

Private investors in the form of industry and commerce are creators of jobs. To the extent that these can be placed locally within the framework of the New Community, it should act favorably for the promotion of sound economic values for the entire environment. Any modern industrial plant which is set up in a community has diversified personnel on its payroll as well as a spread of education and cultural attainments. Each of these various strata of residents require different housing accommodations. This factor is one of the main differences between a New Community and a typical sub-division; See (6) below.

Sec. 402 (continued)

(6) encourage the maintenance and growth of a diversified local home building industry;

Comment: In the older communities which grew gradually into diversified land use patterns, there developed a traditional separation of ethnic and racial groups. This has largely broken down insofar as the ethnic grouping is concerned, but it is far from being broken for the negro groups. (The younger orientals are scattering among the rest of the population, but not their elders.)

The newer patterns for the residential sub-divisions which have been and are the satellites of our older towns and cities are based largely on price grouping rather than any other characteristic. As families improve their lot, they tend to move up the price structure ladder. This is the current social incline, and along with it -- but of less importance -- are the gradations of education and cultural attainment. Thus those who are free to move (other things being equal, such as proximity to job, etc.) do so within the urban pattern by moving from one suburb to another and from one residential sub-division to another.

Builders and developers of residential suburbs are likewise stratified. There are many exceptions, but generally a builder who is successful in creating a sub-division of one type will stick to what he knows how to do best. While the price of his product has increased over the years, it has done so as the price of all land and dwellings has increased.

To create and maintain the growth of a local home building industry within the framework of a New Community implies the use of

various contractors who have had success in constructing different types of dwellings, as home builders. By this means, overall control of price/quality can be maintained and diversification assured. I can not find any successful sales program of a mix of planned new houses of different design and price in close proximity to each other. Occasionally, in older neighborhoods, vacant lots will be built upon with non-conforming design and price dwellings. Racial barriers are being lowered, but I know of no evidence of the lowering of price barriers.

"Price Barriers" require price zoning of neighborhoods and to offer a diversified sales offering (price variety) requires a staggering inventory and physical dispersion of zones or neighborhoods under costly construction at once: Sewer, water streets, etc. (trunk and local) and house construction activity. It is questioned whether private enterprise, even with government support, can economically keep so many neighborhoods on the shelf at one time.

The marketing and sales problem in New Communities is staggering inasmuch as the buyer is not ready to make a brick and mortar move as readily as the builder's economics require. This is not a first time shelter-sale, but a second or third home move, and people must first "buy the dream" of the New Community, become financially involved in a moderate financial way, and then within one to five years, make the transfer of neighborhoods, schools, jobs, transportation, friends, neighbors, doctors, shopping, and total social and functional environment. Some method must be devised to pre-sell the sites and houses.

The buyer probably should agree to construct a home on said lot within a reasonably short period of time after development or offer it for sale back to and through the developer. While there might be some vacant lots (with a community mowing facility and maintenance levy for same) people would be involved today and planning for tomorrow, and the net result would be a much faster, more economical successful development of the New Community. While they are making payments on an undeveloped lot, they, of course, would have the right to use the recreational facilities on weekends, etc.

Sec. 402 (continued)

(7) include, to the greatest extent feasible, the employment of new and improved technology, techniques, materials, and methods in housing construction, rehabilitation, and maintenance under programs administered by the Department of Housing and Urban Development with a view to reducing the cost of such construction, rehabilitation, and maintenance, and stimulating the increased and sustained production of housing under such programs.

Comment: The purpose of this paragraph appears to be the use of experimental techniques discussed in (4) above, in order to reduce the cost of shelter, or to offer improved facilities.

The main purpose of reducing the costs would be to create housing for low income people who would not otherwise be able to obtain it without subsidy. See Sec. 404 (3)

There are many construction techniques waiting to be field-tested. They vary from factory built complete units to manufactured modules designed to be stacked, and all kinds of pre fabrication.

The problem of enclosing space which will not only be inexpensive, but good quality shelter, is a risky business. Public acceptance of new products is always the risk element. In matters of architecture, innovation has been rather recent. In the sentiment of that which characterizes one's home, there is much to overcome to gain acceptance, and if anything can do it, price can.

Price should include total cost of occupancy, i. e., maintenance and taxes as well as debt service. Taxes are always with us; the local real estate tax is the mainstay of local government.

We are a nation which is accustomed to multiple layers of government, whether we can afford them or not. We need, or feel that we need, the local governmental administration of police and fire protection, as well as sanitation, planning, zoning, and tax assessing. In short, whether these functions are performed at Village or Town levels, they are the responsibility of elected officials. Then there is the layer of government of the County in most states. There may be school districts, lighting, drainage, fire, conservation, sewer, water, and other districts which have the power to tax, but may or may not be co-terminus with the tax areas of the other governmental functions.

New Communities are started usually in the rural atmosphere of a County, and the County government carries on the administrative duties until there are enough voters to assume the governmental functions. These come early, particularly in those areas of government where the functions have a direct impact upon the residents themselves. As the New Communities are planned, school and other needs are built into the plan. The cost of administration of the governmental functions are related to the anticipated growth of the Town. Bond issues are usually floated to pay the capital costs of the needed facilities. Until there are enough tax payers to pay for the debt service of the bond issues, the cost of debt service must either be borne by the County, or loaded into the principal of the bond issue. The latter course often raises the cost of taxes to the ultimate tax payers, but the former technique loads the costs on to tax payers in the County who do not necessarily benefit from the facilities provided by the bond issues. The alternative, of course, is to have the costs underwritten by the developer, but in most cases this is such a burden in addition to the start-up cost of creating a New Community that it is impossible.

The answer, ideally, is the establishment of taxpayers which create jobs, but which impose no burden upon the Community. Industrial plants, research and engineering facilities fill these needs. To find these industries which will enjoy the benefits of a rural or campus-like setting at a fairly high cost-of-occupancy figure prior to the creation of the Community of which it is to be a part has not been generally successful in the New Communities which have been thus far created. Government and higher educational facilities create desirable employment, but are non-taxpayers, even though they are more easily obtained.

Many a New Community is planned and found to be financially feasible except for the utilities of water and sewer. If these are taken as a separate unit, as a function of a political subdivision, sometimes this cost can be spread over a sufficient period of time so as not to be burdensome to the ultimate owners of the dwellings in the projected community. These utilities are capable of generating considerable profits after the debt which created them has been paid off - which theoretically could be used to reduce the taxes in the later years of the community's life.

The attractions of the New Community which is to be created must out-weigh the added cost to the tax payer of living in the all new atmosphere, at the relatively higher cost as contrasted with the lower cost of older established communities in the same economic region.

The analysis of the economic region of which the proposed New Community is a part should not only take into account the services to be rendered by the local segment of the economy to the larger economic region, but where it is likely that other local sub-regions will be created to distribute these services. Of the total growth of the local economic region, a finding must be made as to how much can be attracted to the proposed New Community, and how much will go elsewhere within the sub-region. If the New Community begins to show signs of attaining a measure of success, it is probable that residential sub-divisions will spring up in its periphery, thus further burdening the facilities.

One of the purposes of this Section is to attract private enterprise and investment sources that would enhance chances of success, both as to industry participation at competitive rates and timely contribution and investment possibilities that recognize money costs as a function of production and money management as a goal.

The short and long term effects of timely expenditures and confident enthusiastic contribution by profit oriented capital and labor should be studied and made an integral part of the plan. Past programs have taken for granted expected impact of government insured securities on lenders, ignoring the depressing effect of ponderous regulations and questionable goals. Frequently these minimums established appear arbitrary and unrealistic, particularly when viewed in light of "money use costs".

Because of the period of time over which this extended program will be projected, provision for changing "money costs" and "loan terms" should be made, so that long delays and the air of indecision or interminable postponement can be avoided.

Further, as the project or projects can be expected to encompass several layers of affluence, personal interests and consumer requirements, flexibility within the broad plan becomes desirable in order to permit latter day additions to enjoy even newer techniques and materials while losing none of the cohesive benefits of the overall plan.

It can be assumed that improved and structurally/aesthetically desirable housing will reduce crime and the fear of crime when these new areas are a part of the social and community system of today. (Many of the more successful "second" communities are private, stressing semi-seclusion, and maintenance of property values and security.)

Guarantee Authority

Sec. 403 To carry out the purposes of this title the Secretary is authorized to guarantee, and enter into commitments to guarantee, the bonds, debentures, notes, and other obligations issued by New Community developers to help finance New Community development projects. The secretary may make such guarantees and enter into such commitments, subject to the limitations contained in Sections 404 and 405, upon such terms and conditions as he may prescribe, taking into account (1) the large initial capital investment required to finance sound New Communities, (2) the extended period before initial returns on this type of investment can be expected, (3) the irregular pattern of cash returns characteristic of such investment, and (4) the financial and security interests of the United States in connection with guarantees made under this title.

Comment: This section clearly recognizes the risks involved in the creation of a New Community. Most of them have been previously discussed. It points up the need for a very critical analysis of the economic forces to be generated by the New Community: the size of the investment, its duration, and the cash flow which may be expected to be generated thereby. In determining the equity risk, the mortgage guarantee hazard should be examined. In short, such a study should examine the risks and rewards of all parties at interest.

One of the important elements of management is the management of funds which are advanced for the development of the land. These are usually advanced upon the certification of the sponsor-developer, and a check by an independent agent or mortgage correspondent. The following items apply to the background which must be taken into account in the selection of such an independent mortgage correspondent: his financial strength, history and experience, his relationship with long-term investors, and the interim financing sources. Does he have a good servicing organization that has shown growth and stability. How does he handle his bank lines of credit, and their utilization and restrictions?

The mortgage servicing correspondent is an important ingredient. In making the advance loans, particularly for the construction aspects of the project, a maximum note amount which may be outstanding at any one time must be determined. A limit must be put upon the maximum amount of unsold houses which are allowed, and other conditions must be spelled out which are warranted by the facts. These must all be spelled out by a lawyer in the form of an agreement between all parties, and such agreement shall also provide for the manner and documentation of the loans to be submitted under the agreement. And it is up to this mortgage correspondent to enforce the terms of the agreement between the lender and the borrower, i.e., between the banker and the sponsor-developer.

The technique of preparing such a study will be discussed later.

Eligible New Community Development

Sec. 404 No guarantee or commitment to guarantee may be made under this title unless the Secretary has determined that—

- (1) the proposed new community (A) will be economically feasible in terms of economic base or potential for growth, and (B) will contribute to the orderly growth and development of the area of which it is a part;

Comment: This has been discussed under Sec. 402 (1) and (5). The potential of a New Community is directly related to its foreseeable economic growth. This must be determined by an economic regional study with reasonable projections.

Sec. 404 (continued)

- (2) there is a practicable plan (including appropriate time schedules) for financing the land acquisition and the land development costs of the proposed new community and for improving and marketing the land, which, giving due consideration to the public purposes of this title and the special problems involved in financing new communities, represents an acceptable financial risk to the United States;
- (3) there is a sound internal development plan for the new community which (A) has received all governmental approvals required by State or local law, or by the Secretary; and (B) is acceptable to the Secretary as providing reasonable assurance that the development will contribute to good living conditions in the area being developed, will be characterized by sound land use patterns, will include a proper balance of housing for families of low and moderate income, and will include or be served by such shopping, school, recreational, transportation, and other facilities as the Secretary deems satisfactory; and
- (4) (continued on next page)