

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

J. M. DAIGER
ASSISTANT TO THE ADMINISTRATOR

June 15, 1939

Dear Marriner:

I am sending to you herewith by messenger the memorandum that you asked me to get from Mr. Lambert for you, and that I referred to in my telephone call a few minutes ago. With this memorandum I am also sending two binders containing material in which Mr. Lambert thought you would be interested.

One binder contains a copy of a memorandum that Mr. Lambert wrote on May 22 for Mr. Noble. I had not seen this before, nor have I had an opportunity to read it before transmitting it to you.

The other binder contains a copy of an application that Mr. Lambert recently submitted to Mr. Straus in behalf of the Princeton Housing Authority. Mr. Lambert showed me a copy of this shortly after it was submitted to Mr. Straus.

Yours sincerely,



Hon. Marriner S. Eccles, Chairman
Board of Governors of the Federal Reserve System
Washington, D.C.

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Memorandum on Low-Cost Housing

A Suggested Method of Financing and Proposed Legislation

If a sincere effort is to be made to stimulate industry and increase employment, the activity most susceptible to wide expansion is the erection of dwelling units for an income group for which new dwellings have never been provided. This is the income group that pays an economic rent of between \$5 and \$10 per room per month. For the next decade, at least, the potential market afforded by this group would be unlimited.

Inasmuch as conventional methods of financing have never provided new dwellings for this, the largest single urban group in the country, different methods of financing must be used to reach it.

There are two major cost factors that have prevented private enterprise from supplying the needs of this available market. They are:

1. The existence of a speculative equity in practically all schemes for erecting dwelling units.
2. The necessity of adding full local taxes to the rent or to equivalent purchase payments.

Speculative equities can be entirely eliminated, and local tax costs in rent minimized, by Federal legislation as follows:

(a) Speculation Eliminated

The investing capital agrees to give ownership of the project to the municipality when the original development cost has been amortized (with interest or dividends of not more than 4 per cent) from rents. Any excess is to go to the Government in taxes.

In exchange the municipality agrees to lessen annual local taxes by 1 per cent of the original cost.

The Federal Government agrees to have some agency (such as RFC) lend the municipality annually, through the investing corporation, an amount equivalent to 1 per cent of the actual cost of land and buildings. The municipality pledges its growing and final equity in the property to secure the repayment of those annual loans with compound interest.

But inasmuch as the investment capital has given up all speculative equity, and has limited its return to a maximum of 4 per cent, it must have some incentive to act. This incentive is supplied by having a Federal agency (such as FHA) insure all or a substantial part of the principal of the actual amount invested in housing and an interest return of (let us say) 2 per cent.

Under this plan, as speculation is eliminated, the sole motive of the investor is to build permanently and at low cost.

His best assurance of getting the limited return on the investment is to have low rents for a long period.

(b) Tax Costs Reduced.

Tax costs in rents are reduced without loss to the Federal Government or to the municipality. This is accomplished by having a Federal agency finance annually the municipality's growing ownership in the property. It is reasonable to expect, before construction and choice of sites, that the municipality will agree to the lowest possible assessments, inasmuch as the final equity, after repayment of the 1 per cent annual loans, will lie with the municipality. Under the circumstances, in the average urban communities which make up the largest market, it is likely that the tax burden put on rents will not exceed 1 per cent of the original development cost. In many cases, on unproductive sites, better arrangements can be made.

An Illustration under Proposed Legislation

Cost of family unit—four rooms and bath	\$3,000.	
Level annual payment from rent to amortize investment to corporation and yield 4 per cent for 28 years (\$3,000 x 6%)		\$180.
Maintenance, collection of rents, insurance, etc.		<u>120.</u>
Rent before local taxes		\$300.
Full local taxes (2% of \$3,000) —	\$60.	
Annual loan from RFC (1% of \$3,000)	<u>30.</u>	
Taxes required from rent	\$30.	<u>30.</u>
Total Rent		\$330.
Rent per unit per month.		\$27.50
Rent per room per month		\$6.875

An Illustration with Speculative Capital

Cost of family unit, four rooms and bath - \$3,000.	
80% mortgage--\$2,400 insured FHA	
$4\frac{1}{2} \div \frac{1}{2} \div 2 = 7$ (\$2,400 x 7%)	\$168.
Return on 20 per cent equity--\$600 x 27%	162.
Maintenance, collection of rents, insurance, etc.	<u>120.</u>
Rent before local taxes	\$450.
Full local taxes @ 2% (3,000 x 2%)	<u>60.</u>
Rent per annum	\$510.
Rent per month	\$42.50
Rent per room per month	\$10.625

Note: If reader is sceptical of the return of 27 per cent on the speculative equity, let him ask himself if he would undertake a building venture with less margin set up as an objective in the original rent.

MEMORANDUM ON A PLAN TO STIMULATE INDUSTRIAL ACTIVITY BY RESIDENTIAL CONSTRUCTION

Submitted to Edward J. Noble, Department of Commerce,
May 22, 1939

* * *

Copies of documents attached herewith:

1. Chart of residential construction and other industries.
2. Memorandum of Plan.

This Memorandum is substantially the same as one submitted to the President and the Treasury Department in the fall of 1938.

3. Draft of Proposed Bill.

This is the draft of a bill prepared on October 27, 1938, by the Legal Division of the Federal Housing Administration. One change has recently been made - the tax credit is five per cent. instead of ten per cent. of gross income.

4. Letter to Mr. Nathan Straus.
5. Photograph of Princeton Project.
6. Specifications and Cost of Princeton Project.
7. Floor Plan and Plot Plan of Princeton Project.
8. Copy of Pamphlet to Princeton Tenants.
9. Newspaper Clipping on New Brunswick Project.

This is the only drawing available at this date. The clipping is from the New Brunswick Home News of April 27, 1939.

10. Editorial.

Clipping of New Brunswick Times of April 30, 1939.

HISTORY OF THE PLAN

The plan discussed in this memorandum was first proposed in writing to the Administrator of the Federal Housing Administration in August, 1938. Authority to use the facilities of that Administration in developing the idea was immediately granted. Constant discussion and analysis of the proposal proceeded with many economists and individuals in and outside the Federal Government. In October, it was presented to the President, who indicated interest and arranged to hold a further meeting. On October 27, 1938, a tentative bill for introduction to the Congress was drawn by the Legal Division of the Federal Housing Administration. A copy of that bill, with a change in the tax credit from ten per cent. to five percent., is attached herewith.

On November 2, 1938, the President called a meeting at the White House for further discussion. In addition to the President, there were present:

Henry Morgenthau, Jr., Secretary of the Treasury
 John W. Hanes, Under-Secretary of the Treasury
 Stewart McDonald, Administrator, Federal Housing Administration
 Abner Ferguson, Legal Division, Federal Housing Administration
 J. M. Daiger, Financial Adviser, Federal Housing Administration
 Gerard B. Lambert, Adviser, Federal Housing Administration

It was decided that it would be unwise to press for legislation of the bill at that time, because the Administration had a bill before Congress asking for the elimination of tax exemption on all future issues of Federal or State bonds, and the proposed bill on housing contained a tax credit feature.

It was urged, however, both by the President and by Secretary Morgenthau that projects similar to the Princeton operation be extended as widely as possible in the thirty-three States which would permit them

under existing laws. A memorandum was prepared the next day, pointing out that if it seemed politically inexpedient to offer legislation with a tax credit feature, the incentive to capital could be supplied by having a Governmental agency (such as the Federal Housing Administration) insure at least a portion of the return on the investment. No opportunity arose for presenting this memorandum to the President, because it was believed that the Administration did not want the matter of legislation pursued at that time.

News of the Princeton Project spread, and several communities have shown voluntary interest in the plan as a solution to their housing problems. Specifically, New Brunswick, New Jersey, after careful study, has decided to go ahead with an experimental project for fifty families.

It must be understood that the creation of the Princeton Project, and any similar one, is for the primary purpose of demonstrating that the fundamental financial aspects of the original proposal do actually solve the problem. The use of the local housing authority is simply a device to bring about the requisite elements which can be produced more simply and with wider application by Federal legislation. In Princeton, the bonds of the housing authority are tax exempt and thus supply the incentive. The housing authority's agreement to turn the project over to the municipality after amortization is entirely voluntary.

SUPPLEMENTARY PLAN

In March, 1959, a supplementary plan, employing the facilities of the United State Housing Authority, was evolved. An outline of that suggestion is given herewith in a letter to Mr. Nathan Straus, Administrator of that agency.

Procedure

Under the circumstances, it is clear that it would be wise to have one or more projects actually constructed which would employ the financing technique suggested to Mr. Straus. These would be in addition to the Princeton and New Brunswick projects, which are financed entirely with private capital and require no Government cooperation. With this housing in actual operation, the Administration could decide whether the results obtained justified⁴ legislation which would lead to a wide extension of the principle.

The Economic Need

An increase of residential construction, primarily by private capital, is the best point of attack on the present industrial stagnation. Activity in this field is relatively lower than in any other major industry, and it is therefore most susceptible of expansion. See chart attached herewith.

Capital has been accused of deliberately remaining in hiding. One answer to this charge is that the country is already over-expanded in most industries, and requires no further investment. The plan submitted herewith is offered to create an entirely new market for investment, and one which is capable of development for years to come. This market is one that, speaking generally, has never been entered by private investment capital. It is the market for new residential construction for families whose incomes force them to pay, in rental or equivalent purchase payments, between \$5 and \$10 per room per month.

Requirements for Solution of this Problem

If nation-wide residential construction by private

capital for this income group is to be achieved, five things are necessary:

- I. Rents, or equivalent payments, which reach a new low income group.
- II. Elimination of the Speculative Motive.
- III. Incentive for idle investment funds.
- IV. Creation of large building corporations to bring about marked economies.
- V. Government aid, but not necessarily Government loss.

I

Residential construction in the decade from 1920 to 1930 averaged more than four billion dollars per year. It is evident that most of this construction was of family units costing more than \$4,000 each. Under our present economic conditions, it is futile to attempt to get any such amount of investment in that cost bracket. The same industrial result can be brought about, however, by erecting new units to rent or sell to families in an income group who cannot consider the purchase or rent of a new dwelling under conventional methods of finance.

II

It does not seem to be generally recognized that one of the major deterrents to low rents is the fact that practically all of our rental housing, which pays an economic rent, is built by speculative capital. It is thought that with present low mortgage rates, under Federal Housing Administration insurance, low rents will result. Practice

does not show this to be true. The speculative builder, quite properly, tries to set his rents to bring a handsome return on his equity money. This point is illustrated below. A profit of twenty-seven per cent. on the equity is presumed. There is plenty of evidence that this figure is often exceeded.

With the investment of \$100 in cost of land and buildings

With Speculative Capital

\$20	\$100	\$80
Speculative Equity earning 27%	Mortgage - amortized at 7% ($4\frac{1}{2} + \frac{1}{2} + 2 = 7$)	
\$20 x 27% = \$5.40	\$80 x 7% = \$5.60	
	\$5.60 Debt service	
	5.40 Equity return	
	\$11.00 or 11% charges before maintenance.	

Thus, if speculative capital refused to build without at least twenty-seven per cent. (let us say) return, the financial charges are \$11 or eleven per cent. on the total investment in the project.

Under Proposed Plan

Full ownership by investment capital

\$100

A level payment of six per cent. per annum will retire \$100 in twenty-eight years and yield four per cent. on all outstanding balances. This figure is used for convenience. A shorter amortisation period only raises the rate.

$$\begin{array}{r} \$100 \\ \underline{\quad 6\%} \\ \$6 \text{ or } 6\% \end{array}$$

Putting it another way - it is extremely unlikely that speculative capital will build new dwellings with the understanding that

the return on equity for amortization and interest shall be limited to six per cent.

III

As conventional financing has not brought about a revival of the building industry, some new approach must be found. The approach offered in this plan unquestionably achieves low rents by eliminating speculative equity and by the total elimination or lowering of local taxes. If capital is to give up all speculative possibility, it must have some alternate incentive to make the investment. That is to say, the machinery which we have devised will certainly bring the low rents which are our objective, but we must apply something to make the machinery run.

The primary recommendation is that this incentive be a tax credit. It is the soundest method, for there is no expenditure of Government funds, no contingent liability of the Government, and it will tap a vast heard of idle capital. Furthermore, it can be shown that, even with the tax deduction, the net revenues of the Government will increase. In a memorandum attached herewith it is pointed out that a tax credit avoids all of the conventional objections (some of which are emotional) to tax exempt bonds.

A second, but less satisfactory method, would be to apply the incentive by Governmental insurance of the principal and a portion of the income of corporations especially authorized to operate under this plan. Such insurance is occurring in many forms to-day under the present Administration. Unfortunately, it would not be as free an operation of private capital as would result under the tax credit suggestion.

Conclusion

The first three of the above five objectives have already been achieved in a demonstration under this plan. The operations of the Princeton Project, finished in December, 1958, and having rents of \$6.25 per room per month, prove this statement. It was built with private capital that for years has been on deposit in a bank, bringing the Federal Government nothing. The municipal authorities of Princeton admit they will receive a value greater than the local taxes which have been deferred. Thus, there is no Federal or State subsidy. The statement is further confirmed by the project in New Brunswick, New Jersey, about to enter the construction stage. The figures for costs and rents are the same. The incentive in these two demonstrations is provided by exchanging the property for bonds of a local housing authority. These bonds, yielding four per cent., are free from State or Federal taxes.

The last two objectives can be obtained only with the cooperation of the Federal Government.

OUTLINE OF A PLAN TO INTEREST PRIVATE CAPITAL IN

THE CONSTRUCTION OF LOW-COST HOUSING

The Problem

In his message to Congress on November 27, 1937, the President said:

"The long-continued lag in building is a drag on all industry and trade. This presents an urgent problem which is the common concern of industry, labor, and government. All business needs the infusion of orders and the diffusion of purchasing power that come when building is thriving. Great numbers of people look directly or indirectly to the construction industry for employment. This industry, to a greater extent than any other, can put idle funds to work and thus speed up the circulation of the Nation's money supply. This, in turn, would increase national income, reduce unemployment, and as a result contribute toward a balancing of the Budget."

This quotation may be supplemented by the statement that if private capital does not provide sufficient housing in the lower income groups, expenditures of State and Federal funds to meet an insistent demand will increase the burden on the taxpayers of the country.

Object of the Plan

The object of the plan outlined in this memorandum is to induce a form of capital, not now actively employed in housing,

to invest large sums in low-cost housing. The capital referred to is that which is ordinarily invested at a low rate of interest, and which could not be induced to engage in purely speculative building. A further object is to employ this capital in the form of large corporations, so that the obvious advantage of quantity building and operation may be utilized.

The Market Available

Generally speaking, private capital has never erected new dwelling units for rental or for sale which are planned for immediate occupancy by those in the lower income groups; hence a large untouched market exists in this field. Of the 12,000,000 urban rental families in the country---

4 million pay rent of less than \$5 per room per month
5 million pay rent from \$5 to \$10 per room per month
3 million pay rent of more than \$10 per room per month

For the first group some provision is being made by the activities of the United States Housing Authority, although the recent appropriation for that purpose will eventually take care of only about 200,000 families. Of the last group only about 60,000 families are in prospect of being provided for by the erection of rental units. The very large undeveloped market is for those families in the middle group paying rent from \$5 to \$10 per room per month---a monthly rental of \$20 to \$40 per family unit.

The Plan

If private capital, not now engaged directly in building, could be directed to the huge market not now being touched, the result on our national income would be equivalent to the discovery of a new industry. The plan proposed herewith should accomplish that result.

It is suggested that a new type of corporation shall be recognized in the Revenue Act. For the purpose of this memorandum, these corporations will be called investment housing corporations.

Securities of the investment housing corporations would be limited to a maximum return of 4 per cent. on the capital invested, and no profit could accrue to the corporation or investor beyond this income either during the period of operation or at liquidation. To accomplish this, it is proposed that funds invested by the corporation in housing properties shall be repaid to the corporation in equal periodic payments over a period of years predetermined with respect to each housing property.

That is to say, the corporation will receive annually from each property an even amount sufficient to return the capital over a period of years and yield 4 per cent. on the amount of money still invested in the property in any one year. When the revenues from any given housing unit have resulted in the repayment of the capital and a maximum of 4 per cent. thereon, the unit must be

turned over to the community if the houses were built for rental purposes, or to the occupants if built for sale.

In the case of a rental project that is to be turned over to the community after the retirement of the capital, it is reasonable to expect that, before the project is undertaken, arrangements could be made with the municipality, because of the assured acquisition of such a valuable asset, to accept local taxes only in the amount required for essential services to the property. This saving in current taxes would reduce one of the substantial charges which make for higher rentals, and yet the arrangement would eventually afford the municipality a property producing for it a revenue exceeding that ever expected from taxes.

In other words, the community acquires a capital asset and a source of revenue, which together may justify a marked reduction in local taxes. The community can, of course, use its discretion in the case of each housing unit, as it would have no forced obligation under the Federal law. The eventual ownership by the communities of properties of this sort would constitute a distinct advance in social control. In fact, it would be advisable to provide that the community may, in its discretion, obtain a property at any time after 15 years from the date of its construction by payment of the outstanding amount of the invested capital.

The required release of the title to the property eliminates all desire or possibility of speculation, and in doing

so permits lower rents or lower monthly payments. A study of rental projects now being built by private capital discloses that the desire for speculative profit is a very large factor in the prevention of low rentals.

It is proposed that corporations under this plan shall have no mortgages, thus eliminating the various charges, other than interest and amortization, which are incidental to mortgage financing.

After providing for current dividends, the corporations would be permitted to set aside at the end of any year, as a reserve for deficiencies of amortization and dividends, an amount equal to not more than one-half that year's requirements for amortization and dividends. The reserve so accumulated, however, would not be permitted to exceed at any time an amount equal to twice such requirements for any current year. Any earnings remaining after provision has been made for this reserve would be paid as a tax each year to the Federal Government.

It is further proposed that, as the amortization with respect to any housing property is completed, the accumulated reserve shall be proportionately reduced and the amount of such reduction paid as a tax to the Federal Government. In the event of dissolution or liquidation of an investment housing corporation, all funds remaining after repayment of the invested capital and annual dividends of 4 per cent. to the date of such dissolution or liquidation would be paid as a tax to the Federal Government.

With such a plan as outlined, no speculative profit would be possible for the investor. The security for the investment would be sought by reaching the mass market of the low income group. Such an objective offers an incentive for capital in large blocks to use its facilities to lower building costs by quantity buying of materials, improved methods of building, and steady employment of labor.

Control of Earnings

It is proposed that, although the rate of return for these securities may not exceed 4 per cent., the rate for any new issue may, if circumstances warrant, be made less than 4 per cent. by joint action of the Secretary of the Treasury and the Federal Housing Administrator. This provision would prevent any possible conflict with Federal financing, and also would afford effective control by the Government if further expansion of these corporations is considered inadvisable.

Inducement to Capital

Having set up the mechanism which in operation would certainly provide new housing for the income group not now being reached, it is essential to include in the plan a factor that is a strong inducement to capital to make the investment. This is true because, as outlined, the plan requires capital to limit its return---to give up all chance of profit---to forego any guarantee

of its investment or earnings--and to offer control of its rate of return and future expansion to a governmental body.

The inducement should be consistent with the policies of the Administration and of the Treasury Department. It should also be of a character which will actually attract capital in large amounts and for continuing periods. The inducement suggested herewith complies with these requirements.

It is proposed that all revenue accruing directly to individuals from these corporations shall be subject to all Federal income taxes, but that on account of the public good resulting from the investment a reward or subsidy be permitted in the form of a deduction from the total income subject to surtax, the deduction to be the amount of income from these corporations, but in no case to exceed 5 per cent. of the aggregate income from all sources, including tax exempt securities.

For example, if an individual has an income from all sources of \$100,000, and it is derived as follows: \$40,000 from tax exempt bonds, \$10,000 from common stock, and \$50,000 from securities of these investment housing corporation, a deduction of \$5,000 is permitted from the income subject to surtax before calculating the surtax. If only \$5,000 of his income is from these corporations, a deduction of \$5,000 from the income subject to surtax is permitted.

In the case of a corporate investor, it is proposed that, before calculating the Federal corporation tax, a deduction

shall be allowed of 85 per cent. of the amount received as dividends from the investment housing corporations, but in no case shall the amount upon which the 85 per cent. deduction is calculated exceed 5 per cent. of the aggregate income from all sources, including tax exempt securities.

It is clear that these provisions make it impossible for corporations or individuals of high income to retire behind these securities in an effort to avoid their proportionate share of Government expenses. Corporations holding such securities do not present any surtax problem. In the case of the investment housing corporations themselves, the very nature of their operations would suggest that the Federal Government require them to pay only the tax resulting from their earnings in excess of the authorized dividends and reserves.

Consistency

It has been stated above that the proposed inducement to capital would be consistent with Government policy. This statement is true for two reasons:

1. The Government has found it wise and necessary to offer some aid to promote various housing activities. In the case of the United States Housing Authority, very substantial subsidies are offered. In the case of the Federal Housing Administration, a contingent liability is undertaken. The assistance or subsidy suggested here applies to the income groups lying

between those benefited by the activities of these two agencies. In this case, however, the operation of the plan results in no disbursements by the Government, no contingent liabilities of the Government, and in fact an increase in the net revenue of the Treasury. This increase in revenue comes from Federal taxes on the stimulated industrial activity resulting directly from the investment, and that increase can be shown to be greater than the tax deduction allowed.

2. Granting of tax deductions, as proposed for an inducement, is not inconsistent with the President's message of April 14, 1938, because the usual objections to tax exemption do not apply. The usual objections to exemption are as follows:

a. Tax exemption has a tendency to withdraw funds from active industry.

Under this plan, on the contrary, capital would be withdrawn from an inactive state to stimulate an industry readily susceptible of expansion.

b. Tax exemption results in a decrease in the revenues of the Treasury.

Under this plan there would be a net increase in the revenue of the Treasury, not otherwise obtainable from the building industry.

c. Tax exemption on municipal issues has a tendency to bring about unnecessary increases in the debt of communities because of ease of borrowing.

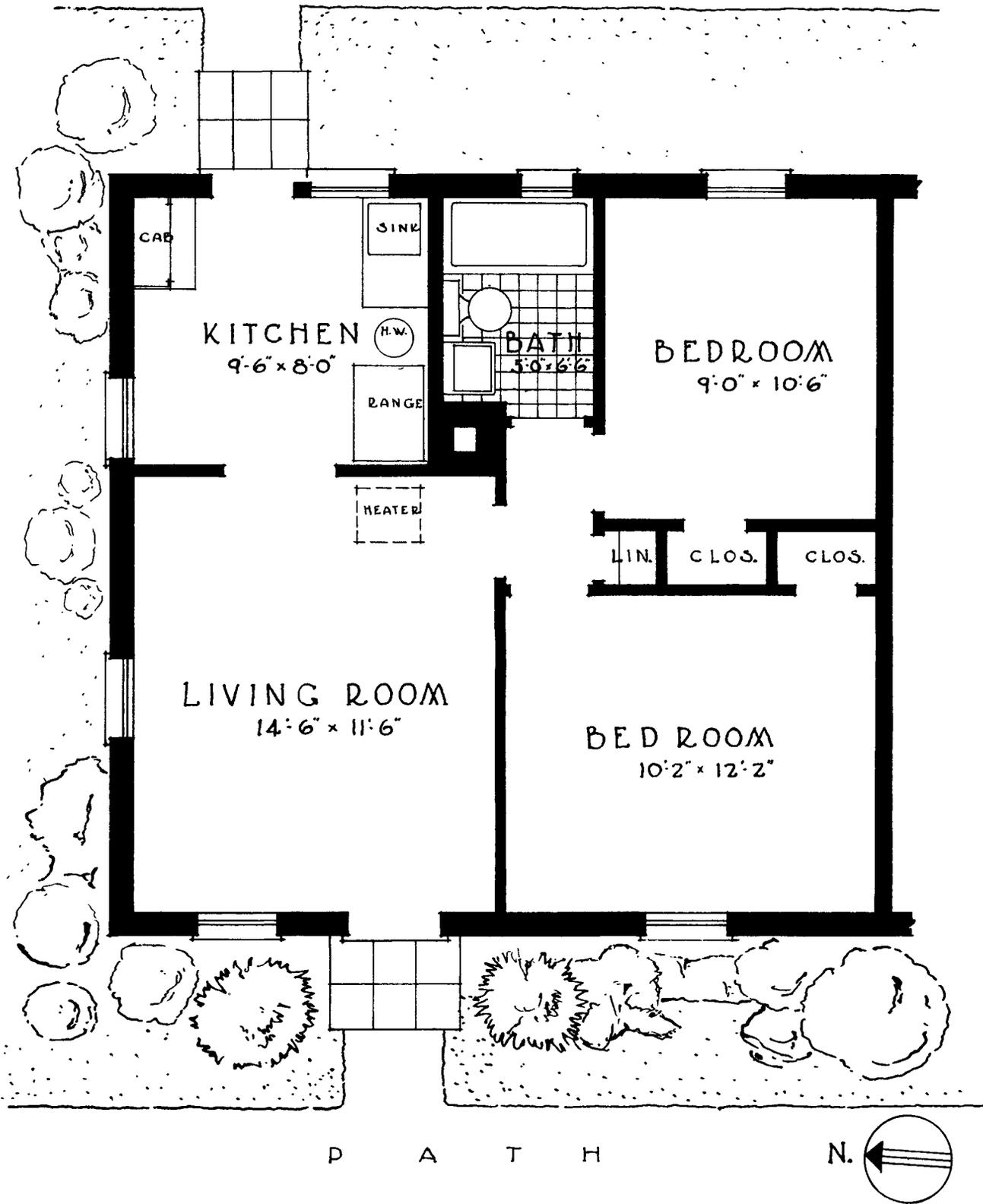
Under this plan no new debt to the municipalities is involved. On the contrary, they will receive a permanent asset and a new source of revenue. Moreover, any unearned increment in the properties will run to the municipalities rather than to private owners.

d. It is socially wrong that wealthy persons may completely avoid their share of Government and State expenses by investing in tax exempt bonds.

Complete or even a material avoidance of income taxes is impossible under the plan proposed. The tax deductions proposed are in return for a direct social and economic benefit. The deductions are earned only as funds are employed in the construction and operation of new housing for low-income groups.

In Conclusion

The most important single step necessary to achieve low-cost housing with private capital is the creation of large investing corporations, employing their financial resources and technical skill to lower building costs. The proposed plan should bring about this desired result. It is essential, however, that all component parts be permitted to function in combination, otherwise the present untouched market will not be reached.



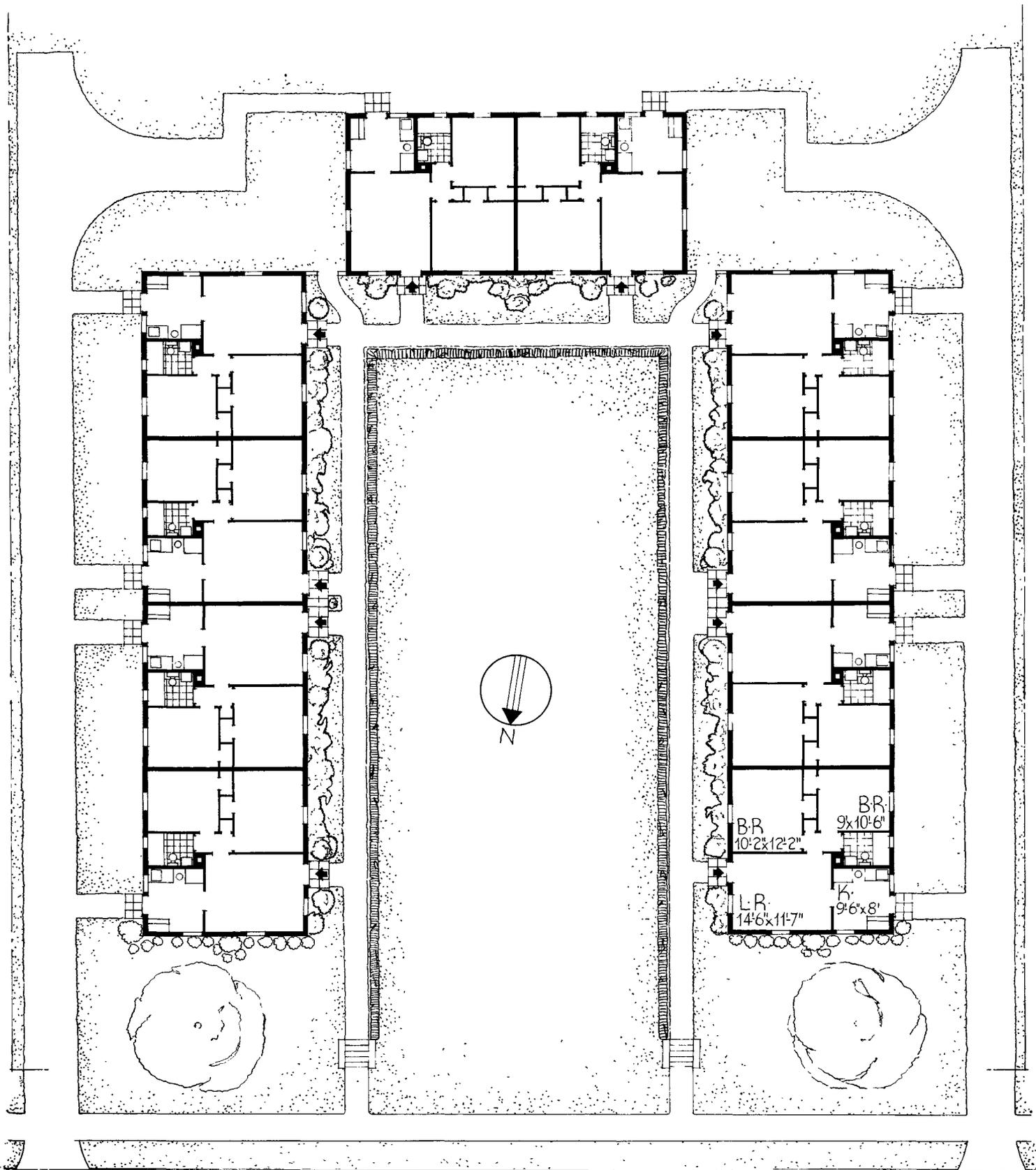
• P L A N • O F • T Y P I C A L • U N I T •



POWELL & MORGAN
ARCHITECTS

• L A M B E R T • H O U S I N G • P R O J E C T •

• P R I N C E T O N • N E W J E R S E Y •



F R A N K L I N A V E N U E

• G R O U P P L A N •



D O W E L L & M O R G A N
- A R C H I T E C T S -

• L A M B E R T • H O U S I N G • P R O J E C T •
• P R I N C E T O N • N E W J E R S E Y •

COPY

SPECIFICATIONS

Housing Project on Franklin Avenue, Princeton, N. J.
Matthews Construction Company, Builders
Completed December 1, 1938

FOOTINGS - 6" x 20" - 1:3:5 concrete

FOUNDATIONS - 8" cinder block

BRICKWORK - Veneer - 2nd hand brick laid on edge in 1:1:6 mortar with one galvanized corrugated tier for every two square feet surface.
Common brick - chimneys laid in 1:1:6 mortar with fire clay flues and cleanout doors.

ROUGH CARPENTRY - Framing #1 common fir of sizes shown on drawings
Roof sheathing - 1 x 8 N. C. T&G
Rough floors - 3/4" vapor seal Masonite fastened with galvanized nails.
Wall sheathing - 3/4" vapor seal Masonite fastened with galvanized nails.

LATH & PLASTER - Exterior walls - 1/2" Masonite insulating lath
Interior walls & ceilings - 2.8 paper backed Steelcrete lath.
Plaster - two coat work - gypsum plaster with brown coat trowelled to a smooth finish
Plaster work in bathrooms - two coat Portland cement - smooth finish.

FINISHED FLOORS - #2 Red oak 13/16" x 2 1/4" face laid with cut nails over 30 lb. asphalt felt - machine sanded.

ROOFING & SHEET METAL WORK - Flashings - 16 oz. soft copper base and counter flashings - with full pan type turned up into flue of chimneys.
Slate - 1/4" rough thick Bangor slate laid with galvanized nails over 30 lb. asphalt felt.
No gutters or leaders required.

MILLWORK - Windows - stock frames and sash of sizes shown on drawings.
Exterior doors - 6 panel stock 1 3/4" thick
Interior doors - 6 panel stock 1 3/8" thick
Trim - 3 5/8" Sanitary
Jambs - 1" stock with loose stop moulds
Closets - pin rail, shelf and wood closet pole

HARDWARE - Butts - sheradized stock
Door sets - Schlag with locks on front and rear doors only.

PAINTING - Walls of living room and bedrooms papered.
Ceilings two coats of Casine paint
Baths and kitchens - three coats of lead & oil paint
Interior trim elsewhere - stain & one coat of flat varnish
Floors - two coats of Minwax
Exterior woodwork - prim and two coats of lead and oil paint
Brickwork - U. S. Government formula white wash.

ELECTRIC WORK - Four circuit panel in kitchen with plug type fuse.

Meter placed on end of each building with service carried
along face of rear cornice to panel of each unit
Service cable - G-E entrance cable or equal two wire.
Sub-feeders - non metallic sheathed cable
Boxes - standard enamel
Switches - tumbler type
Fixtures - Chase Brass Company - as selected
Door bells - front and rear on transformer

SCREENS - Windows - top hung wood frames bronze wire
Door - stock -1 1/4" wood frames bronze wire, standard black
enamel hardware.

PLUMBING - Soil lines - medium weight cast iron
Water lines - copper tubing, brazed joints
Water closet - Kohler #10K-6160-PR - Tank K-6798
Sink & Laundry tray - 42" K-1635 Penfield, Combination sink
and tray
Lavatory - Kohler 20 x 18" K-230 Hudson
Gas water heater - #40 Sands with 30 gallon galvanized boiler
Gas Range - Quality Model 2300
Bath tub - Kohler 48-C Cardinal

HEATING - Oil fired convection unit manufactured by Motor Wheel Corpora-
tion, Lansing, Michigan - Model Duo-Therm 606-8 with
rating of 37,500 B.T.U. per hour
Storage - 275 gallon capacity tank mounted on pipe legs
Gravity feed through copper tubing
Unit burns #2 fuel oil.

COPY

HOUSING PROJECT ON FRANKLIN AVENUE, PRINCETON, N. J.
Matthews Construction Company, Builders
Completed December 1, 1938

Furnishing all labor and material for the work in accordance with plans and specifications prepared by Powell & Morgan, Architects, New York City -

Field overhead	\$1,668.50
Rental of tools and transportation of power equipment	97.50
Strip and stack top soil	210.54
Excavation of footing trenches and porch foundations	145.50
Backfilling	54.70
Excavation for water trenches	64.50
Concrete footings	250.63
Porch platforms	117.43
Cinder block foundation including parging	563.29
Cinder block firewalls	267.78
Common brick work including flues and cleanout door	470.14
Brick veneering	1,110.43
Concrete chimney caps	23.25
Furnishing and placing lathing and corner beads	751.16
Plastering	1,235.83
Foundation vents and lintels, furnished	67.29
Poles for electric line	21.73
Floor framing - labor only	151.08
Roof framing - labor only	247.16
Exterior wall studding - labor only	170.53
Partition " " "	211.50
Celotex - rough floors " "	101.96
Celotex-sheathing walls " "	97.10
Roof sheathing	188.57
Placing plaster grounds " "	76.45
Placing nailing cleats for celotex - labor	15.76
Rough window hardware - furnished	52.21
Nails	85.60
Lumber delivered to site	1,770.52
Millwork - furnished and placed	2,293.63
Window screens - furnished and placed	175.31
Window shades " " "	74.85
Electric wiring and hanging fixtures	525.75
Electric fixtures - furnished	179.79
Insulation - furnished and placed	444.00
Painting	1,772.00
Finished hardware - furnished	286.08
Roofing & sheet metal work	1,350.00
Finished wood floors - furnish and lay	860.00
Plumbing and heating	4,650.00
Clothes dryers - furnished and placed	36.55
Furnished and placed bath accessories and letter boxes	94.82
	<u>23,031.42</u>
Builder's fee	<u>1,857.00</u>
Actual Construction	\$24,888.42

Actual Construction	\$24,888.42
Cost of Land	2,000.00
Architect's Fee	500.00
Grading and Roads	949.65
Finished Grading	54.34
Sewers and manholes	750.00
Parking yard	105.00
Tool House	243.29
Fire Insurance	11.24
Landscaping	<u>497.56 +</u>
Total	\$30,000.00

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Photograph No.

SAMUEL H. GOTTSCHO

150-35 86th AVENUE

JAMAICA, NEW YORK

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An Explanation

for the tenants of the Franklin Avenue Project of the Housing Authority of the Borough of Princeton.

THE project consists of ten dwelling units which, with land, cost \$30,000, or \$3,000 per family unit. It was built as a demonstration that private capital may wisely invest to create new dwellings to be occupied at once by families whose income requires them to pay less than \$10 per room per month.

The units, each with four rooms and bath, will average in rent about \$25 per month, or \$6.25 per room per month. This is considering them as separate houses, where the tenant usually provides heat. If compared to apartments, when heat is supplied, the comparison would be about \$28 per month, or \$7 per room per month. The tenant's fuel is estimated to cost \$3 per unit per month. Actually they are not like apartments, for each family has its own entrance and enjoys the common landscaping and adequate sunlight and air.

Individual hot water boilers and heating plants have been installed to enable the tenant to control expenses. A central plant supplying all houses would require a fixed amount in the rents, and would prevent the opportunity of exercising economies which come from individual control of these expenses.

These low rentals have been achieved by eliminating some of the factors which lead to higher rents. The obstacles which had to be removed were as follows:

1. HIGHER RENTS OFTEN COME FROM THE SPECULATIVE DESIRE TO GET AS MUCH AS POSSIBLE FROM THE OWNERSHIP OF THE PROPERTY.

This desire is entirely legitimate, as we must have the profit motive, but for the purpose of solving the problem of low cost housing the possibility of any speculative profit was eliminated.

This elimination was accomplished by having the investor agree to limit his return on the investment to the receipt from the rents of the same amount each month for 28 years, *and no more*. That is to say, \$15 per unit per month for 28 years will gradually pay back the \$3,000 that it cost to build a unit, and four per cent interest on the amount still invested in any one year. In other words, the financial charges are limited to \$15 per month per unit, and at the end of 28 years the money will be paid back with interest of 4 per cent at all times. With the invested money repaid, the investor has no further interest in the property and he has arranged to have it pass, without debt, to the Borough of Princeton.

To this \$15 per month is added \$10 per month for maintenances, collection of rents, repairs, fire insurance, etc. However, no matter what amount is required for maintenance, etc., the investor can never receive more than the sum of \$15 per family unit per month.

2. LOCAL TAXES GO INTO RENTS.

As the investor agrees to give the buildings and land to the Borough at the end of 28 years, the Borough will receive a property higher in value than the amount of the local taxes during that period. Therefore, although the Borough receives no taxes, yet it can lose nothing, because it gets the land and buildings in exchange for taxes.

3. AN INDUCEMENT MUST BE OFFERED TO THE INVESTOR TO PERSUADE HIM TO INVEST AT 4 PER CENT WITH NO CHANCE OF SPECULATIVE PROFIT.

This inducement is created by having the Housing Authority of the Borough of Princeton acquire and operate the property. The Housing Authority has agreed to give bonds of the value of \$30,000 to the investor in exchange for the property. As the finished property actually cost \$30,000, there is no

profit in the transaction. These bonds bear interest at 4 per cent for 28 years on the amount of the investment outstanding each year, and also yield an amount which will repay the original investment from year to year for 28 years. As the bonds are an instrumentality of the State of New Jersey, and for a public purpose, they are free from all State and Federal income taxes. An income of 4 per cent free from income taxes is attractive to the investor. (Incidentally, as the money invested in this property was lying idle in the bank the Federal Government was receiving no income upon it. Millions of such funds are lying idle, and they could be employed in this way to stimulate industrial activity, with the resulting increase in taxes to the Federal Government.)

The net result of the plan, therefore, is that the Borough of Princeton pays out nothing and contracts no debt, the Federal Government pays out nothing and contracts no debt, and the investor is getting a good investment.

MAINTENANCE AND COOPERATION

An interesting feature of the plan is that, as the tenants determine to a large extent the amount required for maintenance and collection of rents, they may bring about lower rents by cooperation with the management of the property. That is to say, as the amount required from rents to pay bond interest and retirement of capital is a maximum of \$15 per family unit per month, and as no profit beyond that figure can go to the investor, a reduction in maintenance, etc., can result only in a reduction of rent. It is, of course, necessary to maintain a reasonable reserve above \$15 per month for contingencies and for fire insurance.

In general, however, prompt payments of rents, thoughtful care of the property, and possibly contribution of labor for gardening and minor repairs, will render the need of this maintenance charge largely unnecessary. On the other hand, excessive abuse of the property, slow rent payment, and a lack of cooperation can only be met by increasing rents.

The significant element of the plan is that, whichever of these two extremes exists, the amount of money coming to the investor remains the same—namely \$15 per family unit per month.

The buildings referred to in the above rental project, known as "Franklin Terrace", are a product of Princeton institutions. The builder was the Wm. R. Matthews Construction Company. Electrical work was by George Karch. Painting and papering was by Morris Maple. Architects were Powell and Morgan of New York (Alexander P. Morgan, Princeton '22). Landscaping was by George Drummond of Princeton.

Construction was of standard materials throughout, and only union labor was employed. Walls are of brick veneer on concrete foundations. Buildings are insulated with Celotex and rock wool, are furred, plastered and papered. Floors are of oak and roofs of slate. All plumbing is copper. Units are separated by a fire wall of eight inch concrete block, affording substantial sound proofing.

November 15, 1938

These articles are protected by copyright and have been removed.

The citations for the original articles are:

Daily Home News (New Brunswick, NJ), "Proposed Plan for Low-Rental Housing Units Here," April 27, 1939, p. 1.

Daily Home News (New Brunswick, NJ), "Housing Board Votes to Carry Out Project: Authority Definitely Approves Erection of Low Rental Units with Private Capital; Merchant Submits Plans for Two-story Buildings and Cost," April 27, 1939, p. 1

New Brunswick Times (NJ), "New Brunswick's Answer to Nathan Straus," April 30, 1939.

COPY

March 17th, 1939.

Nathan Straus, Esq.,
Shoreham Hotel,
Washington, D. C.

Dear Mr. Straus:

Complying with your request on my visit to your office on March 15th, I am reducing to writing my proposal made briefly that day. The proposal in no way suggests an alteration of the work on low cost housing and slum clearance which you are doing today, but offers merely a plan for the expansion of that work in a slightly higher income bracket. The justification for the proposal is that it would stimulate the building industry, reduce unemployment, and provide housing for a group now possibly ineligible for your very lowest rents, but who are nevertheless unable to cause private capital to provide decent dwelling accommodations. See Section 2 (2) of the United States Housing Act.

This letter is being written in Princeton, and of necessity is informal, but it should accomplish our purpose of presenting the matter for thorough discussion by you and your associates. Having no connection with the Housing Authority of the Borough of Princeton I cannot speak officially for them, but I am taking their only housing project here as an illustration to bring out the proposal.

The Object of the Proposal.

The object is to stimulate wide building activity and in doing so to provide additional low rent housing. This is accomplished by removing the objections that municipalities have to exemption of housing projects from local taxes for a period up to 60 years, and by providing many more units per taxpayer's dollar. Under this plan the municipality receives the equivalent of full taxes on property otherwise not built, plus a speculative equity in the project. In reality, the erection of projects under this arrangement increases revenues of the municipality immediately.

Furthermore, by acquisition of the land and buildings in a relatively short time it acquires social control over low rent properties. (In Princeton, the Borough may acquire the project any time after 15 years by payment of the outstanding amount on the bonds. All unearned increment accrues to the community and not to a land owner.)

Idle capital in every form, including carefully restricted funds, would find an investment which would employ it in the most generally useful industry - residential construction. The Administration is being asked for ways to do this.

Brief Outline of Proposal.

Stripped of the figures the proposal would operate as follows:

Investment capital voluntarily gives to the municipality all speculative profit in a building project beyond the retirement of the original investment and 4% thereon. In exchange, the municipality gives up local taxes for that speculative equity. These local taxes are then deducted from the rents - assuring thereby the safety of the investment capital. The Federal Government uses its superior credit to finance for the municipality its growing equity in the project, thus providing immediate funds in lieu of taxes, and using the property, after retirement of its construction debt, as security for that financing. The Government's contribution to the cause is the interest charge on financing that immediate credit. Private capital provides 80% of the funds.

Present status of Princeton Project.

There are ten family units, of four rooms and bath each, renting for \$25 per unit per month. Of this \$25 of rent, \$15 services the bonds, and \$10 is for maintenance, collecting rents, etc. Tenants supply heat through individual heating units at about \$18 per year.

This project was built by the writer from personal funds at a cost of \$30,000. When completed and rented, title was assumed by the local housing authority and \$30,000 of bonds of the authority were given me in exchange.

Each \$1,000 bond carries 28 coupons of \$60 payable each year for 28 years, thus retiring the bonds and paying 4% interest on all outstanding balances. Being issued by an instrumentality of the State and for a public purpose, they are exempt from all State and Federal taxes. When the bonds are amortized, the land and buildings become the property of the Borough of Princeton. As this property of a housing authority is exempt from local taxes (approximately \$600), the Borough will eventually receive it as a compensation for the remission of those taxes.

The Hypothetical Proposal.

Presume the buildings to be just completed by private capital. To acquire them the Princeton authority applies to the United States Housing Authority for a loan of 20% of the acquisition cost, or \$6,000. This loan is to be amortized over 28 years by a level annual payment of (let us say) \$282, or .047 per cent. The remaining 80%, or \$24,000, is obtained by a mortgage from some lending institution, and may or may not be insured by F. H. A. This mortgage would be amortized by a level annual payment of \$1,440, or 6%.

In addition, the Princeton authority would request of the U. S. H. A. an annual payment contract of \$480 per annum for 28 years. As required by the Act, these payments will be used first for amortization of the \$6,000 loan. Furthermore, the authority pledges that these accumulated payments are to be repaid to the U. S. H. A. after the retirement of the mortgage, and the property may be held to secure that pledge at that time. After payment of this sum, namely \$13,440, any remaining equity will go to the Borough of Princeton. The U. S. H. A. or the Federal Government offers as its contribution the interest required to finance these annual payments through the 28 years. This interest charge is the only expense to the Government.

It is obvious that more dwelling units can be produced per Government dollar with this expense than with an annual payment for 60 years, without recovery of the annual payments or interest thereon. For example, on the Princeton figures used above the Government's aggregate contribution over 28 years would be under 15% of the original cost of the project.

Local Taxes.

With this proposed arrangement the general revenues from rent and from annual payments will permit the local authority to pay the Borough of Princeton an amount equal to 80% of the local taxes, and in addition any equity in the project after repaying the annual receipts from U. S. H. A. In practice, full taxes should eventually be received, and possibly much more.

Security for Loans.

The U. S. H. A. loan of \$6,000 is secured, first by the annual payments, and in turn, those annual payments are secured by the remaining equity in the property. An amount less than 50% of the original cost, namely \$13,440, will meet the aggregate of these payments. Rent schedules provide a reserve sufficient to maintain the property in good condition for the period of the loans.

Compliance with the Act.

The average income of the tenants in Princeton is under \$1,000 per year. They are in the lowest income brackets. Private capital has not formerly provided adequate housing for them. A pronounced shortage of dwelling accommodations in Princeton for this group makes any demolition of existing buildings inadvisable, and so such demolition could be deferred.

Annual payments from the U. S. H. A. bring about the low income character of the rents, and these payments are used first to amortize the U. S. H. A. capital loan of \$6,000.

The Municipality's contribution is in the form of total tax exemption from local taxes. (In practice, the local authority would pay 80% of the tax rate to the Borough in lieu of taxes, this rate being the last rate assessed before acquisition. This action is permitted under the New Jersey Local Housing Authorities Law.)

The annual payments requested are well under the going rate of interest plus 1 per cent of the cost of acquisition of the project.

As I told you, I have resigned from the F. H. A. and am in New York or Princeton most of the time. I should appreciate hearing from you at your early convenience at 250 Park Avenue or in Princeton.

I have never approached any municipality except Princeton on the so-called "Lambert Plan", but an increasing number of them are coming to me for some solution of their problems. The above proposal has been suggested to no one but yourself, and I should be very happy if you find it to be something that fits into your operations and which you may wish to have generate from your office.

Yours very sincerely,

(Signed) GERARD B. LAMBERT.