

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

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Chairman Eccles

Subject: _____

From Emile Despres

*File
Housing*

Attached is a memorandum on rehabilitation of residential areas prepared at my suggestion by R. R. Foster of this Division. Foster points out that a rehabilitation program presents more difficult problems of organization, coordination, and financing than does the construction of new dwellings. Nevertheless, signs of increased interest and activity in this field are multiplying. Even though results at first might be painfully slow, the Federal Government could do much to encourage and facilitate residential rehabilitation work. What is most needed, perhaps, is a reversal of the USHA's affirmative hostility towards rehabilitation projects. The local housing authorities, which are dominated by USHA, are strategically placed to develop comprehensive rehabilitation projects, and statutory authorization exists for using USHA funds for this purpose. Instead, however, USHA's rehabilitation work has been negligible and it has actively opposed rehabilitation projects sponsored by others.

Financing facilities for privately sponsored rehabilitation projects are inadequate. FHA insurance provisions for this type of lending are needlessly stringent, and private lending agencies, for this and other reasons, are hesitant to undertake this type of financing. Moreover, the difficulties in assembling properties for comprehensive rehabilitation of neighborhoods are formidable, and private interests, if they think about the matter at all, are more alive to the obstacles than to ^{the} potentialities. An active promotional campaign undertaken simultaneously by several Government agencies, combined with more liberal FHA insurance provisions, might do a good deal to awaken private lenders and business interests in various communities to the potentialities in this little-exploited field.

Attachment

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REHABILITATION OF RESIDENTIAL AREAS

By R. R. Foster

S U M M A R Y

Current situation

Rehabilitation of residential areas offers one of the most important opportunities today. A well coordinated program could result in increased construction activity, provide sound outlets for idle funds, and raise the standard of housing for a large number of families at low unit costs. Rehabilitation can be carried on in rural as well as urban areas and with varying degrees of private and public participation. Like new residential building, rehabilitation is very much a local problem, yet the Federal Government can help in stimulating a maximum of private investment in this field, with present legislation and at very little cost.

Of the 18,000,000 urban dwelling units, 2,500,000 are indicated by recent surveys as needing major repairs and over 400,000 are unfit for use. Many of these can be repaired and restored at a fourth to a half of the cost of new construction. Also, a considerable portion of the 8,000,000 of the dwellings needing minor repairs can be repaired.

Rehabilitation can include much more than the repair and modernization of dwellings. It can mean rehabilitation of whole neighborhoods in which street realignment, creation of park spaces, rezoning, and adjustment of taxes go along with repair and improvement of the houses themselves.

There have been numerous agencies sponsoring new private residential building and, more recently, publicly-financed slum clearance, but there has been relatively little done toward promoting a comprehensive rehabilitation program. Since 1934 the Federal Housing Administration has insured, up to 10 per cent, repair and improvement loans under Title I on individual properties, and now will insure loans on groups of 16 or more properties under Title II, Sec. 207 (rental housing) where the construction amounts to at least 50 per cent of the amount of the loan. The rates and terms on both these types of loans are not as favorable as they should be. Local housing authorities have been set up in some 300 cities but so far have done practically no rehabilitation work except in connection with the "equivalent elimination" provisions of the U. S. Housing Act. Lending institutions generally have been reluctant to loan for

rehabilitation. A few individuals have undertaken rehabilitation work, but their operations have been relatively limited except in the case of Arthur W. Binns. His efforts over 10 years have resulted in the repair and remodeling of some 500 dwellings in Philadelphia which he rents to negroes at from \$3 to \$5 per room per month, with no Government subsidy. The National Association of Real Estate Boards has a committee, with Binns as chairman, which is urging local real estate groups to launch repair and improvement programs with private financing; some of these are getting under way.

Program

Federal agencies through a concerted program can assist in overcoming two big obstacles in the way of rehabilitation work, (a) inadequate financing and (b) lack of means for coordinated action by local groups involved in blighted and slum areas--home owners, lending agencies, and city authorities.

The Federal Housing Administration should be induced to make even more liberal the terms on insured loans for repair and improvement work. Many old properties in established neighborhoods when repaired and remodeled are as good security as much of the speculatively built new construction. Also, FHA should push the program more aggressively by active promotional work, particularly in field offices directly in touch with lending institutions.

The Home Owners' Loan Corporation should expand to other cities immediately its very valuable program for carrying out neighborhood rehabilitation plans, such as that for the 38-block Waverly project in Baltimore.

Since most of the local housing authorities are (unfortunately) little more than subsidiaries of the United States Housing Authority, and know little else than what USHA tells them, the latter agency should be persuaded or required to alter its negative policy in regard to rehabilitation and actively sponsor it. The local housing authority can be the focal agency in a city for carrying out a broad coordinated program but will not do so to any extent unless USHA's present attitude is radically changed.

The Federal Home Loan Bank Board, Federal Deposit Insurance Corporation, and the Federal Reserve System can aid by bringing to the attention of their members ways in which they can effectively take part in local rehabilitation programs to prevent spread of blight, provide better housing at minimum costs, and protect the security behind their loans and real estate holdings in troublesome areas. There should be continued pressure on all lending institutions to recognize the possibilities, in fact in some instances the necessity, for making rehabilitation loans on more favorable terms.

The opportunity in rehabilitation is a large one. It offers even more difficult problems than new residential building, but interest in the subject is increasing and it appears that much private investment can be stimulated in the near future by action through established agencies, both local and Federal.

URBAN REHABILITATION

Background of problem

Most of the current interest and promotional activity in housing is along two lines: (a) New private construction, primarily to house an increasing or shifting population, at an average cost of \$5,000 or less per unit including land; (b) new public construction, which replaces slums at about the same average cost per unit. ^{1/} Such public construction does not add to the number of units available, as an equal number of slum units are demolished.

Relatively little has been done as yet by either private or public agencies about the important field of rehabilitation, i.e., the repair, modernization, and improvement of houses or even whole neighborhoods now in poor condition. This work often can be done at from \$500 to \$2,000 a unit in cities. In many, but not all, instances, rehabilitation results in a net addition to the housing supply.

If only 1 per cent of the valuation of residential properties were spent annually for repairs and improvements, it would mean an expenditure of nearly a billion dollars a year. Actual expenditures for repairs and modernization work have averaged considerably less than this, in spite of the stimulus of a total of nearly a billion dollars of Title I repair loans insured by FHA since 1934, and FHA's extensive promotional work. Considering that more than 80 per cent of all dwelling units in the country are frame construction, adequate painting and repairs would appear to require more than 1 per cent of the value per year. It can probably be stated as a truism that for a large portion of our housing plant the owners have never spent enough to keep it in proper repair, let alone modernize it.

Banks and other institutions holding mortgages on properties in blighted or slum areas should, of course, be interested in ways and means of arresting the spread of blight and bringing about improvement

^{1/} On 163 USHA projects, including 65,000 dwelling units now under construction, total development cost averages \$4,880, ranging from \$2,800 in certain Southern cities to as high as \$6,200 in some Northern cities.

with a minimum of cost. The Federal Government should be interested in any activity which improves the housing of the country, particularly for medium- and low-income families, and at the same time increases employment and private spending. One of the chief problems is to coordinate the efforts of all agencies involved in any locality to get concerted action on a number of fronts. The recommendations made in this memorandum aim to get such coordination, using to the fullest extent possible, existing agencies and legislation, with a minimum of cost or administrative problems.

Recent developments in rehabilitation work

There are isolated instances of rehabilitation work by private interests, perhaps the outstanding example being that by Arthur W. Binns in Philadelphia. Over a period of 10 years he has purchased some 500 old brick dwellings, mostly row houses, spent from \$1,000 to \$1,500 each to recondition and modernize them, and rented them to negroes at from \$3 to \$5 per room per month--and with a return on the investment "... in excess of 10 per cent after depreciation charges of 5% per annum, all taxes and all operating and maintenance costs".^{1/} Many of the units had been boarded up or were uninhabitable, hence the rehabilitation work raised the standard of housing not only by improving the quality of the individual units but by making additional units available at low rents. Mr. Binns was favored by a special tax situation in Philadelphia which made it possible to buy some of these houses for as little as \$80 or \$100 each, and his operations probably could not be duplicated elsewhere. However, even with a larger initial outlay, it is apparent that there are profitable possibilities for private enterprises in this kind of work. The principal difficulty is that not enough individuals with Mr. Binns' vision, energy, and persistence are interested; but there will be more as the possibilities become more widely demonstrated.

Difficulty in obtaining financing has been one of Binns' chief problems. Unable to borrow from banks or other lending institutions, at first he borrowed from members of his own family and from friends. Even after demonstrating a profitable operation over a period of years he had difficulty in obtaining loans, at any interest rate, until recently. A great deal of exhortation and actual demonstration of the possibilities of making sound rehabilitation loans will be needed to get banks and other lenders even to investigate this field as an outlet for funds, at favorable interest rates and terms.

The National Association of Real Estate Boards is actively sponsoring rehabilitation work, and an increasing number of local

1/ Freehold, April 15, 1939 and Architectural Forum, September 1939.

groups are being formed to carry out the work. In Kansas City, "Civic Housing Inc.", a limited dividend corporation, is being set up to provide low rent housing by renovating old centrally-located properties. The directors include bankers, utility executives, merchants, and real estate operators. A measure authorizing creation of "urban redevelopment corporations" has passed the New York State Legislature, and it is expected Governor Lehman will sign it. These would be limited dividend corporations subject to regulation by a local planning commission or similar body and having the right of eminent domain to assemble properties after obtaining control of 60 per cent of the assessed valuation of property within a selected area.

The United States Chamber of Commerce also have been urging rehabilitation of residential areas, in part as a substitute for public housing.

The FHA has recently made provision under Sec. 207 of the National Housing Act for insuring loans to finance remodeling and rehabilitation work on groups of properties in blighted neighborhoods. Some of this work may be done, but it is apt to be somewhat limited since it depends primarily on the initiative of interested lending institutions. Also, the requirement that construction work must amount to 50 per cent of the mortgage will prevent the refinancing of existing mortgages on old properties requiring only small amounts of repair and renovation work.

The HOLC is the one Federal agency doing something comprehensive about this difficult job--the rehabilitation of blighted areas. It will soon issue a preliminary report of the study made by its technicians in cooperation with the Baltimore Housing Authority, resulting in a plan for rehabilitation of an area of 38 blocks known as the Waverly section in Baltimore. Much of the preliminary work has been done, and active work will start this spring. If this plan can be carried through even the first of the successive stages now planned, it will serve as a most valuable example of city rebuilding--with a maximum participation by private owners and lending agencies, in cooperation with the city authorities. Banks and other lending institutions can well afford to study carefully the principles and techniques developed for this project, even though the problems and their solutions will be different in every city. In this study HOLC has gone much further in getting down to fundamentals of proper land use than any other agency dealing with urban housing.

Other agencies

The Federal Home Loan Bank Board, Federal Deposit Insurance Corporation, and the Federal Reserve System, either jointly or individually, may do much to call to the attention of their member lending organizations the need for looking carefully into rehabilitation work as a means of making sound, profitable loans; of protecting the security behind loans on properties in declining areas; and of improving the value of real estate held. There is an increasing number of examples of actual work accomplished and techniques for carrying out rehabilitation projects which can be made available to the local institutions to assist them in meeting local problems.

The cooperation of the American Bankers Association and the U. S. Building and Loan League should be obtained in promoting interest in this field among their member institutions.

Why has not more rehabilitation work been done?

It is difficult for an individual to do much unless his neighbors also join. In mixed owner-occupied and tenant neighborhoods, the problem of multiple and absentee ownership makes group action very difficult. Few individuals have the zeal to attempt a large-scale rehabilitation program and almost invariably have found it difficult, if not impossible, to obtain financing. In areas largely of rented dwellings, individual landlords often cannot do much improvement or repairs, as they cannot raise rents, and tax valuations may be increased as a result of the improvement. In many cities high property taxes are as important an obstacle to rehabilitation work as structure repair costs, legal difficulties in assembling groups of properties, or the many other problems encountered.

Rehabilitation can be done much more successfully in some situations than in others. If the substandard houses in blighted and slum areas are of frame construction, it is not always economically possible to rehabilitate them, even with some subsidy. This is true especially of row houses. On the other hand, brick row houses usually lend themselves to repair and improvement, if they can be assembled in groups, or a block at a time. Certain types of construction simply are not suitable for repair and modernization, e.g., the old "dumbbell" tenement buildings in New York City and long narrow "railroad flats" found in many cities.

Rehabilitation is less difficult where there is a large supply of old, vacant structures on which to operate than in places like the District of Columbia. Here the pressure of population on housing in the lower rent brackets, particularly in negro sections, is so great that there are practically no vacant structures on which to operate, values are held up artificially, and costs of repair and

improvement work are high. The Alley Dwelling Authority has done some very effective rehabilitation work in connection with some of its projects but has been unable to undertake any very extensive program for the above reasons and because of limited funds.

The problem is not always one of reclaiming a densely populated area, in which congestion of the buildings is a factor in the blighted condition. In some cities the areas are blighted because they are too thinly populated and the people housed in shacks out in suburban fringes. This sort of thing is seen in some cities that were oversubdivided in the last building boom. Miles of streets, sidewalks, and utilities have been put in with only occasional dwellings, built originally by speculative developers as "come-ons" to sell adjacent lots. Typically, most of the lots are tax delinquent, and maintenance of streets and utilities excessively costly. Here the solution may be to concentrate on particular areas and encourage further development there. Others, particularly those not having a heavy investment in water or sewer lines underground, might be abandoned, ^{and} allowed to revert to their best use, such as park, forest, or farming. The taxes would have to be written off, but at the same time maintenance and police and fire protection expense would be reduced.

Government agencies can help to overcome many of the difficulties, the logical agency often being the local housing authority. A few housing authorities are trying to do something about this themselves in addition to the straight slum clearance under the USHA loan and annual subsidy program. Perhaps in time more will see that if they really meet the challenge of the power and responsibility they have as the housing authority for their city, there is no reason why they cannot do a very thoroughgoing job of improving housing conditions by a broad approach, embracing many lines of activity.

Unfortunately most of the local housing authorities so far set up are little more than subsidiaries of the USHA, so thoroughly infused with the USHA philosophy--and so little exposed to any other line of thinking about housing problems--that to date public housing has been little else than the USHA program of tearing down slums, building new, and subsidizing rents. The local authorities think in terms of individual projects rather than a comprehensive city-wide plan for improving housing for as many people as possible. This appears to be so, regardless of the varying nature of housing problems in any city.

Such a limited policy can do little more than scratch the surface of the needs of even the slum dwellers and does nothing for intermediate income groups whose main housing need is not a

new house so much as it is a better house and, often more important, a better neighborhood pattern. In many areas the housing problems are only in part those growing out of structural faults or lack of sanitary facilities, widely cited as measures of substandard housing. More important at times are the problems growing out of improper land use--bad street layout, crowding, poor air, lack of sunlight, lack of recreation facilities, and inadequate facilities for transportation to work. Many of these can be corrected by other less costly means than slum clearance as now carried out.

Since the biggest opportunities for rehabilitation are in large cities and since in the worst areas participation of the local housing authority or some other Government agency is nearly always needed, ways must be found to get the local authorities into this field. Considering the relation of the USHA to the local housing authorities, the USHA thus becomes a key agency for obtaining action.

The problem is to persuade or require USHA to include rehabilitation in its program.^{1/} In fact USHA should develop fully the possibilities for public aid to housing in urban areas, before undertaking, largely for political reasons, its misguided efforts in rural housing. These efforts so far have served only to muddy the waters in the rural field, for which other agencies are equipped to operate much better and at considerably lower cost.

It would be a great gain if the present policy-making group in USHA could be persuaded to incorporate rehabilitation in its program and actively follow it up through the local authorities. The U. S. Housing Act authorizes such work, so no new legislation is needed.^{2/}

If persuasion fails, a "mandate" from Congress might be incorporated in an amendment to S.591 requiring that, of any additional appropriations, a specified part be used in rehabilitation work.

^{1/} A few dwellings have been repaired and renovated but only in compliance with the "equivalent elimination" clause in the act requiring the demolition or repair and improvement of dwellings equal in number to the new units built.

^{2/} "Construction activity in connection with a low rent housing project may be confined to the reconstruction, remodeling, or repair of existing buildings." (U. S. Housing Act, Section 2, Article 5.)

RURAL REHABILITATION

Rural nonfarm

Relatively few of the small towns and villages have housing authorities, and in lieu of some such public agency acting as a "prime mover", any extensive repair and remodeling work depends for the most part on the initiative of local individuals and civic groups. In these places there is usually a higher proportion of home owners than in the large cities, and even the rented properties are owned by local individuals. Thus, much of the responsibility for repair and improvement rests in the home owning group. Here, lending institutions can help by getting local civic groups to act and by providing necessary financing at reasonable rates.

Farm

USHA proposes "rural slum clearance" on farms ".. at about \$2,250 per dwelling, ranging from less than \$2,000 in the South to about \$2,600 in the North ... Tenants of the new farm units will be required to take care of the houses... and for such maintenance work will be allowed an average credit of from \$18 to \$25 a year against the gross rent of the dwelling. Thus actual cash payments of an entire dwelling are expected to range from about \$36 to \$60 a year in the various projects."

For a Government-subsidized program, farm dwelling construction costs of \$2,000 to \$2,600 are far too high. The \$2,250 average is more than twice the average value of all farm houses in the United States in 1930; in some of the Southern States the 1930 average value was less than \$500, and presumably is even lower today. A large proportion of the bad housing on farms is in the South, where, fortunately, housing can be supplied at the lowest cost.

The Farm Security Administration has provided good farm dwellings at half the cost proposed by the USHA, and with no subsidy other than the reduced interest rate and supervision. Farm dwellings can be built for as low as \$100 in certain sections of the country, without subsidy other than supervision, by use of cheap local materials and contribution of most of the labor by the farmer himself.

It is recommended that the present amendment to S.591 allocating \$200,000,000 of USHA loan funds for rural housing be eliminated and that any farm housing program be administered through the Farm Security Administration: (1) under an enlarged Bankhead-Jones Farm Tenant Purchase program; (2) farm rehabilitation loans; (3) sponsorship of self-help cooperatives for group building and repair of dwellings; or (4) a program to supply, at from \$30 to \$500 per family, anything from a simple privy, such as already provided in considerable volume by WPA, to a complete water supply system and indoor toilet facilities, depending in part on the climate and local circumstances.

This might be in the form of outright grants or favorable loan arrangements. Many more families could be helped than under the proposed USHA farm housing program, and without the continuing annual subsidy.

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