U.S. FEDERAL HOUSING ADMINISTRATION.

RENTAL HOUSING AS INVESTMENT.

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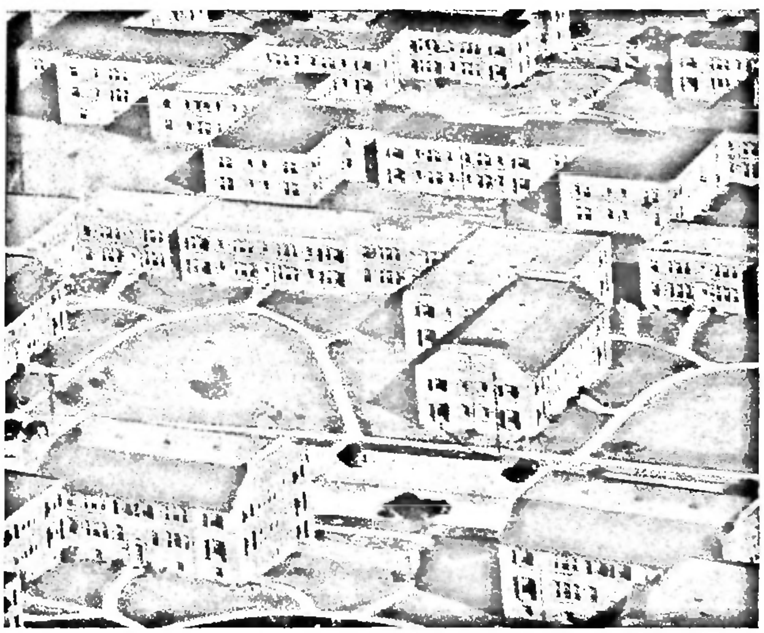

U.S. FEDERAL HOUSING ADMINISTRATION

RENTAL HOUSING AS INVESTMENT

U. S. FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.
[1937]

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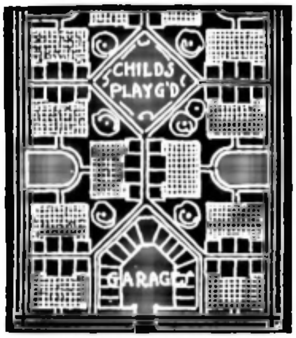
Foreword



Section 207 of the National Housing Act authorizes the insurance of mortgages, not in excess of $10,000,000 each, on rental housing projects. Such projects may be owned and operated by private corporations under FHA regulation as to rents, charges, capital structure, rate of return, and methods of operation. The preamble of the Act states that a fundamental purpose of the legislation is «to encourage improvement in housing standards and conditions,» and another section of the law requires that the Administrator, before accepting a mortgage for insurance, shall find «that the project with respect to which the mortgage is executed is economically sound.» These provisions of the Act constitute the legal framework within which the rental program of the Federal Housing Administration operates.

Within this framework the program is meant to serve the great aggregation of people—the overwhelming majority of whom are of relatively low income—who by preference or necessity live in rented dwellings. It is designed to provide for them the best possible substitute for what the individual mortgage insurance provisions of the National Housing Act are designed to do for the home owner.

But in so doing the program also provides exceptional opportunities for investment, both in the stock of the corporations owning and operating the housing properties and in the mortgages representing a large percentage of the cost of their construction. To make clear how and why this is so, is the purpose of the present pamphlet. It is addressed to all those who are interested or who may become interested in rental housing as a field for investment rather than a field for speculation. In particular it is addressed to mortgage lenders of all kinds, to landowners and land developers, to architects, to builders, to real-estate operators, and to the investing public generally. Those who read it are cordially invited to get into touch with the Administration, either through the nearest State or district office, or by correspondence or personal visit to the offices in Washington. Cooperation and unbiased counsel will be freely available.

Stewart McDonald.

Administrator.

The Demand for Rental Housing

According to the 1930 Census, about 56 percent of all urban families in the United States occupied rented dwellings. Inasmuch, however, as the Census Bureau uses the term "urban" to mean all communities of 2,500 population and over, it is necessary to examine the data somewhat more closely to find a truer picture of home ownership and tenancy in our towns and cities. The figures shown in the accompanying charts indicate the situation with respect to urban centers of various sizes.

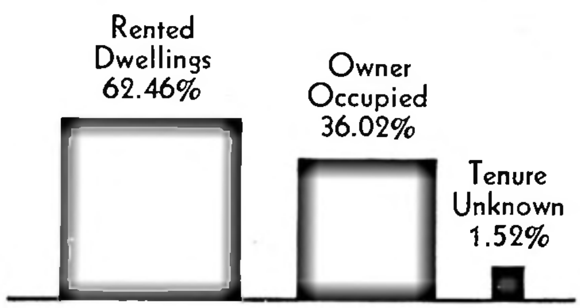
The 93 cities of 100,000 and over referred to in the chart show a broad range in the proportion of renting families, from a high of 78.6 percent for New York City, to a low of 37.3 percent for Tacoma, Wash. It cannot be inferred, however, that tenancy is necessarily highest in the largest cities. Philadelphia, the

MOST URBAN FAMILIES ARE RENTERS . . .

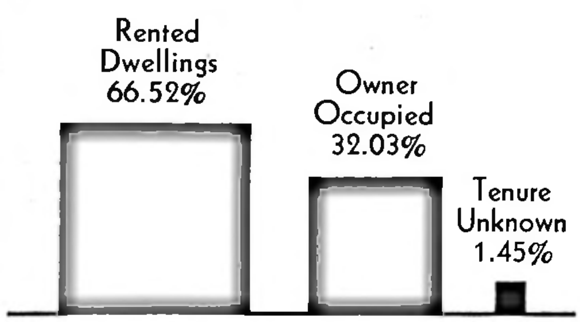
Urban dwellings, according to the 1930 Census:

Total urban families (communities of 2,500 and over):

In 93 cities of 100,000 and over:



In 13 cities of 500,000 and over:



third city in size in the country, reports 47.2 percent of its 458,627 families as living in rented dwellings, and in Baltimore only 47.4 percent of the 193,991 families were renters. Furthermore, the average of 78.6 percent for New York City as a whole, if examined on the basis of the five Boroughs, will show the following variations in the number of families making their homes in rented quarters:

Manhattan	96.8 percent
Brooklyn	72.9 percent
The Bronx	88.6 percent
Queens	53.8 percent
Richmond	44.0 percent

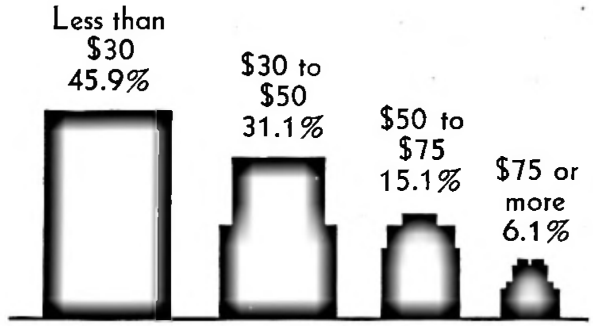
The actual percentage of the population living in rented dwellings in any particular town or city must therefore be determined on the basis of facts rather than on that of assumptions or general rules. The important consideration is that, in all urban centers, a very large proportion of the people, whether from necessity or choice, rent their homes rather than own them.

Just as the income tax returns show that the overwhelming majority of our people (something like 90 percent) are persons of relatively low income, the 1930 Census figures indicate that a similar majority pay moderate to low rentals for their dwellings. The actual figures are shown in the accompanying chart.

About the most that can be said with certainty is that a very small percentage of the renting population can or will pay rents high enough to command luxurious accommodations, and that a very considerable percentage, at the other end of the income scale, cannot afford to pay enough to cover the cost of even a minimum of decency in their dwellings.

MOST RENTERS PAY MODERATE RENTS . . . .

Renters paid the following rents, according to the 1930 Census:

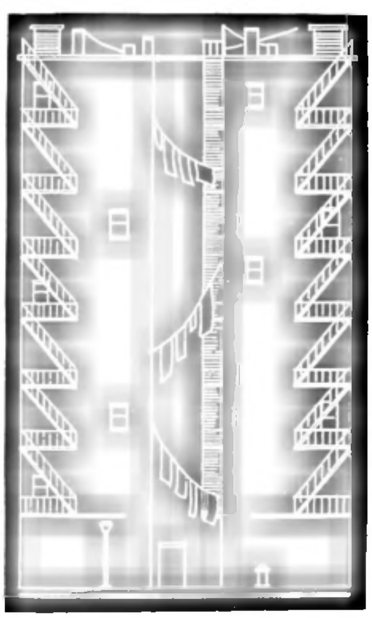


In very general terms, it may be said that in 1930 about half of America's urban renters were able or willing to pay $32 per month for shelter. But rentals paid in different cities, and for different types of housing in the same city, cannot be properly compared. In small communities the average number of rooms per family unit is higher, but utilities such as heat and various services are seldom included in the rental rate. In larger cities, where multiple-family houses and apartment buildings predominate, rooms are fewer but the rents are often made higher to provide for heat, water, janitor service, refrigeration, and other items, as well as to support higher land values.

Housing for the Lowest Income Groups

There is a large and respected element of public opinion which looks upon housing as a necessary social reform. The chief aim of such students of tne problem is the housing of families in the lowest income brackets. They recognize that proper accomodations will necessitate costs for construction and operation far beyond the financial capacity of the lowest income families. Private philanthropy, of course, can provide only the smallest amount of housing in this class. And so, subsidies, either in the form of direct grants, long-term loans at less than current interest rates, or annuities from the public treasuries, are necessary to take care of the difference between the rentals necessitated by construction and operating costs and the rent-paying capacity of the prospective tenants.

Very few advocates of housing as a social reform, however, consider going beyond the lowest income groups in their housing program. This leaves the great body of economically self-reliant families—those who are willing and able to pay rents which should assure them of adequate housing of desired standards—to be provided for by private enterprise and private capital.



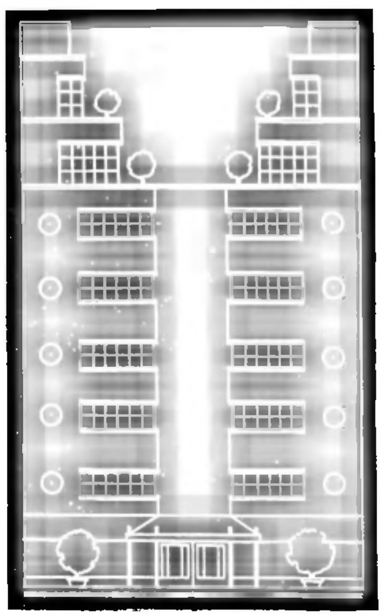
Generally speaking, private real-estate operators have been interested in housing from which they expect high rental returns, although large income expectancy gives property a speculative value whicn usually can be realizea only through sale to investors who do not look very far into the future. Lending institutions, also, have often been willing to invest mortgage funds only in property with a high potential income, and upon which a high

—And for the Highest Income Groups

ratio of property valuation to mortgage loan could be calculated, even though the basis of the valuation was rentals which would be obtainable only while the building was brand new and enjoyed the benefits of passing fashionable occupancy.

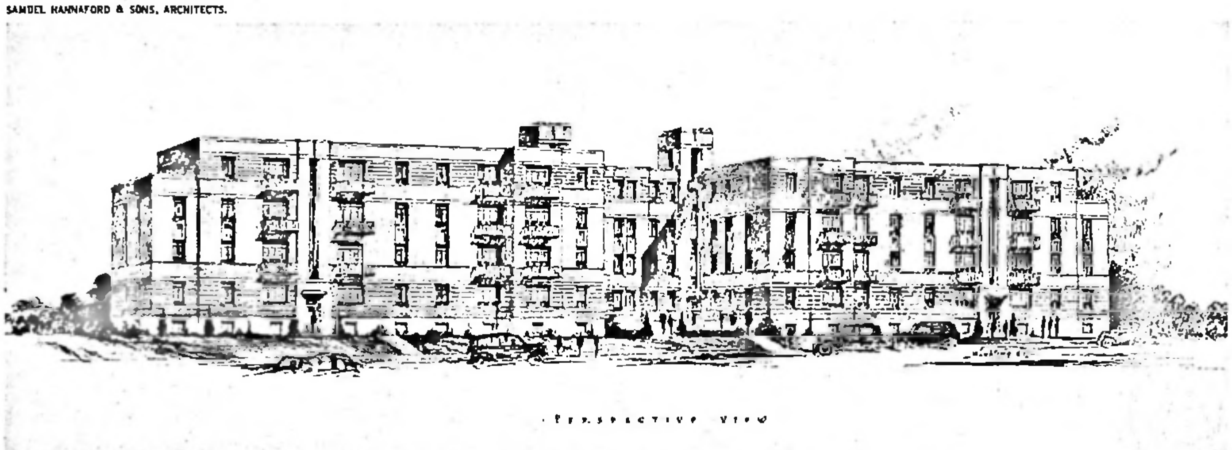
High-rental property actually does not cost a great deal more to build than medium-priced rental housing. The «de luxe» character is often achieved by impressive entry halls and ornamentation. Large rooms or extra facilities account for some increase in capital cost, and frequent redecoration and other items to maintain the luxury character of the building increase operating costs; but a rental assumption far beyond that necessitated by capital and operating costs creates an alluring picture and stimulates speculative building.

In a potential market which is thin at best, a small amount of new construction may constitute overbuilding. When over-supply results, the rental income falls short of what was expected because of vacancies or competitive rent reductions. The actual income may even fall short of the requirements of operating costs, taxes, and service of the mortgage. Thus, not only is the income on the investment jeopardized, but the principal of the mortgage itself is exposed to the hazards of reorganization, foreclosure, or revaluation.



During the 1920's many rental properties were offered in the luxury or high-rental class. The extent to which this part of the rental market was over-estimated is reflected in the number of high-rental apartment buildings which have since been liquidated through foreclosure or upon which financial reorganizations were forced. A sufficient number of tenants failed to occupy the properties, because the expected rentals—even before the years of the depression—were beyond the capacity or willingness of more than a narrowly limited number of tenants to pay.

SAMUEL HANNAFORD & SONS, ARCHITECTS.



LOUIS JUSTEMENT, ARCHITECT.

Above: A proposed apartment group in Cincinnati, Ohio. Approved for FHA insured mortgage.

Left: View of one portion of Falkland Properties, Silver Spring, Maryland. Mortgage insured by the Federal Housing Administration.

Housing for Moderate Income Groups
—*a broader market and a safer investment*

For the soundest of business reasons, the Federal Housing Administration seeks to promote the construction of housing at relatively low rentals, for wage-earning and salaried families. Such families make up the great majority of the urban population, and they therefore constitute the broadest market there is.

Rental housing property constructed for families of moderate income can count upon a stability of earning power and a rental expectancy quite out of the question for housing built for the highest income groups. In the case of projects developed under the FHA program, this is true for two principal reasons: (1) the relative breadth and permanence of the rental market, and (2) the planning and construction of the project.

The impact of a depression on tenancy in moderately priced housing is cushioned—if not fully offset—by the movement of families from the higher rental dwellings into vacant lower rental dwellings. As a result, income from moderately priced dwellings declines less during hard times because of a greater constancy of occupancy.

Housing which is properly planned and maintained provides attractive living quarters which will continue almost indefinitely to appeal to prospective tenants. When the property is conceived and constructed on an extensive scale, with broad landscaped areas surrounding the buildings, it develops within itself its own neighborhood character and thus sets up its own defenses against adverse encroachments.

Just how far down the income scale it will be possible to go, in providing housing of adequate quality through private initiative and the use of private capital, only time and experience can determine. The brief experience of the rental program of the Federal Housing Administration justifies the hope that, with careful planning as to both the physical and the financial structure, much can be accomplished. For the time being, it appears that for the lowest income groups improvement in housing standards and conditions can be obtained only through some sort of public subsidy. Meanwhile, through the aid and encouragement offered by mortgage insurance, more and more housing of acceptable standards may be built under the FHA program. The prospect merits the attention of potential investors—of those who are seeking long-run stability of return rather than immediate speculative profit.

Below: Buckingham Community, Arlington, Virginia. Mortgage insured by the Federal Housing Administration.

Analysis of Security for Investors

Equity investment in rental housing under the FHA program ordinarily consists of land and cash, and sometimes of services in the form of a part or all of the fees of the architect, the builder, or the attorney. Those most likely to be interested in this phase of the financing of projects are landowners, whether individuals or institutions; all kinds of private holders of funds who desire stability of return on their investment combined with steady appreciation of value; land developers; builders and architects.

Investors in the mortgage, naturally, are the lending institutions of all classes, including the local banks as well as life insurance companies and other custodians of large aggregations of savings, of trust funds, of foundations, endowments and the like. Banks and other lenders in the community are particularly acceptable to the Federal Housing Administration as mortgagees, for the reason that, because of their familiarity with local conditions, they can conveniently cooperate in examining the project. If the loan is larger than one institution is able or willing to make in the form of a single mortgage transaction, it may very well take the form of a private bond issue with several local institutions participating. Complete details for such transactions have been worked out by the Administration, and several projects have already been financed in this manner. The bonds, of course, enjoy the same benefits of mortgage insurance as does the note or other obligation secured by an ordinary first mortgage.

In examining the bases of security provided by a rental housing project approved for mortgage insurance by the Federal Housing Administration, it should be borne in mind that safety for the mortgage lender means also a high degree of probability of an adequate and stable return for the owners of the equity.

A TYPICAL CASE

The fundamental requisites for an acceptable project are, first, a desirable location, free from possible future community deterioration, where there is a definite prospect of continued demand for housing at rentals well within the capacity of large numbers of tenants to pay; and second, a quality of design and construction of the entire development, in terms of open space, landscaping, light and air, convenience of the dwellings, and other amenities of civilized living, such that as a practical matter the danger of obsolescence may be considered negligible. Given the physical basis for mortgage security conforming to these requirements, soundness of the transaction arises out of a unique combination of financial conditions made possible largely by the fact that the housing project is to be owned and operated by a private corporation limited as to dividends by its own charter and regulated and supervised by the Federal Housing Administration. These financial conditions can best be illustrated by a typical case.

A project of 500 dwelling units on the outskirts of a large city, aggregating 1,860 rooms, has been examined and found acceptable, with the following cost and capital set-up:

Land (1,340,000 square feet at 20 cents) capitalized at	$268,000
Cash equity	125,000
Services (of builder and architect)	77,000
Total equity	$470,000
Mortgage	1,850,000
Total capitalization	$2,320,000

To cover the debt charges (interest, amortization, and insurance on the mortgage), to pay dividends, and to build up surplus for additional amortization, the long-run average income and expenses of the project are estimated as follows:

Annual income from dwellings (1,860 rooms averaging $14.50 per room per month)	$323,640
Rental of stores (built as part of the project)	10,125
Garages (also built as part of the project)	7,500
Total potential gross income	$341,265
Allowance for vacancies and rent losses 10 percent	34,127
Effective gross income expectancy	$307,138
Operating costs and taxes (including full maintenance and adequate reserves for replacement of equipment)	133,218
Available for debt service, dividends, etc.	$173,920
Debt service (level annuity basis, retiring debt in about 27 years—interest 4½ percent, amortization beginning at 2 percent and increasing as interest on the diminishing principal decreases, and mortgage insurance premium of ½ percent—total charge of 7 percent)	129,500
Available for income tax, dividends, and surplus	$44,420
Income tax	6,500
Available for dividends, and surplus	$37,920
Dividends (6 percent on $470,000)	28,200
Surplus (available for additional amortization)	$9,720

ANALYSIS

Study of this condensed financial statement will reveal a number of significant elements making for mortgage safety and for stability of return on the equity investment. It should be noted at the outset that the rental rate and the allowance for vacancies are the estimated averages for a period of about 27 years. In the early years, when the project is new, somewhat higher rentals than the long-term average probably can and ought to be obtained, and the vacancies and rent losses are not likely to be as great as the long-term average estimate. Thus the effective gross income during the early years of operation will, in all probability, be substantially higher than estimated for the long-term average. At the same time, the operating costs are likely to be lower than the estimated average. During the first 5 to 10 years of operation, therefore, the estimated surplus applicable to additional payments on the principal of the mortgage debt will in all probability be substantially more than the amounts indicated in the above statement.

Theoretically, since any rental housing project (no matter how well designed and constructed and maintained) must anticipate some decrease in income with the passage of years, the mortgage debt service ought to diminish from year to year, with straight-line amortization rather than total uniform payments on the level annuity basis. But for a 27-year loan this would require nearly 4 percent on the original debt, or a total charge at the outset of nearly 9 percent instead of the 7 percent scheduled. The project may, in fact, have surplus earnings enough in the early years to make the 9 percent payment and perhaps more, even after disbursement of the limited dividend, but if 9 percent instead of 7 percent were unconditionly required, failure to earn the additional amount in any one year would throw the mortgage into default and necessitate foreclosure. Thus the project enjoys the advantage of taking as long as 27 years to pay off its mortgage, if necessary, and at the same time a high degree of probability that it will be out of debt a good many years sooner.

All this, of course, in addition to making a sounder mortgage loan, inures eventually to the benefit of the stockholders of the housing corporation, since in return for their consent to receive limited dividends on their original investment, they will, earlier than scheduled, own free and clear a valuable property.

Below: Chatham Village, Pittsburgh, built and operated as an investment for the Buhl Foundation.

INGHAM AND BOYD, ARCHITECTS. HENRY WRIGHT AND CLARENCE S. STEIN, CONSULTANTS.

THE MORTGAGE INSURANCE

The foregoing factors of safety arise from the character of the property itself and the method of operation thereof. The final and basic element of safety, so far as the mortgagee is concerned, arises from the mortgage insurance.

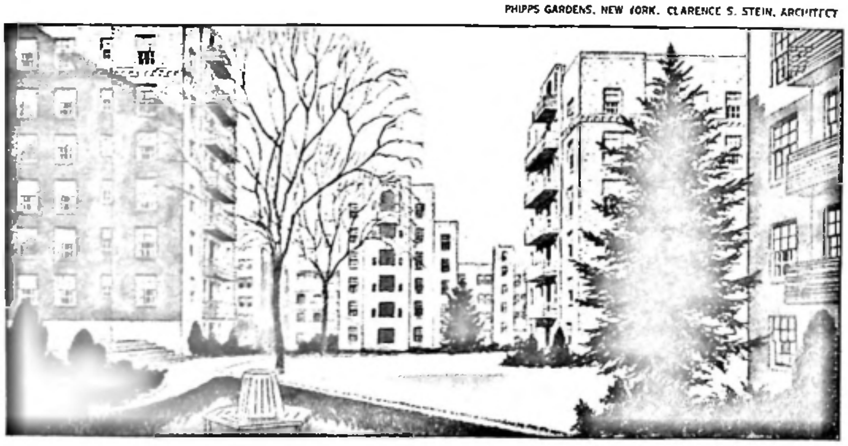
It is provided in the National Housing Act that, in the event of default, followed by foreclosure and conveyance of the mortgaged property to the Administrator, the mortgagee will receive Debentures of the Mutual Mortgage Insurance Fund. These Debentures will be fully guaranteed as to principal and interest by the United States when issued as a result of foreclosure on a mortgage insured prior to July 1, 1939. Under present regulations they will bear interest at the rate of 3 percent per annum, and will mature 3 years after the maturity date of the original mortgage.

Foreclosure cannot be prevented or delayed by resort to Section 77 (b) of the Federal Bankruptcy Act, for the reason that an amendment to that Act specifically prevents such action on the part of corporations orgainized under Section 207 of the National Housing Act.

The principal amount of Debentures to be issued and turned over to the mortgagee will be equal to the unpaid principal of the mortgage, plus interest accruing thereon at the rate of 3 percent per annum from the date foreclosure proceedings were instituted, plus the outlays which the mortgagee has been required to make in order to clear title to the property, such as delinquent taxes, insurance, and other related expenses.

Expenses of foreclosure are not covered by the Debentures, but the Administrator issues a Certificate of Claim covering such expenses, which in the ultimate liquidation of the property after the requirements for principal and interest on the Debentures have been satisfied, will have prior claim upon the proceeds. Meanwhile, the Certificate accrues an increment at the rate of 3 percent per annum. Any sum remaining after satisfaction of the Administrator on account of the Debentures, and of the mortgagee on account of the Certificate of Claim, will be turned over to the stockholders of the housing company.

PHIPPS GARDENS, NEW YORK. CLARENCE S. STEIN, ARCHITECT



Above: A rental housing development built as an investment by the Phipps Foundation.

The FHA Procedure

On receipt of a formal application for mortgage insurance on a rental-housing project (or even of an informal inquiry, where enough information is furnished to provide a general picture of the development proposed), the first thing to be determined is whether or not the enterprise may be deemed to fall within the range of rentals contemplated by Section 207 of the National Housing Act. If the charges proposed are moderate and appear to be well within the capacity of a large proportion of the renting population to pay, the project will be accepted for examination, primarily for the purpose of determining whether or not it is economically sound. Examination is commenced upon receipt of an application executed on FHA Form 2013, accompanied by the exhibits, consisting of plans, specifications and the like, called for on back of the form itself.

THE APPLICATION

All decisions with respect to applications are made in the main offices of the Administration in Washington. The offices of the various State and District Directors, however, are prepared to consult and advise with prospective organizers or sponsors of projects.

Among the items of information required to be given in the application on Form 2013, is an indication of the proposed source of the mortgage loan. It is therefore advisable that applicants establish contact with a mortgage lender as early as possible. Where this is done, the Administration will invite the proposed lending institution to join in the examination, it being understood, of course, that neither the institution nor the Administration is in any way committed eventually to make or to insure the loan if for any reason either the one or the other does not wish to do so.

PRELIMINARY EXAMINATION

Usually the first step in examining the application is to make a credit investigation of the subscribers to the stock of the proposed housing corporation—that is, of the sponsors of the project. The names and addresses of these will have been indicated in the appropriate place on the Form 2013, with the amount and kind of subscription each is prepared to make.

ECONOMIC BACKGROUND

If the sponsorship is found to be acceptable, the next step consists of the most important part of the entire investigation—an examination of the site, the community, and neighborhood in which it lies, and the characteristics of the rental market proposed to be served by the project. An acceptable site must be conveniently located with respect to transportation to and from places of employment; it must be suitable for residential development; and it must be free from serious hazards of flood, subsidence, smoke, fog, noxious odors, nuisance industries, and the like. It must be in a community where there are adequate sources of employment for the population group for which the proposed housing is intended, preferably in a considerable number of occupations. It must be located in a neighborhood where zoning and other types of regulation will permit the sort of development contemplated, and it must conform with city, county, or regional planning where such planning is in force. Above all it must be in a community or neighborhood where there is a definite and continuing demand for housing at rentals ample to cover the requirements of the project as an economically sound enterprise.

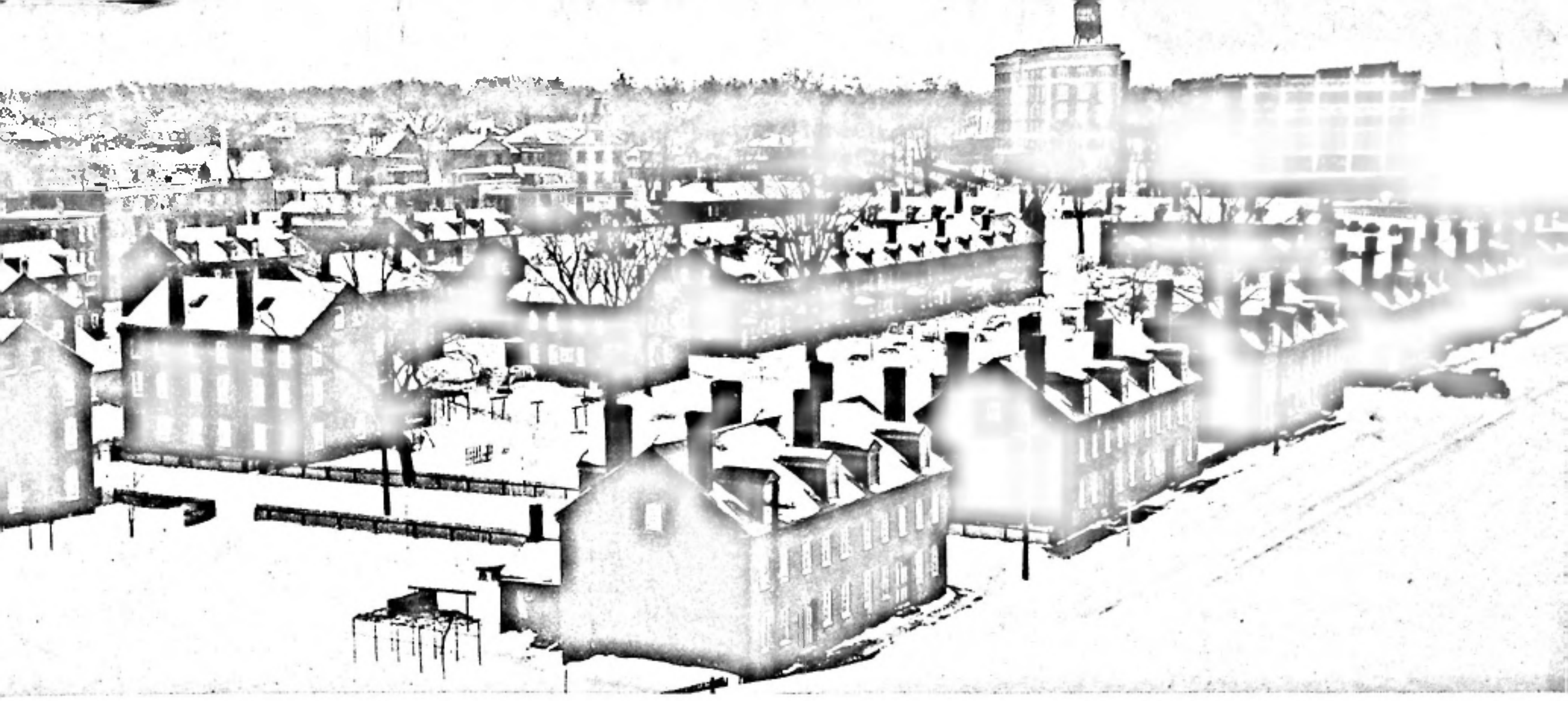
The end result of the site examination is expressed in terms of an opinion of the average rental per room, per apartment, or per house per month, which may be assumed for purposes of analysis; and the word « average » applies to a period at least as long as the term of the mortgage proposed for insurance.

Formulation of such an opinion, involving so long a period, requires a most careful study, not only of existing rentals but of long term trends in rentals and in growth of the community.

Naturally an estimate of long-run rental expectancy must be based on at least a preliminary set of plans and specifications. Complete working drawings are not required at the outset, since it is desired to avoid having applicants go to what might prove to be needless expense. It sometimes happens that the plans submitted with the application are so hopelessly unsuitable to the site, or so bad with respect to the apartment units themselves, that no adequate estimate of rentals can be made. In such cases (assuming that the sponsorship has been found satisfactory), the plans are returned with suggested alterations. Meanwhile, of course, certain assumptions will have been made as to the general type of housing which will be given consideration. If it appears evident from a preliminary examination of the application that in all probability a

CLARENCE S. STEIN AND HENRY WRIGHT, ARCHITECTS ASSOCIATED

Large scale housing adapted to a comparatively small city (Radburn, N. J.). The illustration (left) shows single family, semi-detached units.



Built almost 100 years ago, this development in Chicopee Falls, Massachusetts (above), embodies all the essentials of good planning and construction. The Federal Housing Administration is insuring the mortgage for its rehabilitation.

suitable project cannot be developed on the proposed site, the applicants are so informed as early as possible.

When the plans and specifications arrive in a form requiring only minor changes, it is possible to complete the examination without undue delay. The site examination above referred to is commonly made in the first instance by the nearest State or District Director. Where the project is of considerable size, an investigator from the Washington offices is usually sent to make a further study.

APPRAISAL OF THE PROJECT

Final analysis of the project consists, first, of an estimate of the prospective earnings of the enterprise, based on the long-term average rentals derived from the site examination. From the gross annual income thus estimated, a deduction of not less than 10 percent is made for vacancies and rent losses, to arrive at the average gross income expectancy of the property. From this are then deducted estimates of the operating costs of the project, including adequate reserves for replacement of equipment and other items which may have to be replaced from time to time, and of all taxes except income taxes. The remainder will represent an estimate of the average amount of cash available per year for debt service, for income taxes, and for dividends and surplus. Next to the average rental rates, this remainder is the most important figure in the entire financial analysis of the project; for upon it is likely to depend the maximum amount of mortgage which will be accepted for insurance. It should be sufficient to cover the annual mortgage debt charges, to pay income taxes, to provide for at least a 6 percent dividend on the equity investment, and to leave a substantial surplus.

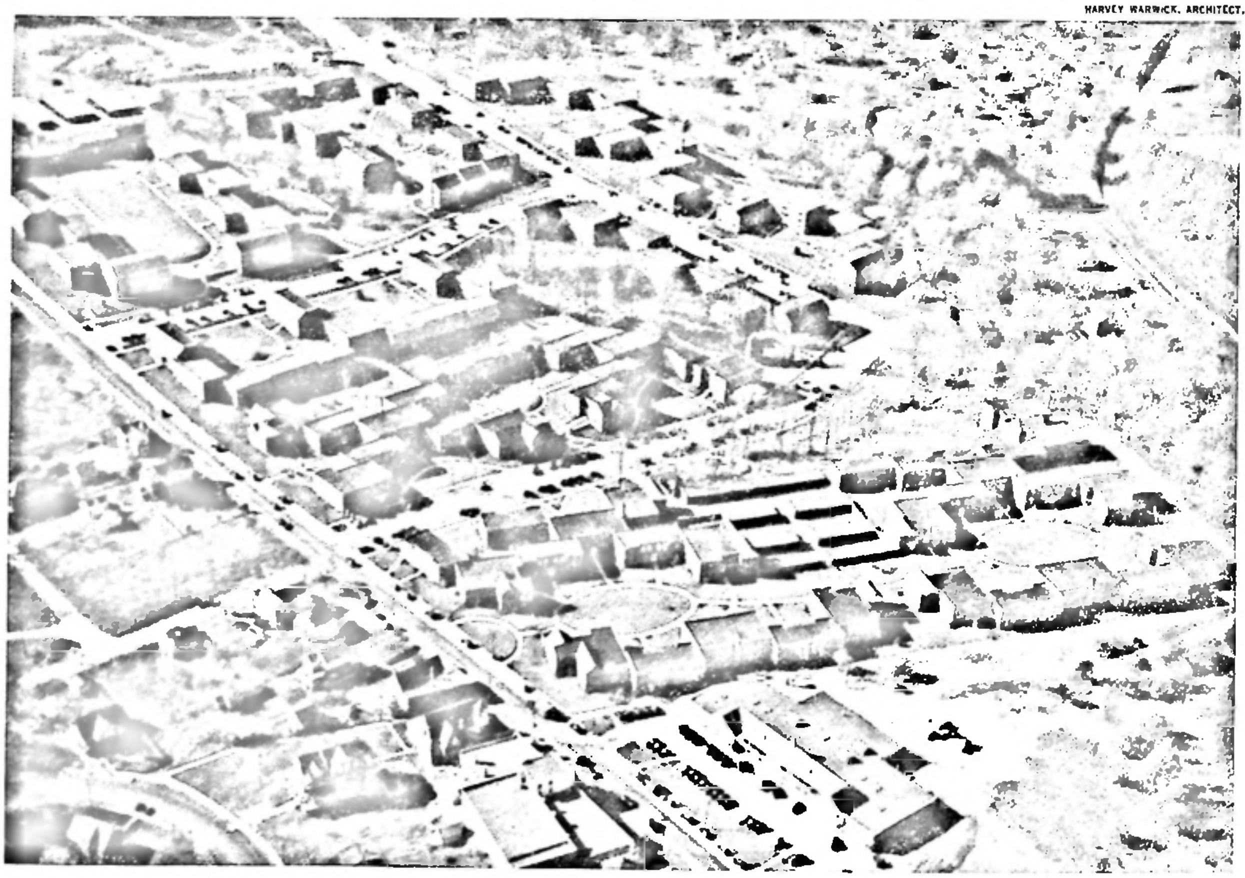
Debt charges are computed on a level annuity basis (that is, the amortization payment increases by exactly the same amount as the interest decreases, so that the total payment per year remains the same). Included in the debt service, of course, is the mortgage insurance premium paid to the Federal Housing Administration.

The estimated average amount of cash available per year for debt service should be at least one and one-third times the level annuity above referred to, and preferably it should be more. This is necessary, not only to provide a minimum margin of safety for the mortgage service, but also to pay the dividends and to accumulate a surplus. (The importance of this matter of the surplus, arising out of the level annuity basis of debt service, should be apparent from the analysis, in the preceding chapter, of the security provided for investors in FHA rental housing.)

Analysis of the income expectancy of the project does not complete the Administration's examination of the proposed enterprise. A careful estimate is made of the cost of the development, on the basis of a complete breakdown by trades. This cost estimate, together with all necessary carrying charges and expenses during construction, is added to the value deemed fair and reasonable for the land, and constitutes the Administration's appraisal of the value of the project when completed. The insurable mortgage may not exceed 80 percent of the value thus determined.

Colonial Village, Arlington, Virginia. Mortgage insured by the Federal Housing Administration.

HARVEY WARWICK, ARCHITECT.



When the entire analysis has been completed, definite action is taken with respect to the application for mortgage insurance. If the project is approved the Administrator may issue a conditional commitment, stating in effect that upon application by a competent lending institution, he will insure the mortgage. The conditions cover rather fully such matters as the maximum amount of the mortgage, the maximum interest rate, and the minimum amortization rate, the minimum amount of cash equity which must be placed in escrow by the organizers before the various contracts connected with the closing of the transaction are signed, and the maximum dividend, usually expressed in a lump sum per annum, which the owners of the stock of the housing corporation may draw.

CLOSING OF CONTRACTS

When the commitment is issued and arrangements are made for a mortgage loan, preparations are begun for the closing of contracts. There are two distinct phases of operations involved here:

1. It will be recalled that the examination of the Administration is ordinarily conducted on the basis of preliminary plans and outline specifications. Before closing, complete working drawings must be prepared, together with complete specifications. These must be checked for conformity with those considered in the process of examination, and finally approved for completeness and adequacy.

2. The legal instruments involved in the transaction must be prepared, in collaboration by counsel of the sponsors, of the lending institution, and of the Administration. The principal documents involved are the certificate of incorporation of the limited dividend company, the mortgage itself, the building loan agreement, the construction contract, and the contract of mortgage insurance. In the certificate of incorporation itself, except in the case of the smaller projects, is included the entire arrangement for regulation of the housing company by the Administrator. Generally speaking, it is easily possible to have these legal documents all prepared and ready, by the time the architects have completed the plans and specifications. Suggested forms for all these documents are made available to sponsors' attorneys or to lending institutions by counsel for the Administration.

The foregoing description of the commitment and the closing is based on the assumption that the sponsors wish to obtain a combined construction and mortgage loan. Commitments may be issued, if desired, for insurance of a mortgage on completion of the project, the owners making their own arrangements for the construction loan.

SUPERVISION OF CONSTRUCTION

In either case, when construction actually starts, inspectors representing the Administration are assigned to the job. What the Administration requires of the contractor conforms very closely to requirements which exist generally in the construction industry and which may be expected by any contractor engaging in private operations. The building contracts are modeled after standard AIA forms. Where a combined construction and mortgage loan is used, payments are approved monthly as the work progresses, in the customary manner, a requisition being submitted to the Federal Housing Administration on or about the first of each month. When such requisitions are approved, disbursements are made by the lending institution about the 10th of the month, and are covered by the contract of mortgage insurance as soon as they are made. Action on the requisition is immediate and approval is given as speedily as possible.

It is the duty of the inspectors to see that the plans and specifications are followed and to certify progress of the construction work for which monthly payments are requested. Procedural delay is reduced to a minimum, and the inspection methods do not increase the cost to the contractor, but in many respects actually assist him in expediting the job.

FHA REGULATION

Upon completion of the project, final settlements are made with the contractors, and the limited dividend company formally takes over the property for operation. Regulation by the Administration is accomplished in the case of the larger projects by having a representative

MICHIGAN BOULEVARD GARDENS, CHICAGO. EUGENE H. KLABER & ERNEST A. GRUNSFELD, JR., ARCHITECTS. HENRY WRIGHT AND ASSOCIATES, CONSULTANTS.

act as a member of the Board of Directors. When everything is going well, this representative serves as little more than an observer. Regulation of the smaller projects, involving mortgages of under $200,000, may at the option of the owners be accomplished by a simple contract with the Administrator.

Accounts are required to be kept in accordance with a prescribed uniform system. Periodical reports are made to the Administration, and a complete audit is required at the end of each period specified in the certificate of incorporation for the declaration of dividends.

Altogether the regulation of the housing company by the Administration is carried out in a businesslike and realistic fashion. Rentals are limited to a schedule agreed upon and approved by the Administrator, and the dividends are also limited at the outset to not more than 6 percent on a fair valuation of the equity in the project. After the accumulation of adequate reserves, including the reserve for replacements mentioned above, all surplus earnings after dividends are applied to additional amortization of the mortgage. Under certain favorable conditions, after the project has been operating long enough to have become, so to speak, seasoned, certain additional dividends may be authorized, provided a part of the surplus earnings are applied to additional amortization.

The amount of equity on which dividends are allowed must remain substantially the same until the mortgage is paid off (unless, of course, the project is enlarged or improved), but when such payment is completed, the project becomes the property of the stockholders. subject to no further regulation by the Administrator.

HOUSES FOR SALE

The foregoing discussion of procedure applies to projects which are designed strictly as rental developments. Recent revisions of the regulations covering insurance of mortgages under Section 207, however, make available to prospective home buyers and to the developers of home sites for sale the advantages of large-scale operations.

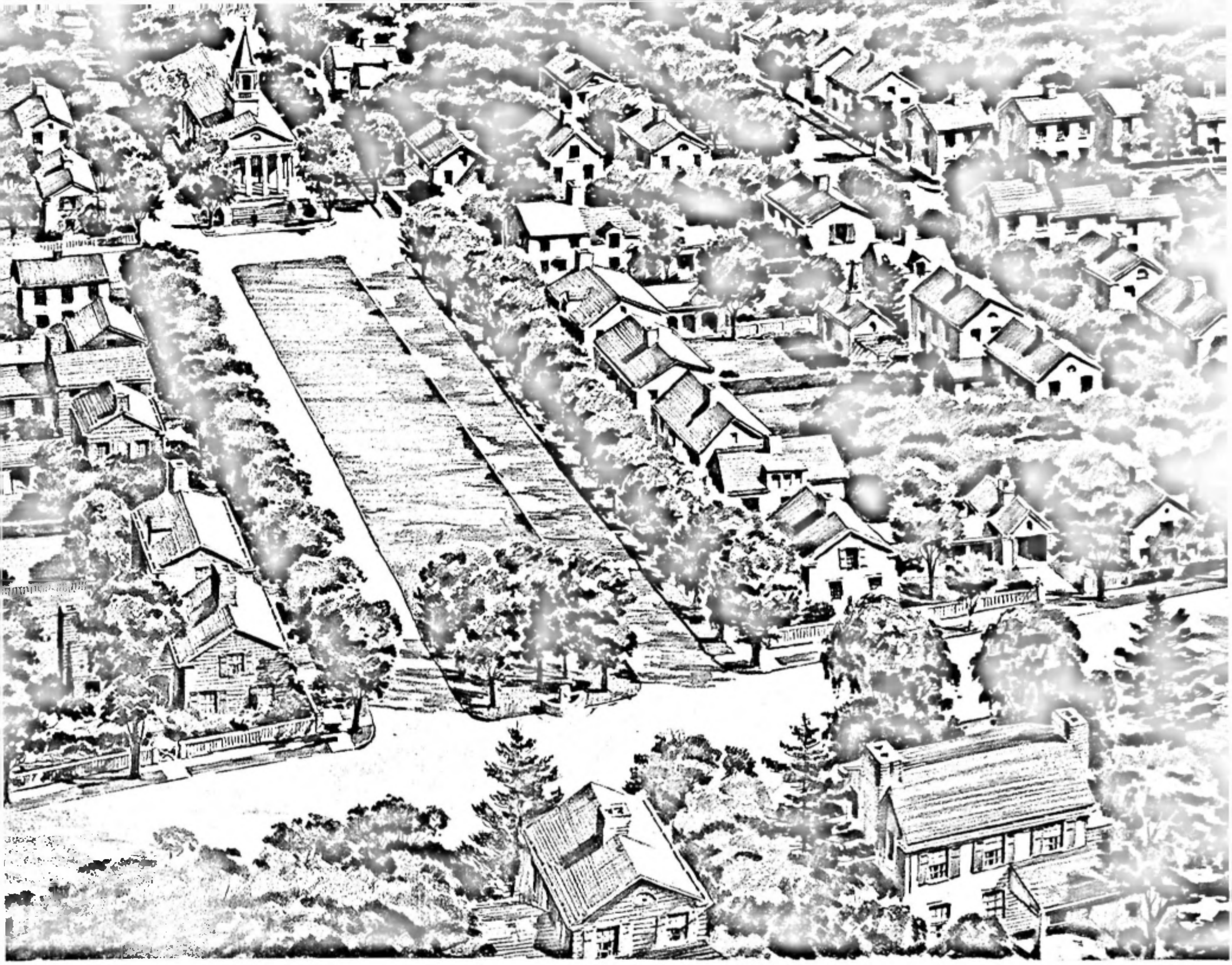
Under the new regulations, an operator acting through a limited-dividend corporation may obtain mortgage insurance during the construction stage for a development consisting wholly of single-family detached houses under a blanket mortgage which embodies provisions for the release of the individual plots of land and the houses thereon.

The New-Old Concept of Planning

The planning technique involved in the rental program of the Federal Housing Administration is not primarily a matter of style, decoration, or ornamentation. Its aim is to create the basic values of a healthful and attractive living environment, by insistence on those features of good planning which are lost or consciously sacrificed when the necessity or the desire to use land more intensively results in overcrowding and the loss of open space and light and air. The approach to the housing problem here emphasized, therefore, is not so much a matter of new principles of design as it is of a return—made possible by modern transportation facilities—to principles long ago established in many urban communities of America and subsequently in large measure abandoned.

In one important respect, the FHA approach is essentially new. The rental housing projects contemplated by the program and now being erected in various cities and towns throughout the country are relatively large in size. They possess, for this reason alone, certain advantages which small apartment houses do not enjoy and which make them preferred mortgage risks among residential income properties. At its best, a rental housing project involves the development of an integrated neighborhood.

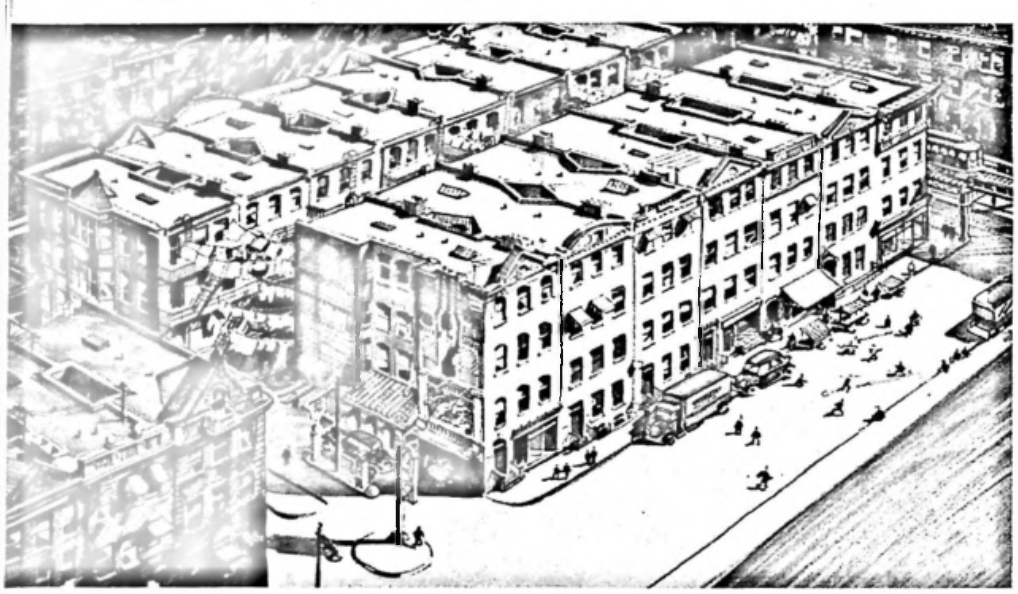
But the FHA program takes cognizance of the fact that size of project is a matter relative to size of community. A small urban center cannot be expected to absorb a development as large in absolute scale as a metropolitan center. A project of 50 units may be relatively large for a small city; for a large city, a project of such size could rarely incorporate the basic values which arise from large scale operation. Among the developments in operation or in process of construction under the FHA program, the smallest is an apartment house containing 43 family units in a small city in Pennsylvania; the largest to date, constructed at intervals as three separate projects and containing nearly 1,000 apartments, is located in Virginia near the City of Washington.



The traditional free-standing house was usually set on a plot of land which admitted light freely to all sides and provided some ground space for lawns and gardens, with such plantings of trees and shrubbery as the taste of the owner dictated. At its best the interior was planned for an efficient use of floor space, for a convenience of room use and for such privacy as was demanded by the needs and the condition of the family. Structurally, the house was well built, and many such houses constructed a century or more ago are giving satisfactory service today.

With the growth of urban centers and an increasing appreciation in land valuation, the first noticeable tendency in planning is to restrict the ground area surrounding the

houses. This restriction commonly takes the form of narrow lots and results in the building of the rows of attached houses which became so characteristic of American cities during the nineteenth century. Such construction means that exterior light is lost on two sides, and also that the amount of garden space is reduced by the elimination of side yards.



Continued growth of cities, with lack of the rapid transportation facilities, results in a still more intensive ground use. The demand for rental housing and the higher land values have produced in some cities a variation of the row house, extended horizontally to cover practically all of the lot, and vertically, to a height of five or six stories. Whereas the row houses usually had been but two rooms deep, the new «dumb-bell» type of apartment, four or five rooms deep, admitted light and air only to the two end rooms, and even the restricted amount of both light and air was greatly reduced by surrounding buildings and by the narrow open space in the street or to the rear.

From such apartments the owners have usually sought to obtain the highest possible returns on the land and the buildings. As a result of this exploitation of the rental market, practically all traditional elements of decent planning have been lost. With the practice once established, buildings of this type were erected even where existing land values did not demand such intensive use. Thus, there began a vicious cycle of overdevelopment, overvaluation of land, and burdensome taxation, all induced by expectancy of high rental returns. As the buildings grew older they were able to maintain their rental income only by crowding into the apartments too many occupants, and the resulting social environment became a slum.

Modern systems of rapid transportation have made it possible for the working population to spread out into areas distant from their places of occupation. With

a movement of population to the periphery of the city or into the suburbs, the planner of rental housing has a much greater freedom of action. Undeveloped land, less costly to acquire and not hampered by an arbitrary «gridiron» pattern of streets and narrow lots, lends itself to the creation of a wholesome rental community. It permits a flexibility of planning which will preserve for the dwelling units direct access to light and air. Through careful grouping of the buildings, the maximum amount of ground space may be preserved for lawns, landscaping, and gardening, with the addition of such social features in the form of playgrounds and other recreational features as the size of the development will allow.

Under the best of conditions a rental development under the FHA program is a project set in what amounts to a privately owned and privately controlled park area.

Real-estate appraisers have long taken cognizance of the territory surrounding a particular lot and have predicated present and future values on use trends in the immediate neighborhood. Where favorable trends were not real but merely assumed on the basis of zoning laws which allowed a more intense use, the result frequently was a depreciation in values as the residential neighborhood declined and the anticipated development was not fully realized. The best type of large-scale project provides its own self-protection against adverse trends. The entire neighborhood is owned and controlled by a single corporation, and, in the case of FHA projects, so long as the mortgage insurance remains in force, the regulation of the Administration is such as to require that the property, both buildings and land, shall be properly maintained.

Trees and gardens on an extensive scale thus stand as a bulwark against adverse development within the property itself, and they will serve equally to help maintain the character of the surrounding neighborhood. This is possible only because the project is planned on a scale sufficiently large, relatively to its setting in the city or the town, to permit full utilization of modern planning techniques and to realize the benefits inherent in lower land coverage and less intensive usage.

In summary, then, the modern rental housing project represents a new concept of housing because it attempts to incorporate in the housing development those standards and amenities which were largely lost or neglected in America during a long period of speculative building for rent.

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