meets the need of overnment employees and others with whose housing the government feels it is oncerned, then there is little or no justification for further federal attenion to the family housing problem in the area.

This report does not recommend the extension of federal assistance to offeservation housing projects but assumes that all cases will be handled under a and tenure system in which the government outleases its land (or even acquires nd outleases it). Attention should be directed to the fact that the present itle VIII legislation does provide for the extension of assistance to offeservation enterprises. If this is really deemed to be desirable, then the ormulas herein provided for the assistance of private sponsors building on utleased government land can be applied directly to off-reservation projects lso. There is really no major obstacle to such an operation but it is one hich should be used with considerable caution.

The virtues of permanently-fixed construction are many. The principal one s that the techniques of the housing industry are geared to permanent construcion. A second one, if true, is that the costs of construction may be expected

o be generally lower.

The virtues of movable buildings are also many, particularly in connection ith government operations of the kinds discussed in this report. Many of the overnment needs are for either temporary periods or for indefinite periods. ermanency of an installation is scarcely achieved in reality merely by the eclaration of a government official that permanency is contemplated.

It is therefore expected that the use of movable structures will serve to onserve investment. Buildings can be reused, either by the government or by rivate home buyers. The use of movable buildings under this heading (New rivate Construction) is therefore appropriate because it might overcome one of he objections to private capital; the private investor can move the houses if he rental markets disappear.

An exceedingly important distinction must be made between (a) Movable tructures, (b) prefabricated structures, and (c) temporary structures. The roposal to use movable or demountable houses should not be confused with proposals to utilize any kinds of temporary houses. Nor is the proposal necessarily related to houses built by means of prefabrication or off-site manufacture. The introduction of movability into a portion of the housing supply must not, in fact, result in impermanence of flimsiness and the recommendation to se movable buildings is related solely to permanent structures.

D. Government-Acquired Movable Houses or Trailers: (2.10 and 4.41 Cases) The inclusion of this classification is based on the assumption that the government might find it advantageous and economical to acquire, either through purchase or lease, a supply of mobile and movable housing units.

It is recommended that new legislation provide for the purchase and utilization of government-owned movable permanent housing structures. The use of such structures by the government will serve several important purposes: (a) It will provide a mobile supply of good permanent housing for use at temporary posts, stations, and reservations and afford the economies resulting from periodic relocation of the structures and their reuse to secure full amortization of the government investment through use, and (b) The use of such housing structures will protect the government investment in housing, where there is some question with respect to the needed number of units justified in terms of a forecast and total long-term requirements, by making it possible later to relocate a portion of the housing.

The legislation would provide that the housing units must be produced according to designs and specifications developed or approved by the government. The structures must be substantial, durable, safe and low in maintenance cost. They should compare in permanency with other good dwelling structures. Their movability would be their only truly unique feature.

Housing structures might be built either in factories or on their first sites. They would not necessarily be prefabricated structures. It may be presumed that a large percentage of them would be originally built in the field at the site where they are first to be used but so built that they can subsequently be moved without the expenditure of too much money.

Any new legislation should provide that the structures to be purchased are

be either single-family dwellings or group multi-family units which meet the ablished housing standards (See Section II). The structures should be so igned that they are readily movable at reasonable moving and reerection ts.

Trailers might be placed in the same category simply because the method procurement and use is the same. However, the real need is for good, manent, adequate-sized movable houses in many instances.

E. Government Makes No Provision For Buildings: (5.00 and 5.04 Cases) this scheme the government participation does not extend to the furnishing procuring of dwelling units, only to the leasing out of land, which happens be government-held, either to a sponsor of a private project or to an loyee of the government.

Legal authorization for the making of such ground leases to aid in housing federal families should be clear and unmistakable. The financial advantages the government are great. Cases in point include the leasing of land in ernment-owned and operated towns, trailer camps on government reservations, other cases.

Two kinds of cases are classified. The first (5.00 cases) assumes that lessee meets all the costs entailed in providing the housing. There might rules with respect to occupancy by any family other than the lessee or by ants of a sponsor other than tenants subject to the occupancy limitation es. The second (5.04 cases) are those in which it is anticipated that the ernment will expend sums for land preparation, streets, utilities, and er purposes to make such leasing of land feasible.

Financing Procurement

Participation by the federal government in the financing of the procurement housing may be accomplished in several ways, including: (1) Use of direct ropriations, (2) Insurance of privately-made FHA mortgages, (3) Making by government of FHA mortgage loans to be subsequently sold to private invest-, (4) Becoming the lessee under short-term gross leases on dwelling units vately owned, or the guaranteeing of the payment of rents on such units, and Absorption of a portion of the initial investment in housing.

Several of these devices may be used in combination as is indicated by the mary of possible cases. Each of the financial formulas is separately cussed below.

(1) Direct Appropriation: Directly appropriated funds have been used ditionally for most all the purposes associated with housing of federal ilies. In every case where direct appropriation is recommended in this ort, it is presumed that the work will be done under government contract rded by a bidding method suitable to the case.

There are three classified conditions under which direct appropriations used in the recommended formulas: (a) In connection with the construction permanently-fixed housing structures, (b) for the acquisition by purchase leasing of movable housing structures, (c) in connection with the

orption of costs (usually land preparation and utility installation costs) privatly-sponsored housing projects.

Direct appropriation is used in all cases where the housing construction on government-held land which is not outleased to a sponsor. It is also d in connection with all cases where the government builds with the intention reselling on completion; in these cases, there may be a partial or even an ire recovery of the appropriated funds. It would also be used, of course, cases where the government outleases movable houses, for the acquisition of houses.

(a) Permanently-fixed Structures by Direct Appropriation: The use of ectly appropriated funds for the acquisition of permanently-fixed structures the government usually entails acquisition at higher costs than is possible ler other methods of procurement. Consequently, the major consideration is achieve every possible economy. The goal of economy relates not only to initial expenditures and costs, but also to the future costs and expenses maintenance and operation.

Direct government investment and retention of the property, envisions the of appropriated funds to acquire and prepare land and to build, maintain, operate the housing. It is rather obviously the formula to be used for classes of housing in which there is no possibility of securing the interest private investors or where the custody of the housing must be closely held the government for some reason.

However, the formula is to be avoided or is impractical under some contions. Current costs are more than double prewar levels. Heavy appropriaons which will be required will greatly increase the federal budget and add terially to the tax burden. This is a bad period in which to ask for funds. xes are very high and cannot be substantially reduced because of the necesty to provide adequate national defense.

In view of this situation, direct government investment probably reprents the least desirable alternative. No other financial formula can be used der some circumstances but where satisfactory conditions prevail, the rmulas which utilize private capital are preferable.

If the choice is between using direct government investment on a federal eservation and furnishing of suitable private housing in a neighboring town, nother argument for the private housing is that family housing should have ood environment and community-life values which are, at least in many instances, ifficult to provide on some federal reservations.

(b) Movable Structures by Direct Appropriation: The acquisition of movable ousing by the government has considerable merit. However, the initial costs nd the costs involved in maintenance and relocation must, in every instance, e considered in relation to the costs of using permanent construction. It is lways self-evident that the movable structures are the better buy.

The following represents our recommendations with respect to the matter f acquiring movable structures:

The recommended legislation would authorize the GSA to (a) purchase movable

ses, (b) erect such housing structures in first locations, (c) move such ldings and reerect them as required by changing housing needs, (d) lease h housing units to governmental personnel or to sponsors of projects, (e) se structures to federal agencies, (f) sell structures, if surplus, to sonnel or employees and finance such sales, and (g) dispose of the housing uctures when they become surplus or when it is financially economical for government to sell them.

The legislation would provide that the housing units must be produced in ordance with the standards established for housing for federal workers. y must be substantial, durable, safe, and low in maintenance cost. They uld compare in permanency with other good dwelling structures. Their ability would be their only truly unique feature.

The proposed legislation might provide that the initial prices of the sing structures shall include the cost of preparing sites, the price of ns manufactured away from sites, the cost of delivery, and the cost of ction. The total price might include the amounts paid for these purposes more than one individual or firm; it might include payments to a manufacturer, uilding firm, or both.

Funds to be used for the purchase, erection, moving, and reerection of able houses would be made available through direct appropriations. Movable es would be purchased only when first locations and sites are known and gnated. There should be no stockpiling of units. If the housing units for the use of workers or government employees stationed at temporary tions, care would be taken to hold the costs for land improvements to a mum. Movable structures could be used at permanent stations to provide currently-needed extra supply of housing beyond the quantities demonstrably anent.

In establishing the rents applicable to movable houses, the same rules d apply as are applied to permanent structures.

In carrying out the provisions of the proposed legislation relating to ble structures to be procured through direct government purchase with opriated funds, there is a strong desirability to make certain that the nical aspects of design, erection and relocation are thoroughly and properly led. Consequently, there should be adequate preliminary research and lopment under experimental contracts and by other means before orders are ed with producers. We are under the impression that houses having the acteristics required are not being produced at the present time.

(c) Absorption of Costs by Direct Appropriation: This process is utilized in connection with the assistance of a private sponsor or government oyees. The motive and justification is to reduce the required investment he private sponsor to a level which makes the transaction possible. This ect is therefore discussed more fully below in the section (See 2 (5)(c)).

(2) Privately-made FHA Mortgages: The use of FHA mortgages is recommended se it parallels the customary practices in ordinary rental housing opera- . Builders and sponsors are used to the procedures; lenders like the tments and mortgage funds on an insured basis can usually be expected to ailable. Such mortgages represent the principal substitution for direct

vernment appropriation.

As described herein, the mortgages are always secured by leasehold estates government-held land. Furthermore, they are always related to new construc-on.

Any of the rental-housing provisions of the National Housing Act are esumably available as the basis for the loans. However, the Title VIII pro-sions provided for the military housing program appear to be the most nearly plicable to many of the situations which will arise. It is therefore commended that Title VIII be amended so as to be available for use for the using of families of any of the 23 agencies of government.

In addition to Title VIII types of FHA mortgages, we recommend that special pes of mortgages, insured by the FHA, be offered and used if needed in nnection with movable structures.

Each of these two types of privately-made FHA mortgages is described below:) FHA regular rental housing mortgages of the Title VIII types, and (b) FHA rtgages secured by movable structures.

(a) Privately-made Title VIII Mortgages: We recommend the extension of the verage of Public Law 211, 81st Congress, which provides for Title VIII of the tional Housing Act, to embrace housing for all federal workers. The military using formula provided for in Public Law 211 has for its purpose "To encourage nstruction of rental housing on or in areas adjacent to Army, Navy, Marine rps, and Air Force installations." This purpose appears to be quite similar the objectives of at least several other federal agencies. Therefore, nsideration should be given to the possibility of requesting Congress to clude the other agencies in the Act's provisions.

Title VIII provides for the insurance, by the FHA, of mortgages made by rivate lenders on rental housing projects privately built on or near military eservations. The insurance provisions parallel those offered under now xpired Sec. 608 of the National Housing Act. The maximum eligible mortgage s $5,000,000 and may not represent more than 90% of the current replacement ost of the project nor more than $8,100 per family unit except in cases where he FHA Commissioner finds that the housing need will be better served by ingle-family dwelling units. In such cases the principal amount of the ortgage may be as much as $9,000 per family unit. The rate of interest may ot exceed 4%.

The Act authorizes the military establishment to lease land without reserv ng the right to revoke the lease and also to furnish utilities and related ervices located on the military reservation for the term of the mortgage.

The dwellings securing the mortgage must be new construction. Each project ust consist of not less than eight rentable dwelling units. These may be etached, semi-detached, row houses, or multiple-family structures.

The FHA Commissioner is required to fix the FHA mortgage-insurance premium harge between ½% and 1½% per year of the amount of the principal obligation utstanding at any time. He has set the rate at ½%.

The aggregate amount of all mortgages insured under Title VIII is not
nitted to exceed $500 million except that with the approval of the Presi-
:, the total may be increased to $1 billion.

In the event of default, the lenders may convey the property after fore-
ıure to the FHA, in exactly the same manner as in the regular rental housing
gram of the FHA, in exchange for government debentures. Sec. 802 of the Act
ıblishes a Military Housing Insurance Fund to be used by the FHA as a revolv-
fund against which the general expenses of the FHA in connection with
.e VIII may be charged and out of which insurance claims are to be paid.
ntures are executed in the name of the Military Housing Insurance Fund as
.gor. The rate of interest on the bonds is set by the FHA Commissioner with
approval of the Secretary of the Treasury and may not exceed 3%. The bonds
exempt from taxation.

The FHA may sell any property acquired through foreclosure and conveyance
may finance such sales with mortgages insured under Title II, VI or VIII
out regard to any limit as to eligibility, time, or aggregate amount set
he National Housing Act.

No mortgage may be inusred under Title VIII after July 1, 1951 except
e on which the FHA has previously issued commitments to insure or those which
ly refinance an existing Title VIII mortgage.

The administrative, fiscal, and legal procedures for the processing and
ing of loans under Title VIII are substantially the same as those estab-
ed for loans under Sec. 608 of Title VI. In its regulations and operating
ructions the FHA has established most of its rules for the military housing
ram by the simple expedient of making reference to the rules for Sec. 608
lar rental housing transactions.

Title VIII provides tools which are definitely needed. These include the
r to give ground leases which do not contain cancellation clauses and the
r to furnish and sell utility services under long term commitments.

A major difference between the FHA regular rental housing program and Title
relates to the acceptance of the rental markets by the FHA. Title VIII
ides for mortgage insurance on housing for rent to military or civilian
onnel, including employees of government contractors, assigned to duty at
tary reservations. While under the regular rental housing program the FHA
determine whether the mortgage is an acceptable risk in view of the current
ing shortage, Title VIII requires instead (1) a certification by the
etary of Defense or his designee that there is a need for the housing, (2)
the military installation is deemed to be a permanent part of the Depart-
of the Army, Navy or Air Force, and (3) that there is no present intention
urtail substantially activities at the installation. The certificate must
state that the personnel expected to occupy the units shall be able to pay
roposed monthly rentals. The Secretary of Defense has designated the three
taries of the Army, Navy and Air Force to execute the certificates. The
fication is a major difference because it largely relieves the FHA of
nsibility for decisions with respect to the extent and duration of the
l-market risk.

Another important difference is that in the case of Title VIII the FHA

s the claim of the lender in the event the military condemns the property. le VIII provides: "If, during the time the mortgage is insured and before mortgagee has received the benefits of the insurance, the United States uires, or commences eminent domain proceedings to acquire, all or a substan- l part (as defined by the Commissioner) of the mortgaged property for the of the National Military Establishment, the mortgagee may, at its election . receive the benefits of the insurance . . . notwithstanding the fact that mortgage may not be in default."

There are still other differences between Title VIII and the regular rental sing program which stem from the fact that projects are mostly on military ervations. Thus the FHA is expected to insure loans in places which it would mally declare utterly unacceptable. It approves building sites with features would ordinarily declare ineligible. Furthermore, the great majority of the itary projects are on leasehold estates while most of the regular rental sing projects are on land owned by the sponsors in fee simple. In addition, ctically all the Title VIII leaseholds are subject to ground leases calling nominal rents only. Further, the military reservations expect to render lity services at low rates and it was originally believed that no portion the project's revenues would be diverted into payments for municipal serv- s or for taxes paid to local governments.

The principal provisions of Public Law 211 are sound. Provision is made long-term leasing of land, for long-term furnishing of utility and related vices, and for FHA insurance of rental housing mortgages and use of a cial housing insurance fund. Based on the limited experience to date there ear to be only two important omissions in the Act:

The rents achieved are too high for some of the families which can and should be housed in private projects and the quality of the housing which can be made available at the lowest rents achieved is inadequate with respect to family needs. These related difficulties and requirements, low rents and a decent minimum standard of housing, indicate the need for adding provisions to the Act which enable some form of assistance to be used in some cases so that the private-housing formula can reach all the families for which the legislation is or might be considered to be intended. This conclusion is based, of course, on the assumption that private investment itself is desirable to minimize direct appropriations for housing and that the decent housing of all the families is considered to be desirable in the interest of national defense.

The system of permitting each of the three military Departments to set up complete staffs to handle projects and to develop somewhat different methods for selecting sponsors and processing cases is not as efficient and economic as it might be. The experience in the application of the Act to military housing efforts to date suggests the advisability of adding provisions to the Act requiring the centralizing of many of the housing functions and operations in one organization. If the proposal to provide some sort of assistance to achieve lower rents and better grades of housing are adopted, the further suggestion to centralize the housing functions would become more impressive and might indicate the desirability of putting a number of the functions outside of the military establishment itself in some other government agency charged with the new duty of facilitating the housing of federal families through privately-sponsored projects.

The purpose of this review of experience to date with Title VIII is to ascertain whether or not the same formula could be applied to the purpose of securing privately-sponsored rental housing in government towns. The conclusion appears to be that the legislation in its present form, even if it were made applicable to other than military communities, would not be fully workable but that with certain changes and additions it could be adapted to such a purpose.

Most military officers and FHA officials feel that Public Law 211 is sound and useful legislation and that it will be used to secure a very large amount of housing for the military services. They do not believe that any of the present provisions of the Act are unworkable and they attribute operating difficulties to date largely to the administration of the Act.

From the point of view of government family housing, the purposes and intent of the Act are sufficiently similar to the objectives which we have assumed the government to entertain with respect to colonized housing that it should seem possible to adapt the Act, by amendment, to a broader application. As has been indicated, it contains a number of required provisions including the long-term ground lease without a cancellation clause, the right to extend utility facilities and to sell utility and related services, a special mortgage insurable by the FHA, and a special insurance fund for mortgages secured by such projects.

The major inadequacy of Title VIII is the inability to reach low rents. From the point of view of the military services this deficiancy is recognized as preventing use of the Act to house any families with incomes of less than $3,000, even when allowance is made for the setting of high officers' and low enlisted men's rents on substantially identical accommodations. All the services are immediately requesting appropriations for direct government building for low-income groups. In most typical government towns difficulty arises because of the presence of large quantities of government-owned housing rented at low rents which make it impossible for the FHA to accept mortgages for insurance on the basis of the current costs of producing projects.

Thus the general conclusion is reached that while all the ingredients now contained in Public Law 211 will prove useful in providing privately-sponsored housing for government towns, the Act, as it stands, is incapable of utilization and will be inapplicable to government-family housing unless provisions are added which enable the government to absorb a part of the initial costs of private projects. Use of the added provisions might actually be made in relatively few cases but they are required. The changes needed include: (a) Naming the other agencies entitled to use the powers contained in the Act, (b) Retitling and rewording the Act so that it does not refer exclusively to the military services, (c) Renaming the Military Housing Insurance Fund, (d) Granting the FHA the power to insure modified types of Title VIII mortgages suitable for use in government towns, (e) Extending the time during which the FHA may insure Title VIII mortgages and make certain that the total authorizations are adequate, and (f) Adding provisions which permit the use of formulas for the absorption of a part of the initial investments in projects (See IV (5) below).

(b) Privately-made FHA Mortgages on Movable Structures: The financial ·ovision described below is recommended as a new class of FHA loan on rental ıusing privately sponsored on land outleased by the government. It enables .e FHA to insure loans on leasehold estates improved with movable structures.

a. Purposes of the system: The objectives are associated with the aim , make financing similar to Title VIII financing available when movable ıildings are used. Like Title VIII, the proposed type of mortgage makes ıssible the use of private capital instead of direct appropriations. Like .tle VIII it secures the private erection, management, and maintenance of ·operties.

Because the proposed mortgage plan provides for faster amortization than .tle VIII, the sponsor reaches a high level of yearly profit at an earlier ıage. That is, his income from the property increases from a lower figure ı early years to a higher level later - an arrangement which is attractive , many sponsors.

The system also enables the government to abandon a station more readily ıan does Title VIII. Because the buildings are movable, any settlement with ıe lessee-sponsor becomes more feasible because the asset value of the build-ıgs can usually be preserved. Under the Title VIII arrangement, using ·rmanently-fixed structures, any early reduction in the need for housing ; the place may require the FHA to take over the property and to suffer a ırge loss.

The proposed system would be used at places where the housing needs are .mited as to time. While it will not prove feasible to use the system for ınifestly temporary stations, it can be used at places where the housing ·ed is expected to last for, say, from five to fifteen years. These are ıses where the Title VIII formulas do not serve well because of the impossi-.lity of amortizing the loans with sufficient rapidity. Consequently, the ›ecial mortgage described below is recommended for quasi-permanent stations, ›r the extra supply of housing at permanent stations, and for any other ıtuations, involving colonized housing, where there is serious question with ·spect to the permanence of the need.

The principal weakness of the plan, as here described, is that it cannot ›mpete with regular Title VIII and other mortgage plans in private markets ıless a portion of the initial investment is absorbed by the government. ıe proposed mortgage transaction requires relatively fast amortization, a ıgher rate of interest, and the need to provide for the cost of reerection. ıis makes it impossible to achieve suitable rent levels (if the rents are ısed on the costs of projects). Therefore the system finds its principal ›plication when it is combined with one of the devices for partial absorption f the initial investment (See 2 (5) below).

At the same time it should be pointed out that the feature of movability ›es not necessarily preclude the use of the regular Title VIII type of ›rtgage. Title VIII itself would be used for all cases where movable houses re used at places where the use of the houses appears to be permanent. The ›uses would simply be movable and would actually afford better security for ıe lender and the FHA because of the additional feature. Of course, the

moval of the houses would call for the payment of the balance of the mortgage such a transaction.

b. Mortgage Transaction: All the basic procedures and provisions of the tle VIII mortgage would be used. There would be a ground lease made to the onsor-lessee, utility and service contracts, and agreements covering the cupancy of the units. Only the terms and conditions of the mortgage loan self would be different. The following features would be used: (a) the tio of loan to HHA valuation (based on the rents and expenses) would be %, (b) Security would be the leasehold estate and buildings, (c) Rate of terest would be 4½%, (d) FHA insurance premium would be ½% per annum, (e) ortization schedule: The loan would be divided into two parts having equal nk as liens. The "lower" part would constitute 90% of the total loan and e "upper" part 10%. The lower loan would be amortized by a level monthly yment including interest and principal over a period of 25 years. The upper an would also be amortized by a level payment each month over a period determined to be the duration of the assured need for the houses at the particular place. That is, if there were a fairly certain need for the houses the particular place for 8 years, the upper loan would be amortized over 8 year period.

Insurance to the lender would be 100%. Foreclosure and waste provisions uld be made liberal and incontestible.

In many instances the actual maximum amount of the loan will be less than typical Title VIII cases because the government will be inclined to bear ch of the cost of installation of utilities and land preparation and such sts would not enter into the project costs of sponsors. Furthermore, ere relatively short periods of use are anticipated, it is probable that e expenditures required and made for land preparation would be made deliberately low.

c. Special Provisions in Transactions: Certain special rules would be stablished because of the movability of the buildings. These might include he following: (a) The owner may not move the buildings as long as government agencies provide occupants at the established rental rates. If a vacancy f 10% were to persist for six months, the owner would be allowed to move a ortion of the houses by arrangement with the government agency, the FHA, and he lending institution, (b) If the houses are moved, the mortgage would ecome due and the owner could move the houses only by paying off the mortgage; hat is, the mortgage would contain a "release clause", (c) The government ould give the owner a standing offer to purchase the houses at any time at a rice equal to the remaining mortgage obligation; this would mean that an wner could retire from the arrangement at any time; in such cases, the government could continue as mortgagor or pay off the mortgage.

It is conceivable that houses might be reused in connection with a new roject at another place and that not only the houses but the mortgage ransaction itself could be moved.

Insurance to the lender would be absolute. Not only default in payments ut the physical removal of the security would result in immediate foreclosure, conveyance to the FHA, and payment of the mortgage insurance claim n full. The FHA, once in possession of the houses could sell them to private

urchasers but should also have the GSA itself as a standing market for the ouses.

The cost of movable houses may be greater than the costs of typical Title III permanently-fixed houses. The original design and construction of the ouses may exceed the cost of conventionally built houses. The periodic costs nvolved in the moving and reerection of the houses will have to be absorbed. he higher rate of interest and the more rapid rate of amortization of the oans will increase the debt service requirements over the typical Title VIII ase.

However, from the sponsor's point of view, the transaction may be more ttractive than the Title VIII deal because of the assurance that there will e some asset value remaining if the market for the space disappears and beause the government will be inclined to absorb some of the initial investent in order to get the housing.

d. Construction Financing: The transaction might be just like any other eal with disbursements during construction, especially if the houses are riginally erected on their first sites. However, if the houses are factoryuilt, the manufacturer will want cash on delivery to the site. He will not ecessarily be the sponsor of the final project and will usually be merely ne of his suppliers.

The manufacturing and erection can be accomplished under a regular govrnment contract with an agreement between the government and the sponsor o purchase the houses on completion of construction at a set price. Or there ould be an auction on completion (This is the build-and-sell formula which is ully discussed below in 2(5)(b)). This would obviate the need for the sponor to find construction financing. Furthermore, the manufacturer would now he is going to be paid and could accept the order.

e. Characteristics of Transactions: The sponsor will be the ground essee just as in ordinary Title VIII transactions. The government will have o guarantee utility and municipal services in the same way. The sponsorwner will have the standing offer from the government to buy the houses for n amount representing the unpaid portion of the mortgage loan. Such a sale ould not be profitable to the owner but he could make such a sale to get out f the mortgage obligation itself.

There is no attempt to relate the actual costs of dismantling, moving, nd reerecting the structures to the transaction. These costs might vary remendously from one situation to another. The sponsor would have to take his gamble. The device used in the transaction is to amortize the loan elatively quickly so that there is probably a sufficient equity value reaining in the houses, even in the absence of a rental market, to motivate he owner to wish to retain ownership.

Practically all deals made under the formula will require use of one of he formulas for the partial absorption of initial investment by the governent (See below 2(5)(a) and 2(5)(b)).

Deals would proceed from a fixing of rents to the determination of the

aximum FHA mortgage, and then to a calculation of the maximum amount of the nitial investment to be absorbed by the government. The higher amortization chedule and interest rate on the mortgage mean a greater absorption to achieve he fixed rents. It also means that the profit position of sponsor improves t a rapid rate in comparison with his status in Title VIII deals. Furtherore, land improvement costs might be borne by the government.

Absorption of operating expenses: To the degree that the government aborbs operating expense items by offering cheap municipal services or tax xemption, the rent differential to be made up by the absorption of initial nvestment can be less.

f. Attractions to Sponsors and Lenders: The use of the special type of HA mortgage for movable buildings is justified largely to make certain that rivate capital will flow into investment in such housing. However, there are articular features which should serve to attract private sponsors and lenders.

The lender gets faster amortization of the loan than under the regular HA rental housing transactions. He has the benefit of fuller guarantees. e has fewer obligations and responsibilities when the necessity for forelosure arises. He also has a higher rate of interest on his investment.

The builder may be attracted by the fact that his rate of earning inreases at a more rapid rate than is characteristic of the ordinary Title VIII ental housing deal. This is presumed to also serve as an incentive to invite ood management and maintenance by him. The government, in most of these ransactions, will be inclined to absorb much of the cost of land preparation nd utility installation; this fact will be exceedingly attractive to most of he builder-sponsors.

However, the builder will have the problem of finding another market or the units if the government-worker market at the particular place delines. This risk is greater in cases where movable houses are used because heir very use is to meet situation in which there is some question as to he permanency of the need for housing. At some stage the sponsor may be aced with the necessity to find a new rental deal somewhere else where he an move the houses or to find a sales market in which to sell the houses for erection. In either case he will have to lease or acquire new land. He ill have to meet the costs of dismantling, moving, and reerection of the ouses or will have to reduce the price of the houses so that the purchasers an absorb such costs. The government's offer to purchase the houses at the mount of the unpaid balance of the mortgages is merely an anchor to windward gainst serious loss and the transaction would not be a profitable one for e sponsor.

At the same time the builder-sponsor does have a more flexible deal than has under the regular Title VIII type of transaction. In the latter, if e apartment market disappears, he no longer has any valuable equity. In e movable-unit transaction he at least has both the value, such as it may , in the units themselves and the standing guarantee of a government market he is unable to find another more profitable one.

The kinds of sponsors who would be attracted by the movable-house type

f enterprise would probably be much the same as those which are attracted by he Title VIII procedure. They might be the conventional builders seeking onstruction opportunities. However, it is even more likely that a specialized ype of new house manufacturer would also be attracted. The principal appeal ould still be in the initial "builder's profit" but the movability character- stic of the house will necessitate attention by specialized producers.

Any sponsor or promoter entering this field will wish to consider the ature of not only the initial rental market at the place the houses are first rected but also the nature of the possible subsequent markets in which the ouses might be reused. Some of the possibilities include (a) Reuse on other overnment reservations under Title VIII procedures, (b) Sale to the govern- ent for use at isolated places or at small stations, (c) Sale to farmers, d) Sale to suburban or town home buyers, (d) Sale to public housing author- ties, and (e) Sales to foreign governments or other buyers who might con- emplate foreign shipment of the units.

(3) Government-made FHA Mortgages: Our recommendations include the uggestion that the FHIC of the GSA should be empowered to act as an approved ortgagee of the FHA to make FHA mortgage loans to private sponsors of housing rojects located on leasehold estates on government reservations.

The kinds of government-made mortgages authorized would fall into two lasses: (a) FHA rental housing mortgages under Title VIII or Sec. 207 and) the special mortgages designed to finance the erection of movable houses be owned by private sponsors.

The making of mortgages by the government should not be indescriminate d compete with private lenders. In general there might have to be a show- g that the mortgage accommodation is not available through regular private ending channels.

The government should not be allowed to retain mortgages which it makes t should be required to offer them for sale to private investors after the mpletion of projects. In this sense the government-made FHA mortgages here scribed should be considered to be a construction-loan facility for sponsors.

One of the principal reasons for the recommendation to use government- de mortgage loans is to enable the government to secure the advantages of ing able to recover a part of its contribution toward the initial invest- nt in projects. (See below 2(5)(a) and 2(5)(b), both of which methods brace the thought that mortgages will be sold to the advantage of the gov- nment).

Government-made loans should not be made on terms which are more attrac- ve than those offered by private lending institutions. The purpose of em- wering the government to make direct loans to private sponsors is not to cure low rates of interest, long periods of amortization, or any other ad- ntage for borrowers but is primarily to enable the government to minimize e government's total investment by capturing premiums paid in the mortgage rket.

(a) Government-made Title VIII Mortgages: The FHIC would be authorized

y the new legislation to make mortgage loans directly to housing corporations hich sponsor projects for occupancy by government workers. Such loans would e insured by the FHA under the provisions of Title VIII or some equivalent ection of the National Housing Act. The loans would differ in no respect rom the privately-made loans described in a foregoing subsection except that he FHIC would be the initial lender. Such loans are a part of the procedure n the 3.30 cases. The sole purposes served are to make certain that financing s available and to secure for the government the premiums which may be available for the loans when the government sells them.

(b) Government-made FHA Mortgages on Movable Structures: The FHIC would e authorized under the proposed legislation also to make loans to private ponsors of projects which utilize movable houses. Such loans would be of he types described above under "Privately-made FHA Loans on Movable tructures". They would be insured by the FHA under the proposed new provisions of the National Housing Act which authorize the loans on movable tructures. The FHIC would be the initial lender. The system would apply o the 4.30 cases. The loans would be sold to private investors after completion of construction or erection. The sole purposes served are to make ertain that financing is available and to secure for the government the remiums which may be available for the loans when the government sells hem.

(4) Short Leases and Guaranteed Rents: These formulas are classified ere as financial procurement devices because they use the credit of the overnment and involve the payment of rents, either actually or contingently. ach of the formulas is separately described below.

(a) Procurement Through Short Term Gross Leases: Procurement through hort term gross leases is designed to enable the government to provide ousing for families when (a) there is a short-term or temporary government eed to command an existing local supply of housing near either a permanent r temporary station or reservation, (b) it is necessary to secure needed eductions in rents for limited periods when market rental values of the xisting local supply of housing is beyond the reach of families to be oused, and (c) there is a need to speed the occupancy of families in housing ow in existence. The legislation which would authorize this procedure should over the following matters:

a. Leased Units: The procedure would be used only to provide housing or government workers. The housing units covered by a single lease made under he provisions must already be in existence or must be completed ready for ccupancy within a short period from the date of the lease. Such leasing ight be confined to cases where at least ten units are rented from a single wner but the units need not necessarily be located in the same property. t would not be necessary to require that the lease cover all the units in ny given property.

b. Government as Lessee: Any federal agency, in its individual capacity, ight be permitted to enter into such leases. If requested by one or more ederal agencies, the FHIC might be permitted to enter into such leases with wners provided the agency or agencies agree to reimburse the FHIC for all osts and expenses involved in the transaction and for the differences

etween the rents the FHIC pays the property owner and the revenues collected y the FHIC from tenant occupants. Reimbursements would be based either on n agreement initially entered into between the FHIC and each agency or on a ercentage participation calculated on the basis of the numbers of "tenant onths" of occupancy taken by the personnel and employees of the several gencies.

c. Owner's Obligation: During the term of the lease the owner of the roperty would be required to operate and maintain it and to render services o the tenants in accordance with good standards of management and in comliance with the terms of the lease. The owner would have no right to select r reject tenant families and would look solely to the government as lessee or satisfaction of any claims he may make.

d. Lease Terms: The lease should not be for less than one year nor more han five years. The maximum rental rate the government would be permitted to ay the owner should not exceed the current market rental value of the units n a gross rental basis. The rental should be on a stated flat monthly rate unning for the full term but it might contain a tax-participation clause.

The government would agree not to subrent the units to other than government personnel without the permission of the property owner. Leases might ontain provisions for options which permit the government, at its election, o renew the lease for additional periods not exceeding an additional five ears. If the property owner consents, the government lease might be assigned o another tenant, either with respect to all the units covered by the lease r with respect to selected units for which the government has no further need. eases would contain the customary clauses covering the lines of action to be aken and the rights of parties in the event of fire losses, destruction of ne structures, and takings under eminent domain.

e. Tenant Rents: The rents charged tenant occupants of the units would e determined in accordance with the rules established for rent setting in overnment-owned housing (See Section II). All tenants would be required to ign leases covering the occupancy of their dwelling units. Such leases may ontain cancellation clauses which become effective when government orders hange the station or place of employment of the tenant.

f. Appropriations: The difference between the rents paid by the governent to the property owner and the rents collected from tenants should be ppropriated in the year in which the lease is signed.

The express purpose of granting the power to rent residential accommodaions is to enable the government to secure housing in rental markets which re at levels too high for the incomes of the families. Consequently, the ormula has a very limited application and would probably be used only in inances where there is a fairly rapid growth of new federal population at a lace and housing is an urgent problem for a short period only.

Application of the formula requires the government to have the power to ay rents as high as are necessary to secure the space in the current market. owever, the government agencies and the FHIC should not be permitted to pay ay premiums above the market level.

As described herein, all leases would be gross leases and would require e property owners to furnish all services, to meet all operating expenses, carry insurance, and to pay taxes. If necessary the government may agree pay additional rent in an amount equal to any increase in real estate xes over and above the yearly amount of taxes prevailing at the time the ase is made.

It will also be possible to use net leases running for short or even long rms to accomplish the same purposes provided the numbers of units at any rticular place and the facilities of the government make it feasible for the vernment to undertake the management and maintenance of the property. ort-term net leases would be used primarily to reduce risks so as to en- urage private investment. Long-term net leases would be used not only for is purpose but to secure private financing at a low rate of interest. It probable that loans, secured solely by the long-term government lease, ther than the leasehold and buildings, will be available at 3% or 3½% rates interest in spite of the long terms for which they would have to run.

(b) Procurement Through Government Guarantees of Rents: Procurement rough government guarantees of short-term leases is designed to enable the vernment to provide housing for families when (a) there is a short-term or mporary government need to command an existing local supply of housing near ther a permanent or temporary station or reservation, (b) it is not necessary secure rent reductions, and (c) there is a need to speed the occupancy of milies in housing now in existence.

Use of this formula, where acceptable to a property owner, is preferable the use of actual short-term gross leases because the government's liability contingent only.

In some cases it may prove desirable to use the two methods in combination en it is vitally important to induce an owner who has vacant units or units out to be completed to hold them vacant until the federal employees can be ved into the units. In such a case the government might rent the units for e year and guarantee the rental payments for an additional period of, say, e to three years, thereby commanding occupancy privileges for several years en though the actual leases might expire at the end of only one year.

The legislation which would authorize this procedure should cover the llowing matters:

a. Eligible Units: Guarantees would be made only in connection with operties already in existence or to be completed ready for occupancy with- a short period from the date of the guaranteeing instrument. Guarantees ght cover ten or more family dwelling units but the units need not be located the same property nor would it be required that the guarantee cover all the its in any given property.

b. Government as Guarantor: Any federal agency may, in its individual pacity, enter into such guarantee agreements. If requested by one or more deral agencies, the FHIC would be permitted to enter into such guarantee reements with owners provided the agency or agencies concerned agree to imburse the FHIC for all costs and expenses involved in the transaction and

all sums paid by the FHIC to the property owner on account of claims made er the guarantee agreement. Reimbursements should be based on an agreement tially entered into between the FHIC and each agency concerned and indicating percentage participation of each agency. Such initial agreement should mise tenants or reimbursements in lieu of tenants for a designated number the units involved.

The guaranteeing agency, or the FHIC if it is the guarantor, would agree pay the rent on any one or more of the designated dwelling units during any iod it is vacant until the guarantor supplies a new rent-paying tenant or il, with the guarantor's permission, the property owner secures a tenant. guarantee would not be for less than one year nor more than five years. guarantee should apply under all circumstances: (a) if the tenant is nsferred or his employment terminated by the government agency, (b) if the ant resigns voluntarily, or (c) if the tenant is evicted by due process of under state or local statutes relating to landlords and tenants. In no e should the guaranteeing agency or the FHIC enter into a guarantee agree- t with a property owner unless the arrangement stipulates the maximum tal rate to be charged for each dwelling unit and unless the rate so estab- hed is not in excess of the rents charged for equivalent private accommo- ions in the same or comparable communities. Of course, the rates might perly embrace fair charges for services to be rendered to the tenants.

c. Owner's Obligation: During the period of the guarantee the owner the property would be required to operate and maintain the units and to der services to the tenants in accordance with good standards of manage- t. The owner should not permit the occupancy of units designated under guarantee agreement by any tenant not named by the guarantor except with express permission of the guarantor and then only for such period of time the guarantor shall indicate. The property owner should not be permitted require any form of security deposit from tenants nominated by federal ncies. The owner should agree to a monthly rental rate on each unit to ly during the entire term of the guarantee and he would not be permitted make claims for sums which exceed the amount determined by multiplying rental rate applicable to a unit by the number of months and fractions months the units is vacant. For this purpose "vacant" would refer to iods for which no tenant has paid rent. The owner should file claims for t quarterly periods or shorter periods each year. In every instance ses should be given to the tenants and they should contain clauses satis- tory to the guaranteeing agency.

d. Tenant's Obligations: Each tenant nominated by a federal agency uld be required to sign and honor a lease made with the property owner ering the occupancy of the unit assigned to him. Simultaneously he should required to sign an agreement with the guaranteeing agency, or with the C if it is the guarantor, to vacate the dwelling unit within 60 days after employment with the federal agency ends unless the time is extended by guarantor or the guarantor and the property owner mutually agree to remove particular unit from the coverage of the guarantee instrument. Tenants uld be liable to the property owner for damage, proper use of the premises, all other normal obligations to landlords but the government's guarantee ll not cover any items other than rent and service charges included in tal payments.

e. Appropriations: Under the formula, the sums paid to property owners n satisfaction of claims would be met out of funds appropriated to federal gencies for the purpose. The FHIC, if it becomes the guarantor, would look o one or more of these agencies for reimbursement. Congress should put a imit on the total contingent liability to be incurred by each of the agencies nd should appropriate funds for the use of the agencies in carrying out heir obligations under the formula.

(5) Absorption of Initial Investment: Because the policy recommended with espect to the establishment of rents includes the mandate to set rents without iving consideration to the cost of producing the units, it is evident that here may be a large number of cases where the government will find it necesary to procure the housing at costs which are not in line with the rental oals. There are two zones in which such excess costs can be met: (1) the bsorption of a part of the expenses and costs of maintenance and operation, nd (2) the absorption by the government of a part of the initial costs of roducing the properties. This subsection refers to the latter in its applicaion to privately-sponsored projects.

If the contributions made by direct appropriations or other methods of bsorption are exceedingly high, consideration should always be given to the ossibility of going all the way to direct appropriation, letting the housing erely be government housing.

There are three ways in which initial investment can be absorbed by the overnment to enable private capital to do the housing: (a) Government investents in the equity stock of private housing corporations with the intention f accepting losses if necessary, (b) The government can build the housing nder a government contract and sell the housing on completion at a figure less han the actual costs, and (c) The government can actually defray some of the ctual initial costs of the project, thereby reducing the portion of the investent which has to be made by the private investor.

It should be noted that the third of the three ways can be used in conunction with either of the other two, or by itself. It should also be noted hat the absorption of initial investment by any of the three ways should be alanced against any program for reducing operating and service charges through he years to assist the sponsor.

All the methods have the purpose of reducing the initial investment which as to be made by a sponsor to a level which he can handle and accept in view f the rent level to which he is restricted by the government. If FHA mortages are used (as they are in most of the procedures) the absorption of nitial investment is the very device which enables the FHA to cooperate and he extent of the absorption may frequently be determined by the level of value" the FHA is able to ascribe to the property in view of the rental rates vailable and proper in the case and in the surrounding market.

Each of the three methods of absorbing initial investment is separately escribed below.

(a) Government Equity Stock Investments: The equity stock formula is pplicable to the government absorption of initial investment in those cases

ıere a private sponsor erects units on land outleased by the government in-
ɔlving permanent structures privately financed (3.22 cases), permanent
;ructures financed with government-made FHA mortgages (3.32 cases), movable
;ructures privately financed (4.22 cases), and movable structures financed
ıth government-made FHA mortgages (4.32 cases).

The equity stock formula provides for the development, ownership, and operation of rental housing for the occupancy of the families by private corporations. The equity funds over an FHA Title VIII type of leasehold mortgage are furnished to the corporation by a preferred stock issue purchased for cash by the Federal Housing Investment Company. Private enterprisers receive common stock shares and fees for services to the private corporation. Occupancy priority and rent control are retained by the government agency. Funds for the use of the FHIC are secured from appropriations made by Congress for the purpose and rent reductions, to the extent needed, are secured by permitting the FHIC to forego dividends and sustain losses on its preferred stock shares.

A ground lease, utility contract, and contract for municipal services are entered into by the FHIC and the private corporation. Provision is made in the ground lease and service contracts that, in the event the government finds it feasible to dispose of the real estate, the lessee will have an option to buy the leased fee, that occupancy limitation by the government shall cease, and that utility and municipal service arrangements shall thereafter be made with the entities and utility companies in a position to then render such services.

The FHIC may sell its stock holdings in the private corporation to a qualified buyer offering the highest price. The buyer may be other stockholders of the corporation or others. The FHIC, as an approved mortgagee of the FHA, may make a mortgage loan to the corporation in an amount equal to a conditional commitment secured from the FHA prior to the start of construction. Subsequently, the FHIC may sell the mortgage to another FHA approved mortgagee for the best premium it can get.

In the formula, the total possible amount of the cost absorption is limited by provisions in the Act and by the maximum established by the FHIC. The net total absorption may be less because of reductions resulting from (1) the amount of the highest price offered for the purchase of the FHIC equity stock, (2) the amount of premium paid by a purchaser of the FHA mortgage, and (3) the amount of the unsold FHIC equity stock retired through the years from earnings of the corporation.

In the operation to secure privately-sponsored housing under the equity stock formula, the determination of rental rates, the determination of the maximum subsidy, the drafting of the ground lease and the utility and municipal service contracts, and the drawing of the occupancy agreements follow the methods described in preceding subsections. The following methods are those which are unique to the formula:

Design and Bidding: The preparation of designs may be achieved by a contrast given either directly to an architect by the FHIC or GSA or by the private housing corporation in which the FHIC becomes a stockholder. In the former case, the initial bidding to select a sponsor will be effected after the designs have been made and the bidders can take into account in their calculations the drawings and specifications which have been adopted. In the latter case the bidding will relate only to the qualifications and credentials of the would-be sponsors and the preparation of drawings would be accomplished after the sponsors have been selected.

Incorporation and Equity Investment: After selection of the sponsor, a private housing corporation is formed and the FHIC makes an investment in the preferred stock shares of the corporation. The amount of the investment will be the minimum amount necessary to provide the needed maximum amount of assistance and cannot be determined until after rents have been determined and the FHA has ascertained the maximum mortgage it is willing to insure.

Each project will be undertaken by a sponsor who will lease land, receive a contract covering utility and municipal services, operate the housing, and relieve both the FHIC and the federal agency concerned, to the maximum extent feasible, of housing burdens. There will be a separate housing corporation for each project although a corporation would be permitted to undertake the erection of additional structures on remaining leased land or to acquire, by lease, abutting land and build more housing.

The actual formation of the private housing corporation would ordinarily be deferred until after the agreements relating to stock investment, loans, occupancy priority, and other matters have been made. Then the corporation would be immediately formed and would proceed to accomplish all of its initial undertakings. These would involve the distribution of stock certificates, the preparation of agreements between the stockholders and the corporation, and the election of corporate officers.

The FHIC will agree to subscribe to the preferred stock shares subject to the following arrangements:

(1) The total amount of the preferred stock subscriptions shall not exceed all the requirements for cash needed in the development of the project to completion, including any fees paid by the corporation for professional services, and sums required for working capital, less the amount of the proceeds of mortgage loans secured by the property, less the amounts subscribed for common stock shares, less the amount of any loan from the FHIC to the corporation.

(2) All the stock of the private housing corporation, including both common and preferred, will be issued to voting trustees who (a) shall issue to the FHIC a suitable certificate containing an agreement to deliver the preferred stock to the FHIC upon request and in the meantime to pay the FHIC an amount equal to any sums received as dividends on the stock shares, and (b) shall issue to the common stockholders a suitable certificate containing an agreement to deliver the common stock to the common stockholders when all preferred stock shall have been retired as provided in (9) below.

(3) The cash proceeds of the preferred stock subscriptions shall be disbursed by a banking agent, appointed by the voting trustees, in installments as cash is required by the corporation for the conduct of its activities.

(4) The subscribed amount of the preferred stock and the outstanding amount of the cash proceeds of the preferred stock subscriptions, together with the proceeds of any loans from the FHIC to the corporation, shall at all times be sufficiently in excess of the sums paid out for ground rent, materials, and services by the corporation, plus the amount of outstanding obligations of the corporation due within 60 days, as will maintain an adequate cash working capital balance.

(5) All expenditures made by the corporation shall be properly recorded and submitted to the banking agent for review by the voting trustees (or the bank shall, if requested, make direct payments to suppliers or others as agent of the corporation).

(6) Preferred stock dividends at a rate which does not exceed 2% per year shall be paid to the FHIC by the corporation quarterly on the outstanding amount of the preferred stock subscriptions.

(7) No preferred stock dividends shall accrue until after the completion of construction.

(8) Preferred stock dividends shall be paid only if and to the extent they are earned from operations of the project after payment of operating expenses, maintenance costs, tax equivalents, insurance, management costs, debt service requirements on mortgages, and a 7% dividend on the outstanding amount of the common stock subscriptions.

(9) All net earnings of the project remaining in any quarter-yearly period after paying preferred stock dividends shall be paid to the FHIC to reduce the outstanding amount of the preferred stock subscriptions until the total amounts subscribed and paid in have been returned to the FHIC.

(10) Upon the full retirement of the preferred stock, all agreements between the private housing corporation and either the voting trustees or the FHIC shall terminate except those which would apply to any unassisted Title VIII project.

(11) Loans secured by liens on the common stock shares of the corporation may be made for certain purposes by the FHIC from its funds, either available balances or appropriated funds, at an interest rate of not less than 2% per year paid quarterly on the daily outstanding amount of the loan. The purposes considered to be proper include: (a) Partial financing or the initial cost of the project, and (b) financing of betterments and improvements of the property.

(12) The FHIC is given an option, at any time the mortgage is in default, to purchase all the common stock of the corporation at a total price of $1.00 paid to the common stockholders. This enables the FHIC to pay any delinquent mortgage-loan obligation or to sell the housing corporation to purchasers who may undertake to meet such defaulted obligations.

Erection of Structures: Next, the corporation proceeds to erect the buildings on the leased land. It may do so by securing bids from responsible building firms and giving a lower bidder a contract or, if the sponsor is himself a qualified builder, he may erect the buildings. The former method will serve to secure the cost reductions to be derived from the bidding process. The latter method may have the same effect if the initial selection of the sponsor was based on a low cost estimate among offers made by all the would-be sponsors.

The funds used for the construction of the buildings will be secured from the stock subscriptions of the FHIC and the private sponsor and from disbursements on the FHA mortgage made by the FHIC or a private lending institution.

Mortgage Financing: Before the transactions are closed after the selection of the private sponsor, the FHIC will apply to the FHA for a commitment to insure the maximum mortgage obtainable. The amount will be determined by the established FHA limit for Title VIII mortgages and the rental rates approved by the FHA. Ordinarily, the maximum will not be more than 90% of the original estimate of the total investment supportable by private capital, unless the FHA consents to a higher figure based on higher actual costs or some other justification for accepting a higher "valuation" than the original estimate.

While there will be no absolute requirement that the mortgage be FHA insured, it is almost certain that actual projects cannot be financed in any other way. Furthermore, it will prove advantageous to the government to have the FHIC itself make the mortgage loan to the corporation so that the mortgage may later be sold for a premium which will reduce the net amount of the subsidy. One requirement would be made, however, to the effect that, if a conventional uninsured mortgage is used, it shall have a rate of interest, term, prepayments, and other features which are not less attractive than the currently prevailing terms of Title VIII FHA rental housing mortgages (3.22 and 3.32 cases) or the terms available on FHA mortgages secured by movable buildings (4.22 and 4.32 cases).

If the FHIC makes the mortgage loan it will offer the loan for sale to a permanent FHA mortgage investor and will negotiate the most advantageous sale possible for the purpose of securing the maximum available premium. The offering would not be made until after completion of construction and the FHIC should be permitted to hold a mortgage for several years if necessary to secure a favorable secondary market in which to make a sale. If no other market is available or if no better terms can be secured the FHIC would be permitted to sell the mortgage to the Federal National Mortgage Association. The mortgage sale, whether made to a private investor or to the FNMA would be subject to a requirement that the purchase take over and be responsible

for the servicing and collection of the mortgage by itself or by an agent acceptable to the FHA.

Auction of Equity Stock: At any time which appears to be advantageous to the government the FHIC shall be permitted to offer its preferred stock for sale at auction or by suitable negotiation for the purpose of recapturing a portion of the government's investment and achieving a reduction in the amount of the net absorption of investment. In general there would be an exceedingly restricted market for the stock. One possible buyer might be the sponsor-holder of the common stock shares. The decision to make such a sale might properly depend upon the long-range benefit to the government and take into account the prospects, as seen at the moment by the FHIC, for a greater or less recovery on the government's preferred stock investment to be secured by relying on the future earning power of the project.

(b) Build-and-Sell Formula: The build-and-sell formula contemplates direct government building of the project and the subsequent selling of the leasehold estate and buildings to private sponsors. The method is recommended primarily as a financial device to expedite housing construction by private sponsors in cases where the government has to absorb a portion of the initial investment. It is designed to secure a minimizing of the amount of the absorbed investment.

The build-and-sell formula is applicable to the government absorption of initial investment in those cases where a private sponsor becomes the owner-operator of housing on land outleased by the government involving permanently-fixed structures privately financed (3.23 cases), permanent structures financed with government-made FHA mortgages (3.33 cases), movable structures privately financed (4.23 cases), or movable structures financed with government-made FHA mortgages (4.33 cases).

The build-and-sell formula permits the Federal Housing Investment Company to secure designs and to erect residential structures, with funds appropriated by Congress, under a government contract given to a qualified low-bidding private corporation which agrees to purchase the leasehold estate and buildings on completion at a price equal to the actual cost of the project less the estimated maximum capital investment absorption required to achieve rent levels properly related to the rental values of the properties or to competing rents paid in government-owned residential properties in the same place.

A ground lease, utility contract, and contract for municipal services are drafted. On completion of construction the leasehold estate, including the buildings, is offered for sale to the qualified corporate buyer offering the highest price. The buyer may be the private building corporation or another buyer. The buyer agrees to the imposition of occupancy limitations.

The FHIC, as an approved mortgagee of the FHA, makes a mortgage loan to the successful buyer in an amount equal to a conditional commitment secured from the FHA prior to the start of construction. Subsequently, the FHIC sells the mortgage to another FHA approved mortgagee for the best premium it can get.

Provision is made in the ground lease and service contracts that, in the event the town is incorporated, the lessee will have an option to buy the leased fee, that occupancy limitation by the government shall cease, and that utility and municipal service arrangements shall thereafter be made with the new town government, utility companies, or other entities.

In the operation to secure housing under the build-and-sell formula, the determination of rental rates, the determination of the maximum amount of the investment to be absorbed, the drafting of the ground lease and the utility and municipal service contracts, and the drawing of the occupancy agreement follow the methods discussed in preceding subsections. The following methods are those which are unique to the formula:

Design and Bidding: The preparation of the designs and drawing of the specifications is accomplished directly by the FHIC which will give a contract to competent architects for the purpose. After the qualifications and credentials of would-be sponsors have been examined they will be invited to submit bids naming the price at which they will produce the structures under a government building contract and the low bidder, all other things being equal and satisfactory, will be awarded the construction job and the initial sponsorship.

Agreement to Purchase: To be acceptable to the FHIC to be a bidder, the applicant must agree to purchase the leasehold estate and buildings on completion of construction at a price equal to that percentage of the total actual cost of the project on completion, which equals the ratio of the estimated maximum supportable private investment to the original FHA estimate of the probable total project cost. Thus, if the estimated maximum supportable private investment were $1,485,000 and the original estimate of the total project cost were $1,650,000, the bidder would be required to agree to purchase the project on completion for 85% of the actual cost of the project; if the actual cost happened to be $1,590,000 he would be required to pay a price of $1,431,000 unless a higher price is available to the FHIC.

If desired or considered to be necessary, the bidder may be given an option and priority to buy, if he care to, at a price equal to the highest purchase offer subsequently received when the government sells the leasehold estate and buildings. This is not a necessary procedure but would be used only if all bidding builders were to insist on the option. In any event, the builders must agree to purchase on completion and the successful bidder must so purchase if he is not outbid at the auction.

Building Contract: In the build-and-sell formula the FHIC pays for the construction of the project out of appropriated funds. The successful bidder is given a building contract which reiterates his agreement to purchase on completion. The actual cost of the project on completion will be determined by audit and will include all actual proper costs including the builder's fee and the costs of installing or extending utility lines and preparing the land. In general the actual cost will be the amount of the successful bidder's bid plus the amounts of all other costs for items which were not actually included in the building contract. If the contract makes provision for a division of any savings below the bid figure between the builder and the FHIC, the actual cost may be less. It may be presumed that the builder will have considerable motive to reduce the cost because he himself will very possibly become the owner and operator of the property.

Mortgage Financing: At an early stage after the preparation of the designs the FHIC will apply to the FHA for a conditional commitment to insure a mortgage loan on completion of construction. The commitment will be conditional on (a) acceptance of the sponsor by the FHA and (b) erection of the structures in accordance with the plans and FHA's requirements. The amount of the FHA mortgage will be determined by ascertaining the maximum Title VIII mortgage loan supportable, under FHA statutory and other limits, by the rental rates determined to be proper and acceptable to the FHA. In no case, however, would it exceed 90% of the original estimated maximum supportable private capital investment unless the FHA consents to a higher figure based on higher actual costs or some other justification for accepting a higher "valuation" than the original estimate.

At the auction of the property on completion and at the time the FHIC asks would-be purchasers for bids, the FHIC, as an approved mortgagee of the FHA, will offer the successful purchaser an FHA mortgage loan, to be used as part payment for the property, in an amount equal to the FHA loan commitment. If the buyer wishes to finance the purchase by securing mortgage funds from some other source, he will be permitted to do so. However, it will be clearly understood that the evaluation of offers will be made solely on the basis of the greatest advantage to the government. This may mean that in selecting the successful purchaser the FHIC would require a self-financing buyer to bid an amount which exceeds the nearest competitive bid by a sum equal to the premium the FHIC may expect to secure by a sale of the mortgage made by the FHIC to a buyer of the property.

At the time the FHIC offers the mortgage loan (if it has made one) for sale to a permanent FHA mortgage investor, it will negotiate the most advantageous sale possible to secure the maximum premium to be used to reduce the amount of the government absorption of cost. If no other market is available the sale may be made to the Federal National Mortgage Association but such a sale will be at par and no premium would be obtained. There will be no particular urgency to make the mortgage sale immediately and the FHIC should be permitted to hold a mortgage for several years if necessary to secure a more favorable market. Under the arrangement where the FHIC makes and sells the mortgage the buyer of the property will not make a profit on the mortgage sale as he does in some other types of FHA operations.

The purchaser of the mortgage will be required to arrange for the servicing and collection of the mortgage in a manner satisfactory to the FHA. It should therefore be noted that, because the FNMA buys mortgages at present only when the original mortgagee undertakes to retain the servicing, the proposed legislation should authorize FNMA purchases of these types of Title VIII mortgages or FHA mortgages on movable structures and require the FNMA to make satisfactory arrangements for servicing.

Sale of Property on Completion: On completion of construction of the project, as determined by the FHA, steps will be taken to offer the property for sale, at auction, subject to the ground lease, utility and municipal service contracts, occupancy agreement, and tenant leases. Would-be purchasers will be required to submit data on their qualifications before bidding and only those who can show an ability to close the transaction, have a proper motivation, and possess the requisite management experience and facilities would be permitted to submit offers.

One bidder will be the builder who erected the structures under government contract. As a condition of the contract he was required to agree to purchase the property at a specified price if not outbid. At the time of the final offering he is permitted to enter another higher bid, if he cares to do so, at any price he chooses and which he believes may enable him to outbid competitors.

Oddly enough, one of the major objections to the use of the build-and-sell formula is that a full appropriation of funds is required in the year the government builds. Even though much or all of the expenditure is promptly recaptured for the government in the following year after completion of construction, the fact remains that government methods of securing and accounting for expenditures makes the system difficult to apply. It will be necessary to consider the operation from an "investment" rather than an "annual expenditure" point of view to appreciate the advantages of the formula.

(c) Direct Absorption of Costs: The direct cost absorption formula is applicable in a great many cases where a sponsor erects units on land outleased by the government. It can be used, if proper, in combination with other formulas for the absorption of initial investment; in these cases it serves to secure a fractional absorption. Or it may be used as the sole basis for the absorption of initial cost. In the latter case it could be justified only if there were a demonstration which indicates the impossibility of using either the equity stock formula or the build-and-sell formula. The illustrative cases designated 3.24, 3.34, 4.24, 4.34, and 5.04 utilize the direct absorption concept to the exclusion of any other method of absorption of initial investment.

3. Operating Formulas

In all cases where any federal attention to housing or federal participation is used, the government should properly retain or undertake to control operation of the housing in some measure. These duties or retained controls will relate to (1) the establishment of rental rates, (2) the meeting of operating expenses, maintenance, and repair, and the grade of operation, and (3) control over the occupancy of the units.

(1) Rental Determination: Rental rate determination is discussed in a preceding section (See II-4). There the methods recommended for the setting of rents were described. It is suggested that the programs for the operation of government housing should include the regular yearly adjustment of rents by the same system so that changing conditions in private rental markets are promptly reflected in the government rents.

(2) Management Operations: Full responsibility for operations is undertaken by the government in all cases where the government owns the real estate (1.10 and 2.10 cases), but in no others. The actual operating and maintenance may be accomplished in one of the following ways: (a) by the federal agency concerned, (b) by the GSA, (c) by contract between the federal agency and a management contractor, and (d) by contract between the GSA and the management contractor.

The standards of management, operations, and services to tenants should be the same as those which represent average good management in ordinary private housing operation. This parallels the concept used in the statement of housing policy which considers the government housing task merely to be the substitution of government-owned or government-aided housing for private housing of the grades the families would be able to procure for themselves if conditions permitted.

The same is true of the maintenance policy. There should be a conservation of the investment in the property and the tenants should have the benefits of a reasonable amount of repair and redecoration. Mechanical failures should have immediate attention in all cases. In general there should be a yearly inspection of the condition and needs of the properties and a method of taking care of needed repairs to prevent the undue deferment of maintenance to the detriment of the property or the reasonable requirements of the tenants.

In accounting for operations there is a clear need for suitable cost controls and a definite delineation of the items of expense. Rents would be set in accordance with the method prescribed in Section II of this report. The expenses should be properly identified and would not enter into rent calculations unless they are items which are separately charged to tenants.

In sponsor-operated properties (3.00, 4.00, 5.00, 6.00, and 7.00 cases), management is by the sponsor or by a contract between the sponsor and a management contractor. In either case the sponsor is responsible to the government. The government's concern is for a grade of service and a standard of operation which conforms with the general purpose to substitute housing normally available in other communities.

Recourse for poor management in sponsor-operated projects is secured by various means. Some of the military officers have addressed themselves to the matter of the management of the Title VIII projects after completion. They are aware of the fact that most of the sponsors who submit proposals are primarily after construction jobs, not long-term earning investments and they fear that there may not be adequate motivation to assure good management, adequate maintenance, and satisfactory tenant services.

Actually, of course, the degree of control over management is about the same as that which the FHA enjoys in connection with its regular rental housing operations. Title VIII, like the other rental housing provisions of the National Housing Act, provides that "The Commissioner may, in his discretion, require such mortgagor to be regulated or restricted as to rents or sales, charges, capital structure, rate of return, and methods of operation. The Commissioner may make such contracts with, and acquire for not to exceed $100 stock or interest in, any such mortgagor, as the Commissioner may deem necessary to render effective such restriction or regulation." Of

course, the kinds of control mentioned in the Act do not cover the aspects of management which concern the military, nor does the control go to the military itself; instead, the control would be in the hands of the FHA.

There may be some question as to whether the FHA Commissioner is in a position to force a sponsor to spend the accumulated reserve for replacements at some future time. The FHA can, of course, do so in all the larger cases (over $200,000) in which the FHA is a stockholder. But the practical aspect of the situation is that, in general, apartment owners have skimped on maintenance; they have forced decorating costs onto the tenants. While the reserve for maintenance is provided for in the rents, there is really no real assurance that it is actually going to be used. Most of the military have agreed that there is really no recourse against poor management except that to be exercised through the FHA and that good management can only come from motives related to the preservation of a truly valuable equity investment.

In the attempt to create fairly normal and average amounts for the required initial investments, unit rentals, and operating expenses of the sponsors of private housing located on government reservations, the use of devices which permit the government absorption of expense items is necessary in those cases where the actual expenses or costs involved are higher than normal or average figures. In fact one of the needed inducements in the attraction of private investment may be the government absorption of expenses and the policy statement would permit such absorption provided there were no subsidy involved (See Section II-5). The items which might be absorbed in this manner include the excess portion of the costs or expenses associated with the provision of utility services and municipal services. In some cases it might apply to other items such as fuel if furnished from a local government supply source.

The device may entail a continuing obligation to furnish services for many years at reduced rates. It would require Congress to make, in effect, future appropriations for the costs of the services regardless of the future costs of rendering them. Further, in government towns, the method would not lend itself to the establishment of the towns as independent incorporated places. It might stand in the way of creating a suitable and workable tax base at some future time. Thus while the absorption of expenses by the government is a necessary and proper tool in the procurement and operation of privately-sponsored housing, the application of the method requires foresight and attention to a complex group of factors.

(3) Control Over Occupancy of Units: The necessity to retain control over the occupancy of dwelling units is related to the fact that the housing is procured solely for governmental purposes. While the agency programs require the housing, the housing must be kept available for the purpose. Any rule requiring separated employees to move out within, say, 30 days might be expected to be distasteful if applied to the occupancy of a project owned by a private sponsor. In fact, most occupancy rules can have an unfavorable effect on such a sponsor's project.

Occupancy limitation will probably not be a serious deterrent to private investment. The basis for this judgment is that similar restraints apply to housing projects being built under Public Law 211 and there has been no indication that prospective sponsors, the FHA, and lenders have

any misgivings. Actually some of them believe that they indirectly have a reasonable assurance of occupancy because of the rules. This is not so, of course, but is considered to be approximated solely because the total amount of new housing being built on each military reservation is limited to less than the statistical need for housing.

There is one difference, however. The ground lease provisions covering this matter would give a priority or preference to government workers but they should permit the renting of remaining vacant units to others. As a matter of fact the privilege of renting to others is usually only a hypothetical advantage because at most of the places there is no additional market available to the sponsors. But in some instances there would be other tenants than employees of the government and its contractors. The employees of commercial establishments, retired workers, and others working at other places in the area could be admitted and the only necessity would be to refuse to allow the project sponsor to accommodate any particular family to which there may be some objection based on the nature of the agency program.

Lack of control by the landlord over occupancy and tenant selection will probably not be a serious deterrent to private investment unless the level of employment offered by the government falls considerably. Then it might be unless the project owners were permitted to accept other tenants.

Section 803 of Public Law 211 provides that "The mortgaged property shall be designed for rent for residential use by civilian or military personnel of the Army, Navy, Marine Corps, or Air Force (including government contractors' employees) assigned to duty at the military installation at or in the area of which such property is constructed. Notwithstanding the provisions of any other law, preference or priority of opportunity in the occupancy of the mortgaged property for such personnel and their immediate families shall be provided under such regulations and procedures as may be prescribed by the Commissioner."

The Administrative Rules issued by the FHA under Title VIII provide that "the mortgagor must establish, in a manner satisfactory to the Commissioner, that after completion of the project, preference or priority of opportunity to occupy will be given to civilian or military personnel of the Army, Navy, Marine Corps, or Air Force and their immediate families (including government contractors' employees) assigned to duty at the military installation at or in the area where the project is located."

To carry out this rule, the FHA has prescribed that insuring offices, when issuing insurance commitments, shall add the following wording to each commitment: "This commitment is conditioned upon the execution of FHA Form 2013m, Military Preference Occupancy Priority Statement, a copy of which is attached for that purpose." The mortgagor is required to submit the form, duly executed, at the time the mortgage is endorsed for insurance. The form itself is a simple statement to the FHA from the mortgagor to the effect that he certifies that the required preferences or priorities to occupy the dwellings will be given.

In the military housing program there is no indication that there is a ranking of preferences as between military personnel and civilian personnel or as between heads of families of different incomes or military rank. It

is generally felt that the established methods used at military reservations to assign quarters will be used automatically. The ground leases make provision for month-to-month occupancy by the tenants and limit leases given to non-preference tenants to one year. In the planning of projects and in the establishment of rental rates the services plan to segregate commissioned and non-commissioned officers. In some cases the plot areas are definitely assigned; in others, as at a Marine Corps base, the separation is expected to be automatic and to be achieved solely by the establishment of rent differentials.

Few of the military housing sponsors have given attention as yet to the question of the probable occupancies their projects will achieve. Because the numbers of units at different rent levels in each project have been determined by careful surveys of need and represent building only to meet serious deficiencies in available supplies of housing, the sponsors have felt that they are assured high occupancies for a reasonable number of years -- occupancies much higher than the standard 93% which the FHA uses as the basis for the determination of rental rates. In addition, some of the sponsors have been told that military officials will make an effort to divert tenants from lower grades of government-owned housing, and from off-reservation housing, to the new private projects. The exertion of such pressure will apply solely to officer personnel; no pressure will be brought to bear on non-commissioned officers or civilians to occupy the Title VIII housing. Sponsors actually have no guarantee of occupancy except in remote and desert locations where personnel have no alternative. When the projects are located near cities or on reservations having a generous supply of government quarters, the sponsor's project will have to compete for tenants. Finally, the implication of the word "preference" is somewhat misleading. It is true that sponsors are legally free to rent vacant apartments to non-preference tenants and thereby keep high occupancies. But a sponsor who believes that there is any great reservoir of tenants to replace the military tenants, who may have left because of a reduction of total personnel at the station, will find few. The value of the right to admit civilians is theoretical. Very few people will elect to live on an army post. They could not make purchases at the post exchange, would live in a fairly unnatural environment, and might have difficulty with respect to schools, security regulations, and other matters. Furthermore, in the event of war, all tenants in the non-preference groups would probably be required to vacate.

In all 3.00, 4.00, and 5.00 cases, the lessee under the ground lease should be required to agree in advance to give preference in the occupancy of the units to families nominated by the federal agency concerned. In view of the fact that the agency will have certified that the project is necessary to provide adequate housing for the families of employees of the agency and its contractors, the agency would nominate only those families falling within this classification as long as there remained vacant units in the project. The agency would find it proper to confine its nominations solely to these particular families because the financial aids used in the formulas can be justified only if they serve these families. At the same time it might be very proper to permit the nominations to include ministers of the gospel, doctors, and certain other classes of people who are neither government employees nor the employees of government contractors.

If deemed desirable, the agreement might require the sponsor to include a clause in tenant leases requiring the vacation of the premises within 30 or 60 days in the event the agency notifies the sponsor that the employment of the tenant has been terminated by the agency or one of the contractors and provided further that there is no vacancy in the project at the time. Continuation of occupancy by such a separated employee could be on a year-to-year basis subject to a continuation of the existence of available vacant space in the project.

In the event the nominated tenants are not sufficient in number to fill all the units at any time, the sponsor would be permitted to rent the vacant units to other tenants. Occupancy of the project by non-nominated tenants in this manner would not violate any propriety assumed to exist because the project has had the benefit of financial assistance; it is logical to assume that both the sponsor and the FHA are entitled to the fullest occupancy the market affords. Neither the federal government nor the federal agency will be injured in any way as long as priority is retained for the families eligible for nomination.

The length of the leases made to non-preference families could be limited to one year with month-to-month extension thereafter. If absolutely essential to the purposes of the federal agency at any time, the sponsor could be required to hold specified units vacant for future nominations provided the agency itself pays the rent scheduled for the vacant units during the period they are held vacant in this manner. Furthermore, the purpose of the agency may well be better served at some periods by reducing the number of nominations deliberately to enable some number of the employees of commercial lessees in government towns to find vacant units in the private projects.

While the initial certification given by the federal agency to the FHA would relate specifically to the number of additional units deemed to be required at that moment for families of employees of the agency and its contractors, nevertheless, the normal fluctuations in the amounts of the need from year to year may be expected to change and allow some percentage of the units to be occupied by others at various periods without in any way misapplying the government funds used to help to create the projects.

In all cases where the government in any way assists in providing the housing, the government should retain such control over occupancy as is necessary to achieve the objectives of the programs of the agencies concerned. The methods by which such control is retained in the various formulas is indicated below:

	Cases
<u>Automatic Control</u>: In all cases in which the government holds the land and has not leased it out to a sponsor, the government automatically retains occupancy control	1.10 2.10 3.00
<u>Ground Lease Provisions:</u> In all cases where the government outleases land, occupancy control should be retained as a condition of the lease	4.00 5.00

	Cases
Out-leases on Movable Houses: A condition in all leases under which the government leases movable structures to sponsors or employees should provide for government control over occupancy of the structures	4.41
Short Leases on Dwelling Units: When the government becomes the tenant in existing privately-owned units, the space leases should provide that the government may name the subtenants	6.00
Agreements to Guarantee Rents: In every case in which the government guarantees the payment by tenants of rents on existing privately-owned units, the agreement should provide that the government will name the tenants	7.00
Privately-made FHA Mortgages: In those cases where private FHA mortgages are used, the government should be given control over occupancy. This provision is based on the fact that the FHA grants the mortgage insurance only in connection with certified cases	3.20 4.20
Government-made FHA Mortgages: The foregoing reasoning applies equally when the government is the initial lender of the funds	3.30 4.30
Equity Stock Investment by Government: The agreement to purchase the stock may carry the occupancy-control provision. However, the matter is already adequately covered in the ground lease in such cases	0.02
Government Absorption of Costs: In consideration of any government absorption of initial costs, the transaction should retain occupancy control to the government	0.04

4. Debt Retirements and Disposals

The legislation governing the housing of federal workers should impose a clear obligation on the several agencies, the GSA, and the FHIC to reduce the contingent liabilities of the government and to recover as much as possible of federal investments.

Under the various procurement and financing formulas recommended in foregoing subsections it is apparent that there will be at least five kinds of government assets which will require disposal at some stage. These include owned real estate (both improved land with buildings and vacant land), leased fees, government-made FHA mortgages, equity stock shares in private housing corporations, and movable building structures.

Owned real estate for disposal will result from the 1.10 and 2.10 cases in which the housing is on unleased government-held land. In all the 3.00, 4.00, and 5.00 cases, government acquisition, and consequently the need for disposal, may arise either through the expiration of the ground lease or through foreclosure of the FHA mortgage and conveyance of the leasehold

property to the government by a private lending institution. Further, it appears proper to describe the build-and-sell formula itself (Cases 3.23, 3.33, 4.23, and 4.33) as a form of disposal because it involves the auction sale of leasehold estates and buildings on completion of construction.

Leased fees would become surplus and be sold in all 3.00, 4.00, and 5.00 cases if the properties were located in government towns which are incorporated and changed into non-governmental communities. As has been indicated the ground leases might very properly contain clauses giving options to purchase the leased fees to the sponsor-leasehold estate owners.

Mortgages on leasehold estates will be offered for sale in all 3.32, 3.33, 4.32, and 4.33 cases. These are the cases in which much of the financing of privately-sponsored projects is achieved by government-made FHA insured loans and such loans would not be made except with the intention of marketing them at an early stage.

Movable buildings might require disposal in 2.10 or 4.41 cases. In both cases the structures are government owned and the formulas are designed for use at places where the housing need is temporary or quasi-temporary. In addition, the government may elect to dispose of movable structures which it acquires through purchase from sponsors who elect to sell buildings at the standing government-offer price, namely, the unpaid balance of the FHA mortgage (All 4.00 cases).

We recommend that the proposed legislation provide that in all cases in which a mortgagee, who has made a loan under the provisions of Title VIII or under the special provisions relating to FHA mortgages on movable structures, makes a claim on the FHA under the insurance, the FHIC obligates itself to reimburse the FHA for the loss, if any, representing the difference between claims paid by the FHA and the amount the FHA ultimately secures for the property on resale.

5. Illustrative Cases

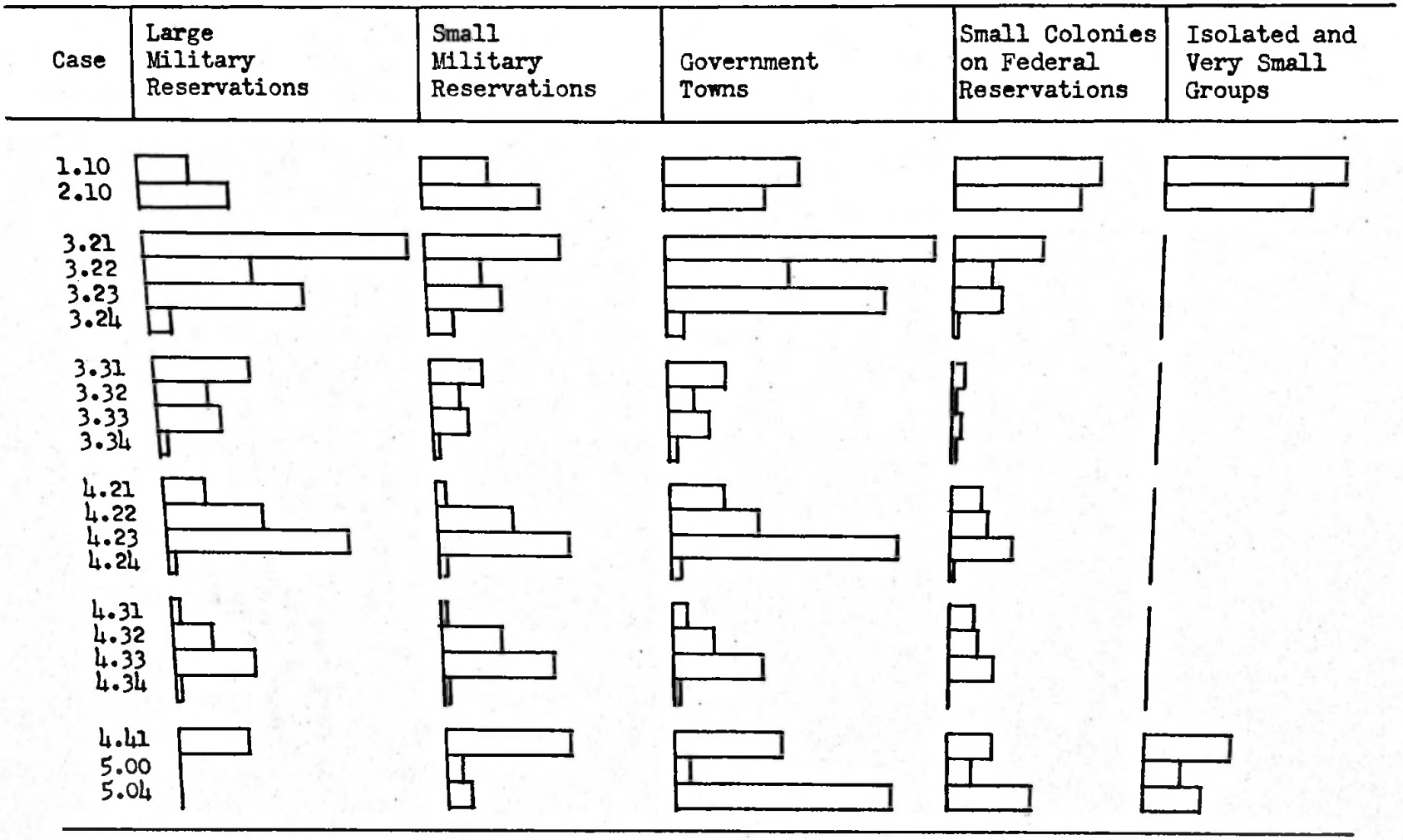
The accompanying illustrative cases are presented solely for the purpose of showing the concepts and mechanics of the several procurement formulas recommended. They serve to show the relationships between project costs, revenues, expenses, absorption of initial investment, the distributions of net incomes, and the rates of return on government or private investments.

The figures used are, for the most part, based on the assumption that the project contains 100 dwelling units. The actual figures have no significance whatsoever and many of them have deliberately been made quite different from realistic items purposely to prevent the drawing of conclusions with respect to the relative merits of the cases. We believe that the entire group of procedures should be made available to the agencies, the GSA, and the FHIC and that the selection of formulas for use in particular circumstances should be based on the exigencies of the particular situation. Therefore, in examining the illustrative cases, attention should be directed to the evident comparisons between procedures, not to the levels of rents achieved, the costs, and the other specific amounts shown.

Some of the important features and aspects of the several formulas are mentioned in notes at the end of each illustrative case.

The accompanying bar diagrams are presented to show the relative extent to which the several kinds of formulas might be used. The actual lengths of the bars have no significance; their relative lengths show our guesses with respect to the relative numbers of instances in which each of the formulas would find application in practice in terms of the percentages of families which would be living under each of the location situations suggested at the heads of the columns. These are merely ideographs to suggest which formulas may find the greatest number of practical applications.

PROBABLE INCIDENCE
OF PRACTICAL USE OF FORMULA
COMBINATIONS



Illustrative Case 1.10

Government-held land
Permanently-fixed houses
Appropriated funds

	1.10-a	1.10-b	1.10-c	1.10-d
Determined average rents	$20	$50	$60	$70
Revenue at 100% occupancy	240	60,000	72,000	84,000
Revenue at 93% occupancy	223	55,800	66,960	78,120
Expenses for services	110	11,000	12,000	13,000
Operating expenses	230	23,000	24,000	25,000
Replacements	20	2,000	2,100	2,200
Total expenses	360	36,000	38,100	40,200
Expense ratio	161.4%	64.5%	56.9%	51.4%
Net income	-137	19,800	28,860	37,920
Cost of land preparation	620	62,000	70,000	75,000
Cost of structures	7,000	600,000	640,000	700,000
Total cost to government	7,620	662,000	710,000	775,000
2½% on cost	190	16,550	17,750	19,375
Net income	-137	19,800	28,860	37,920
Excess return over 2½%	-327	3,250	11,110	18,545
Rate: Net income to cost	-1.8%	3.0%	4.0%	4.9%

This is the traditional formula for government housing.
Capital is raised at the lowest rate of interest.
Formula enables the lowest rents to be achieved.
Formula requires Congress to make maximum appropriations.
Is only feasible formula for much government housing.
Formula is probably essential for housing families of lowest incomes.
Formula always applicable for isolated non-colonized housing.
Should be used only for permanently-fixed housing at places where need is for a very long period permitting amortization.
Projects may prove highly competitive to private investors.

Illustrative Case 2.10

Government-held land
Movable Houses
Appropriated Funds

	2.10-a	2.10-b	2.10-c	2.10-d
Determined average rents	$20	$50	$60	$70
Revenue at 100% occupancy	240	60,000	72,000	84,000
Revenue at 93% occupancy	223	55,800	66,960	78,120
Expenses for services	110	11,000	12,000	13,000
Operating expenses	240	23,500	24,500	25,750
Replacements	25	2,100	2,200	2,300
Total expenses	375	36,600	38,700	41,050
Expense ratio	168.1%	65.6%	57.8%	52.5%
Net income	-152	19,200	28,260	37,070
Cost of land preparation	620	62,000	70,000	75,000
Cost of structures	7,400	620,000	650,000	725,000
Total cost to government	8,020	682,000	720,000	800,000
2½% on cost	200	17,050	18,000	20,000
Net income	-152	19,200	28,260	37,070
Excess return over 2½%	-352	2,150	10,260	17,070
Rate: Net income to cost	-1.9%	2.8%	3.9%	4.6%
Cost of dismantling, moving, and reerecting:				
New land preparation	700	50,000	60,000	70,000
Reerection	1,400	124,000	125,000	100,000
Total additional costs	2,100	174,000	185,000	170,000
Total cost to government after moving	10,120	856,000	905,000	970,000
Rate: Net income to costs	-1.5%	2.2%	3.1%	3.8%

Capital is raised at lowest rate of interest.
Formula enables the lowest rents to be achieved.
Formula requires Congress to make maximum appropriations.
Movable structures permit greater amortization of government investment through use in successive places.

Illustrative Case 3.21

Government outleases land
Permanently-fixed houses
Privately-made FHA mortgage
No absorption of initial investment

	3.21-a	3.21-b	3.21-c	3.21-d
Determined average rents	$65	$70	$75	$80
Revenue at 100% occupancy	78,000	84,000	90,000	96,000
Revenue at 93% occupancy	72,540	78,120	83,700	89,280
Ground rent	650	700	750	800
Taxes or tax equivalent	9,600	10,000	10,800	11,000
Operating expenses	21,000	22,500	23,750	25,000
Replacements	1,750	1,800	1,900	2,000
Total expenses	33,000	35,000	37,200	38,800
Expense ratio	45.5%	44.8%	44.4%	43.5%
Net income	29,540	43,120	46,400	50,480
FHA valuation at 6½%	608,308	663,384	713,846	776,615
Maximum FHA mortgage, 90%	547,400	597,000	642,400	698,900
Cost of land preparation	60,000	61,500	67,500	72,000
Cost of structures	525,928	577,654	620,323	676,285
Ground rent during construction	650	640	675	720
Tax equiv. during construction	1,750	1,800	1,900	2,000
Total before carrying chgs.	588,328	641,594	690,398	751,105
Carrying charges	19,980	21,790	23,448	25,510
Total project cost	608,308	663,384	713,846	776,615
FHA mortgage	547,400	597,000	642,400	698,900
Sponsor's equity investment	60,908	66,384	71,446	77,715
Mortgage debt service at 6%	32,844	35,820	38,544	41,934
Net return on equity	6,696	7,300	7,856	8,546
Rate of return on equity	11.0%	11.0%	11.0%	11.0%

This is the Title VIII procedure under present Public Law 211.
Formula is feasible when rents, standards, and costs are in a normal relationship.
Should be the principal formula used for most colonized permanently-fixed housing on government reservations.
Selection of sponsors has been problem; now probably largely solved by recent amendment to Public Law 211.

Illustrative Case 3.22

Government outleases land
Permanently-fixed houses
Privately-made FHA mortgage
Government makes equity stock investment

	3.22-a	3.22-b	3.22-c
Determined average rents	$66	$68	$70
Revenue at 100% occupancy	79,200	81,600	84,000
Revenue at 93% occupancy	73,656	75,888	78,120
Ground rent	700	750	800
Tax or tax equivalent	10,000	10,800	11,000
Operating expenses	22,500	23,750	25,000
Replacements	1,800	1,900	2,000
Total expenses	35,000	37,200	38,800
Expense ratio	47.5%	49.0%	49.7%
Net income	38,656	38,688	39,320
FHA valuation at 6½%	594,708	595,200	604,923
Maximum FHA mortgage, 90%	535,237	535,600	544,400
Cost of land preparation	62,000	68,000	72,000
Cost of structures	560,000	625,000	680,000
Ground rent during construction	640	675	720
Tax equivalent during construction	1,800	1,900	2,000
Total before carrying charges	624,440	705,575	754,720
Carrying charges	19,536	19,549	19,871
Total project cost	643,976	725,124	774,591
FHA mortgage	535,237	535,600	544,400
Total equity investment	108,739	189,524	230,191
Sponsor's common stock (10% value)	59,471	59,520	60,492
Government preferred stock investment	49,268	130,004	169,699
Percent of cost absorbed	7.6%	17.9%	21.9%
Net income	38,656	38,688	39,320
Mortgage debt service at 6%	32,114	32,136	32,664
Net return on equity	6,542	6,552	6,636
Return on sponsor's stock at 7%	4,163	4,166	4,234
Return on government's stock	2,379	2,386	2,402

Formula is exactly like foregoing case except that to achieve proper standard of housing at proper rent levels, government must absorb part of the initial cost of project.

Formula is used because it is presumed there is some chance to recover part of the government's investment.

Formula has same applications as foregoing but would be used in higher cost areas.

Illustrative Case 3.23

Government outleases land
Permanently-fixed houses
Privately-made FHA mortgage
Absorption by build-and-sell formula

	3.23-a	3.23-b	3.23-c
Determined average rents	$64	$68	$70
Revenue at 100% occupancy	76,800	81,600	84,000
Revenue at 93% occupancy	71,424	75,888	78,120
Ground rent	700	750	800
Taxes or tax equivalent	10,000	10,800	11,000
Operating expenses	22,500	23,750	25,000
Replacements	1,800	1,900	2,000
Total expenses	35,000	37,200	38,800
Expense ratio	49.0%	49.0%	49.7%
Net income	36,424	38,688	39,320
FHA valuation at 6½%	560,369	595,200	604,923
Maximum FHA mortgage, 90%	504,300	535,600	544,400
Cost of land preparation	65,000	70,000	75,000
Cost of structures	590,000	640,000	690,000
Total cost to government	655,000	710,000	765,000
Builder's agreed price	(524,000)	(568,000)	(612,000)
Price received at sale	540,000	568,000	650,000
FHA mortgage (90% of price plus mtge. carrying charges, or maximum mtge., whichever is less)	502,500	528,500	544,400
Carrying charges	18,331	19,290	19,871
Total cost to buyer	558,331	587,290	669,871
Buyer's equity investment	55,831	58,790	125,471
Net income	36,424	38,688	39,320
Mortgage debt service at 6%	30,150	31,710	32,664
Net return on equity	6,274	6,978	6,656
Rate of return on equity	11.2%	11.9%	5.3%
Total outlay by government	655,000	710,000	765,000
Price received at sale of real estate	540,000	568,000	650,000
Investment absorbed by government	115,000	142,000	115,000
Percent absorbed	17.6%	20.0%	15.0%

Formula has precisely the same applications as foregoing case.
Might be used where costs tend to be slightly higher than in 3.22.
Also has the advantage of a greater recovery of government's investment because of the auction of the leasehold and buildings.
Also has the advantage of construction under government contract.
Bidding and sponsor selection is under best circumstances.

Illustrative Case 3.24

Government outleases land
Permanently-fixed houses
Privately-made FHA mortgage
Direct absorption of costs

	3.24-a	3.24-b	3.24-c
Determined average rents	$66	$70	$72
Revenue at 100% occupancy	79,200	84,000	87,400
Revenue at 93% occupancy	73,656	78,120	81,282
Ground rent	700	750	800
Taxes or tax equivalent	10,000	10,800	11,000
Operating expenses	22,500	23,750	25,000
Replacements	1,800	1,900	2,000
Total expenses	35,000	37,200	38,800
Expense ratio	47.5%	47.6%	47.7%
Net income	38,656	40,920	42,482
FHA valuation at 6½%	594,708	629,539	653,569
Maximum FHA mortgage, 90%	535,200	566,500	588,200
Cost of land preparation	61,500	67,500	72,000
Cost of structures	577,654	620,323	676,385
Ground rent during construction	640	675	720
Tax equivalent during construction	1,800	1,900	2,000
Total before carrying charges	641,594	690,398	751,105
Carrying charges	18,407	19,549	19,871
Total project cost	660,001	705,947	770,976
FHA mortgage	535,200	566,500	588,200
Total equity investment	124,801	139,447	182,776
Sponsor's investment (10% of value)	59,471	62,954	65,357
Government absorption of investment	65,330	76,493	117,419
Cost of land preparation	61,500	67,500	72,000
Ground rent during construction	640	675	720
Tax equivalent during construction	1,800	1,900	2,000
Building cost items	1,390	6,418	42,699
Percent of total cost absorbed	9.9%	10.8%	15.2%

Formula is like two foregoing cases except that the government calculates and directly absorbs a portion of cost at the inception without attempt to recover government's investment.

Where large percentages of cost are to be absorbed, either of preceding formulas are preferred unless considerable inducements are required to attract sponsor. However, if only a small portion of total cost requires absorption, formula might be preferable to either of the preceding ones.

Illustrative Case 3.31

Government outleases land
Permanently-fixed houses
Government-made FHA mortgage
No absorption of initial investment

	3.31-a	3.31-b	3.31-c
Determined average rents	$70	$75	$80
Revenue at 100% occupancy	84,000	90,000	96,000
Revenue at 93% occupancy	78,120	83,700	89,280
Ground rent	700	750	800
Taxes or tax equivalent	10,000	10,800	11,000
Operating expenses	22,500	23,750	25,000
Replacements	1,800	1,900	2,000
Total expenses	35,000	37,200	38,800
Expense ratio	44.8%	44.4%	43.5%
Net income	43,120	46,400	50,480
FHA valuation at 6½%	663,384	713,846	776,615
Maximum FHA mortgage, 90%	597,000	642,400	698,900
Cost of land preparation	61,500	67,500	72,000
Cost of structures	577,654	620,323	676,385
Ground rent during construction	640	675	720
Tax equivalent during construction	1,800	1,900	2,000
Total before carrying charges	641,594	690,398	751,105
Carrying Charges	21,790	23,448	25,510
Total project cost	663,384	713,846	776,615
FHA mortgage	597,000	642,400	698,900
Sponsor's equity investment	66,384	71,446	77,715
Mortgage debt service at 6%	35,820	38,544	41,934
Net return on equity	7,300	7,856	8,546
Rate of return on equity	11.0%	11.0%	11.0%
Government sale of mortgage:			
Principal amount	597,000	642,400	698,900
Price secured in sale	98	101.5	103
Loss or premium	-11,940	9,636	20,967

Formula has exactly same applications as case 3.21.
Would not be used in any case where the 3.21 formula can be used.
Formula is used only where there is evident difficulty in securing privately-made FHA mortgage loan. Should not be used merely to secure the premium on the sale of the mortgage.

Illustrative Case 3.32

Government outleases land
Permanently-fixed houses
Government-made FHA mortgage
Government makes equity stock investment

	3.32-a	3.32-b	3.32-c
Determined average rents	$66	$68	$70
Revenue at 100% occupancy	79,200	81,600	84,000
Revenue at 93% occupancy	73,656	75,888	78,120
Ground rent	700	750	800
Taxes or tax equivalent	10,000	10,800	11,000
Operating expenses	22,500	23,750	25,000
Replacements	1,800	1,900	2,000
Total expenses	35,000	37,200	38,800
Expense ratio	47.5%	49.0%	49.7%
Net income	38,656	38,688	39,320
FHA valuation at 6½%	594,708	595,200	604,923
Maximum FHA mortgage, 90%	535,237	535,600	544,400
Cost of land preparation	62,000	68,000	72,000
Cost of structures	560,000	625,000	680,000
Ground rent during construction	640	675	720
Tax equivalent during construction	1,800	1,900	2,000
Total before carrying charges	624,440	705,575	754,720
Carrying charges	19,536	19,549	19,871
Total project cost	643,976	725,124	774,591
FHA mortgage	535,237	535,600	544,400
Price secured on sale of mortgage	98	101.5	103
Loss or premium	-10,705	8,034	16,332
Total net project cost	654,681	717,090	758,259
Total required equity investment	119,444	181,490	213,859
Sponsor's common stock (10% value)	59,471	59,520	60,492
Government preferred stock investment	59,973	121,970	153,367
Percent of cost absorbed	9.3%	16.8%	19.8%
Net income	38,656	38,688	39,320
Mortgage debt service at 6%	32,114	32,136	32,664
Net return on equity	6,542	6,552	6,656
Return on sponsor's stock at 7%	4,163	4,166	4,234
Return on government's stock	2,379	2,386	2,422

Formula is like case 3.22 and should be used only when Case 3.22 cannot be used because of inability to secure private loan.
Should not be used solely to secure a mortgage premium.

Illustrative Case 3.33

Government outleases land
Permanently-fixed houses
Government-made FHA mortgage
Absorption by build-and-sell formula

		3.33-a	3.33-b	3.33-c
Determined average rents		$64	$68	$70
Revenue at 100% occupancy		76,800	81,600	84,000
Revenue at 93% occupancy		71,424	75,888	78,120
Ground rent		700	750	800
Taxes or tax equivalent		10,000	10,800	11,000
Operating expenses		22,500	23,750	25,000
Replacements		1,800	1,900	2,000
Total expenses		35,000	37,200	38,800
Expense ratio		49.0%	49.0%	49.7%
Net income		36,424	38,688	39,320
FHA valuation at 6½%		560,369	595,200	604,923
Maximum FHA mortgage, 90%		504,300	535,600	544,400
Cost of land preparation		65,000	70,000	75,000
Cost of structures		590,000	640,000	690,000
Total cost to government		655,000	710,000	765,000
Builder's agreed price		(524,000)	(568,000)	(612,000)
Price received at sale		540,000	568,000	650,000
FHA mortgage (See case 3.23)		502,500	528,500	544,400
Carrying charges		18,331	19,290	19,871
Total cost to buyer		558,331	587,290	669,871
Buyer's equity investment		55,831	58,790	125,471
Net income		36,424	38,688	39,320
Mortgage debt service at 6%		30,150	31,710	32,664
Net return on equity		6,274	6,978	6,656
Total outlay by government:	Real estate	655,000	710,000	765,000
	Mortgage	504,300	535,600	544,400
	Total	1,159,300	1,245,600	1,309,400
Prices received in sales:	Real estate	540,000	568,000	650,000
	Mortgage	504,300	543,634	560,732
	Total	1,044,300	1,111,634	1,210,732
Investment absorbed by government		115,000	133,966	98,668
Percent absorbed		17.6%	18.9%	12.9%

Formula has same applications as case 3.23.
Is used only when there is evident difficulty in securing a private mortgage loan.

Illustrative Case 3.34

Government outleases land
Permanently-fixed houses
Government-made FHA mortgage
Direct absorption of costs

	3.34-a	3.34-b	3.34-c
Determined average rents	$66	$70	$72
Revenue at 100% occupancy	79,200	84,000	87,400
Revenue at 93% occupancy	73,656	78,120	81,282
Ground rent	700	750	800
Taxes or tax equivalent	10,000	10,800	11,000
Operating expenses	22,500	23,750	25,000
Replacements	1,800	1,900	2,000
Total expenses	35,000	37,200	38,800
Expense ratio	47.5%	47.6%	47.7%
Net income	38,656	40,920	42,482
FHA valuation at 6½%	594,708	629,539	653,569
Maximum FHA mortgage, 90%	535,200	566,500	588,200
Cost of land preparation	61,500	67,500	72,000
Cost of structures	577,654	620,323	676,385
Ground rent during construction	640	675	720
Tax equivalent during construction	1,800	1,900	2,000
Total before carrying charges	641,594	690,398	751,105
Carrying charges	18,407	19,549	19,871
Total project cost	660,001	705,947	770,976
FHA mortgage	535,200	566,500	588,200
Total equity investment	124,801	139,447	182,776
Sponsor's equity (10% value)	59,471	62,954	65,357
Government absorption of investment	65,330	76,493	117,419
Price received in sale of mortgage	101	102	104
Amount of premium	5,352	11,330	23,528
Net cost to government of absorption	59,978	65,163	93,891
Percent absorbed	9.1%	9.2%	12.2%

Formula has the same limitations as case 3.24.
Would rarely be used.

Illustrative Case 4.21

Government outleases land
Movable houses
Privately-made FHA mortgage
No absorption of initial investment

	4.21-a	4.21-b	4.21-c
Determined average rents	$80	$85	$85
Revenue at 100% occupancy	96,000	102,000	102,000
Revenue at 93% occupancy	89,280	94,860	94,860
Ground rent	600	700	800
Taxes or tax equivalent	4,000	4,500	4,600
Operating expenses	21,905	22,427	19,302
Replacements	1,700	1,800	1,900
Total expenses	28,205	29,427	26,602
Expense ratio	31.5%	31.0%	28.0%
Net income	61,075	65,433	68,258
FHA valuation at 7½%	814,333	872,444	910,111
Maximum FHA mortgage, 90%	732,900	785,200	819,100
Cost of land preparation	61,500	67,500	72,000
Cost of structures	722,510	772,432	804,081
Ground rent during construction	600	700	800
Tax equivalent during construction	1,900	2,000	2,100
Total before carrying charges	786,510	842,632	878,981
Carrying charges	27,850	29,838	31,126
Total project cost	814,360	872,470	910,107
FHA mortgage	732,900	785,200	819,100
Short period used	5 yrs	10 yrs	15 yrs
Upper loan, 10%	73,290	78,520	81,910
Lower loan, 90%, 25 yrs.	659,610	706,680	737,190
Sponsor's equity investment	81,460	87,270	91,007
Debt service, upper loan	16,396	9,766	7,519
Debt service, lower loan	43,996	47,135	49,170
Early Years:			
Total mortgage debt service	60,392	56,901	56,689
Net return on equity	683	8,532	11,569
Rate of return on equity	0.8%	9.8%	12.7%
Later Years:			
Total mortgage debt service	43,996	47,135	49,170
Net return on equity	17,079	18,298	19,088
Rate of return on equity	21.0%	21.0%	21.0%

Formula would not be used if regular Title VIII (case 3.21) procedure can be applied to movable houses in the actual situation.
Applied in quasi-temporary situations. Is designed to offset peculiar risks in movable houses if such risks are evident.
Is applicable when rents, standards, and costs are in normal relation. But because they will rarely be so with the accelerated amortization schedules, any applications will be exceedingly rare.

Illustrative Case 4.22

Government outleases land
Movable houses
Privately-made FHA mortgage
Government makes equity stock investment

	4.22-a	4.22-b	4.22-c
Determined average rents	$70	$75	$76
Revenue at 100% occupancy	84,000	90,000	91,200
Revenue at 93% occupancy	78,120	83,700	84,816
Ground rent and tax equivalent	2,700	2,840	3,000
Operating expenses and replacements	21,610	28,943	28,898
Total expenses	24,310	31,783	31,898
Expense ratio	31.1%	37.9%	38.8%
Net income	53,810	51,917	52,918
FHA valuation at 7½%	717,460	692,223	705,575
Maximum FHA mortgage, 90%	645,700	623,000	635,000
Cost of land preparation	62,000	68,000	72,000
Cost of structures	705,647	725,921	796,550
Ground rent and taxes during construction	2,440	2,575	2,720
Total before carrying charges	770,087	796,496	871,270
Carrying charges	24,537	23,674	24,130
Total project cost	795,410	820,170	895,400
FHA mortgage	645,700	623,000	635,000
Short period used	5 yrs	10 yrs	15 yrs
Upper loan, 10%	64,570	62,300	63,500
Lower loan, 90%, 25 yrs.	581,130	560,700	571,500
Total equity investment	149,710	197,170	260,400
Sponsor's common stock (10% value)	71,746	69,222	70,558
Government's preferred stock	77,964	127,948	189,842
Percent of cost absorbed	9.8%	15.6%	21.2%
Debt service, upper loan	14,445	7,748	5,829
Debt service, lower loan	38,761	37,399	38,119
Early Years:			
Total mortgage debt service	53,206	45,147	43,948
Net return on equity	604	6,770	8,970
Return on sponsor's stock, 7%	(5,022)	4,845	4,939
Return on government's stock	0	1,925	4,031
Later Years:			
Total mortgage debt service	38,761	37,399	38,119
Net return on equity	15,049	14,518	14,799
Return on sponsor's stock, 7%	5,022	4,845	4,939
Return on government's stock	10,027	9,673	9,860

Formula has same applications as case 3.22. Used in temporary places.
Will find considerable applications in practical cases.

Illustrative Case 4.23

Government outleases land
Movable Houses
Privately-made FHA mortgage
Absorption by build-and-sell formula

	4.23-a	4.23-b	4.23-c
Determined average rents	$70	$75	$76
Revenue at 93% occupancy	78,120	83,700	84,816
Total Expenses	24,310	31,783	31,898
Expense ratio	31.1%	37.9%	38.8%
Net income	53,810	51,917	52,918
FHA valuation at 7½%	717,460	692,223	705,575
Maximum FHA mortgage, 90%	645,700	623,000	635,000
Cost of land preparation	62,000	68,000	72,000
Cost of structures	715,000	730,000	800,000
Total cost to government	777,000	798,000	872,000
Builder's agreed price	(700,000)	(675,000)	(705,000)
Price received at sale	700,000	700,000	730,000
FHA mortgage amount	645,700	623,000	635,000
Short period used	5 yrs	10 yrs	15 yrs
Upper loan, 10%	64,570	62,300	63,500
Lower loan, 90%, 25 yrs.	581,130	560,700	571,500
Carrying charges	24,537	23,674	24,130
Total cost to buyer	724,537	723,674	754,130
Buyer's equity investment	78,837	100,674	119,130
Debt service, upper loan	14,445	7,748	5,829
Debt service, lower loan	38,761	37,399	38,119
Early Years:			
Total mortgage debt service	53,206	45,147	43,948
Net return on equity	604	6,770	8,970
Rate of return on equity	0.7%	6.7%	7.6%
Later Years:			
Total mortgage debt service	38,761	37,399	38,119
Net return on equity	15,049	14,518	14,799
Rate of return on equity	19.1%	14.5%	12.4%
Total outlay by government	777,000	798,000	872,000
Price received for real estate	700,000	700,000	730,000
Investment absorbed by government	77,000	98,000	142,000
Percent of total project cost (including carrying charges) absorbed by Govt.	9.6%	11.9%	15.8%

Illustrative Case 4.24

Government outleases land
Movable houses
Privately-made FHA mortgage
Direct absorption of costs

	4.24-a	4.24-b	4.24-c
Determined average rents	$67	$71	$73
Revenue at 100% occupancy	80,400	85,200	87,600
Revenue at 93% occupancy	74,772	79,236	81,368
Total expenses	24,772	27,153	27,202
Expense ratio	33.1%	34.2%	33.4%
Net income	50,000	52,083	54,166
FHA valuation at 7½%	666,666	694,444	722,222
Maximum FHA mortgage, 90%	600,000	625,000	650,000
Cost of land preparation	61,500	67,500	72,000
Cost of structures	643,000	636,050	730,600
Ground rent during construction	700	700	700
Tax equivalent during construction	2,000	2,000	2,000
Total before carrying charges	707,200	706,250	805,300
Carrying charges	22,800	23,750	24,700
Total project cost	730,000	730,000	830,000
FHA mortgage amount	600,000	625,000	650,000
Short period used	5 yrs	10 yrs	15 yrs
Upper loan, 10%	60,000	62,500	65,000
Lower loan, 90%, 25 yrs.	540,000	562,500	585,000
Total equity investment	130,000	167,500	245,000
Sponsor's investment (10% value)	66,666	69,444	72,222
Government absorption of investment	63,334	98,056	172,778
Cost of land preparation	60,634	67,500	72,000
Ground rent and tax equivalent	2,700	2,700	2,700
Building cost items absorbed	0	27,856	98,078
Percent of cost absorbed by government	8.9%	13.4%	20.8%
Debt service, upper loan	13,423	7,773	5,967
Debt service, lower loan	36,018	37,519	39,120
Early Years:			
Total mortgage debt service	49,441	45,292	45,087
Net return on sponsor's equity	559	6,791	9,079
Rate of return on equity	0.8%	9.8%	12.5%
Later Years:			
Total mortgage debt service	36,018	37,519	39,120
Net return on sponsor's equity	13,982	14,564	15,046
Rate of return on equity	21.0%	21.0%	20.8%

Illustrative Case 4.31

Government outleases land
Movable houses
Government-made FHA mortgage
No absorption of initial investment

	4.31-a	4.31-b	4.31-c
Determined average rents	$85	$90	$95
Revenue at 100% occupancy	102,000	108,000	114,000
Revenue at 93% occupancy	94,860	100,440	106,020
Total expenses	33,243	34,607	29,678
Expense ratio	35.0%	34.6%	28.0%
Net income	61,617	65,833	76,342
FHA valuation at 7½%	821,555	877,778	1,017,888
Maximum FHA mortgage, 90%	739,400	790,000	916,100
Total cost before carrying charges	793,500	847,750	983,100
Carrying charges	28,097	30,020	34,812
Total project cost	821,597	877,770	1,017,912
FHA mortgage	739,400	790,000	916,100
Short period used	5 yrs	10 yrs	15 yrs
Upper loan, 10%	73,940	79,000	91,610
Lower loan, 90%, 25 yrs.	665,460	711,000	824,490
Sponsor's equity investment	82,197	87,770	101,812
Debt service, upper loan	16,541	9,825	8,409
Debt service, lower loan	44,386	47,424	54,993
Early Years:			
Total mortgage debt service	60,927	57,249	63,402
Net return on equity	690	8,584	12,940
Rate of return on equity	0.8%	9.8%	12.7%
Later Years:			
Total mortgage debt service	44,386	47,424	54,993
Net return on equity	17,231	18,409	21,349
Rate of return on equity	21.0%	21.0%	21.0%
Government sale of mortgage:			
Principal amount of mortgage	739,400	790,000	916,000
Price secured in sale	103	99.5	102
Loss or premium	22,182	-3,950	18,322

Has same limitations and applications as case 4.21.
Could rarely be used.

Illustrative Case 4.32

Government outleases land
Movable houses
Government-made FHA mortgage
Government makes equity stock investment

	4.32-a	4.32-b	4.32-c
Determined average rents	$86	$90	$96
Revenue at 93% occupancy	95,976	100,440	107,136
Total expenses	34,359	34,607	30,794
Expense ratio	35.8%	34.6%	28.8%
Net income	61,617	65,833	76,342
FHA valuation at 7½%	821,555	877,778	1,017,888
Maximum FHA mortgage, 90%	739,400	790,000	916,100
Cost of land preparation	65,000	70,000	75,000
Cost of structures	800,000	780,000	940,000
Ground rent during construction	700	800	800
Tax equivalent during construction	2,000	2,000	2,100
Total before carrying charges	867,700	852,800	1,017,900
Carrying charges	28,097	30,020	34,812
Total project cost	895,797	882,820	1,052,712
FHA mortgage amount	739,400	790,000	916,100
Short period used	8 yrs	10 yrs	12 yrs
Upper loan, 10%	73,940	79,000	91,610
Lower loan, 90%, 25 yrs.	665,460	711,000	824,490
Total equity investment	156,397	92,820	136,612
Sponsor's common stock (10% value)	82,155	87,778	101,789
Government's stock investment	74,242	5,042	34,823
Percent of cost absorbed	8.3%	0.6%	3.3%
Net income	61,617	65,833	76,342
Debt service, upper loan	11,023	9,825	9,894
Debt service, lower loan	44,286	47,424	54,993
Early Years:			
Total mortgage debt service	55,409	57,249	64,887
Net return on equity	6,208	8,584	11,455
Return on sponsor's stock at 7%	5,751	6,144	7,125
Return on government's stock	457	2,440	4,330
Later Years:			
Total mortgage debt service	44,386	47,424	54,993
Net return on equity	17,231	18,409	21,349
Return on sponsor's stock at 7%	5,751	6,144	7,125
Return on government's stock	11,480	12,265	14,224
Government sale of mortgage:			
Principal amount of mortgage	739,400	790,000	916,100
Price secured in sale	102	99.5	103
Loss or premium	14,788	-3,950	27,483
Net investment by government	59,454	8,992	7,340
Net percent absorbed	6.6%	1.0%	0.7%

Illustrative Case 4.33

Government outleases land
Movable houses
Government-made FHA mortgage
Absorption by build-and-sell formula

	4.33-a	4.33-b	4.33-c
Determined average rents	$70	$75	$76
Revenue at 93% occupancy	78,120	83,700	84,816
Total expenses	24,310	31,783	31,898
Net income	53,810	51,917	52,918
FHA valuation at 7½%	717,460	692,223	705,575
Maximum FHA mortgage, 90%	645,700	623,000	635,000
Cost of land preparation	62,000	68,000	72,000
Cost of structures	715,000	730,000	800,000
Total cost to government	777,000	798,000	872,000
Builder's agreed price	(700,000)	(675,000)	(705,000)
Price received at sale of real estate	700,000	700,000	730,000
Short period used	8 yrs	10 yrs	15 yrs
Upper loan, 10%	64,570	62,300	63,500
Lower loan, 90%, 25 yrs.	581,130	560,700	571,500
Price received on sale of mortgage	101	102	103.5
Premium on mortgage sale	6,457	12,460	22,225
Carrying charges	24,537	23,674	24,130
Total cost to buyer	724,537	723,674	754,130
Buyer's equity investment	78,837	100,674	119,130
Debt service, upper loan	14,445	7,748	5,829
Debt service, lower loan	38,761	37,399	38,119
Net return on equity (See case 4.23):			
Early years	604	6,770	8,970
Later years	15,049	14,518	14,799
Cost of development of real estate	777,000	798,000	872,000
Total disbursement of mortgage	645,700	623,000	635,000
Total outlay by government	1,422,700	1,421,000	1,507,000
Price received for real estate	700,000	700,000	730,000
Price received for mortgage	652,157	635,460	657,225
Total recovery by government	1,352,157	1,335,460	1,387,225
Investment absorbed by government	70,543	85,540	119,775
Percent of total project cost (including carrying charges) absorbed by government	8.8%	10.4%	13.3%

Illustrative Case 4.34

Government outleases land
Movable houses
Government-made FHA mortgage
Direct absorption of costs

	4.34-a	4.34-b	4.34-c
Determined average rents	$60	$70	$80
Revenue at 93% occupancy	66,960	78,120	89,280
Total expenses	23,000	26,500	29,500
Net income	43,960	51,620	59,780
FHA valuation at 7½%	586,133	688,266	797,066
Maximum FHA mortgage, 90%	527,500	619,400	717,300
Total costs before carrying charges	641,594	690,398	751,105
Carrying charges	20,045	23,537	27,257
Total project cost	661,639	713,935	778,362
Short period used	5 yrs	10 yrs	20 yrs
Upper loan, 10%	52,750	61,940	71,730
Lower loan, 90%, 25 yrs.	474,750	557,460	645,570
Sponsor's equity investment (10% value)	58,613	68,827	79,707
Debt service, upper loan	11,801	7,703	5,446
Debt service, lower loan	31,666	37,183	43,060
Net return on equity:			
Early years	493	6,734	11,274
Later years	12,294	14,437	16,720
Total equity investment	134,139	94,535	61,062
Sponsor's equity investment	58,613	68,827	79,707
Amount absorbed by government	75,526	25,708	-18,645
Price secured in sale of mortgage	104	102	99
Premium on sale of mortgage	21,100	12,388	-717
Net cost absorbed by government	54,426	13,320	-17,928
Percent of cost absorbed	8.2%	1.9%	-2.3%

Formula has same limitations as Case 4.24.
Would rarely be used.

Illustrative Case 4.41

Government outleases land
Government outleases movable houses
No absorption of initial investment

	4.41-a	4.41-b	4.41-c	4.41-d
Determined average rents	$65	$70	$75	($67)
Revenue at 100% occupancy	78,000	84,000	90,000	(807)
Revenue at 93% occupancy	72,540	78,120	83,700	
Ground rent	700	750	800	12
Taxes or tax equivalent	9,000	9,000	9,200	90
Operating expenses	10,840	12,254	14,000	250
Rental to government for houses	30,000	35,000	37,500	300
Total expenses	50,540	57,004	61,502	652
Expense ratio	69.6%	73.0%	73.5%	
Sponsor's net income	22,000	21,116	22,198	(155)
Cost of land preparation	65,000	69,000	73,000	700
Ground rent during erection	500	550	800	5
Tax equivalent during erection	2,000	2,000	2,000	30
Cost of erecting houses	150,000	175,000	200,000	1,850
Sponsor's total investment	217,500	246,550	275,800	2,585
Sponsor's rate of return	10.1%	8.1%	8.0%	(6.0%)
Cost of houses to government	504,000	570,000	625,000	5,500
Yearly rental to government for use of houses	30,000	35,000	37,500	300
Government's rate of return	6.0%	6.1%	6.0%	5.4%

Sponsor has limited initial investment.
Formula would be used for either colonized housing in temporary situations.
Both land and houses would be outleased either to project sponsor or directly to government employees.
Formula would be used near places where government has unused movable houses available.
Formula might be used to avoid need for mortgage financing.

Illustrative Case 5.00

Government outleases land
No provision for buildings
No absorption of initial investment

	5.00-a	5.00-b	5.00-c
Estimated value of raw land	$200	$400	$300
Estimated value of utilities and land preparation	600	700	400
Total land value	$800	$1,100	$700
Ground rent at 4%	32	44	28
Cost of improved lot to government	700	700	700
Rate of return on government cost	4.6%	6.3%	4.0%

Formula is merely the outleasing of government land to provide sites for private housing.
Ground lessee would have to protect self against loss of investment in buildings. Lessee may have trouble securing utility services.
Is cheapest form of on-reservation housing. Unless carefully supervised may lead to slum conditions.

Illustrative Case 5.04

Government outleases land
No provision for buildings
Direct absorption of costs

	5.04-a	5.04-b	5.04-c
Estimated value of raw land	$50	$400	$250
Estimated value of utilities and land preparation	800	700	400
Total land value	850	1,100	650
Ground rent at 4%	34	44	26
Cost of raw land to government	10	200	100
Cost of land preparation and utilities	2,250	1,200	700
Cost of improved lot to government	2,260	1,400	800
Rate of return on government cost	1.5%	3.3%	3.2%

Formula is the same as case 5.00 except that government invests in land improvements and utilities and may provide some services.
Formula applies to trailer camps.