

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date April 21, 1938.To Chairman EcclesSubject: Housing Corporationcc Lauchlin Currie*LBC.*

I am attaching a prospectus for a national housing corporation, prepared by Ezekiel. He has left town for three weeks and turned the matter over to me. His idea was to get assurance that the R. F. C. would put in debenture money and then get somebody on the outside, say Averill Harriman, to call a meeting of the executives of a group of large business corporations that Ezekiel had already sounded out, along with some others not yet approached. He talked with a sufficient number of executives to be assured that the thing could be started if the R. F. C. put up half the money. He feels that the corporation could be launched under highly favorable auspices if it could avail itself of the experience of Captain Lord's organization in Farm Security, which has built 5,000 low-cost houses the past year and is shortly due to be disbanded.

Although I doubt if the formation of such a corporation would result in a significant volume of new building in the next year, I think it has enormous potentialities for growth in the future. As the industry is now organized I doubt whether it will permit a substantial and sustained building revival to get under way. Large-scale housing corporations offer the best and most realistic approach toward cost reductions, continuous work, mass buying of materials, etc.

I am afraid this present opportunity will be lost and Ezekiel's preliminary spade work wasted unless somebody like you gets behind it and gives it a push.

Tentative prospectus for a national housing corporation

A. Objective:

1. To build houses in various localities with the economies of mass production (not necessarily pre-fabrication).
2. To purchase materials in large volume at correspondingly reduced unit costs.
3. To employ labor under annual-wage agreements for continuous employment.
4. To sell or rent finished houses at prices low enough to tap the large demand for decent accommodations at \$20 and \$40 monthly payments.
5. To develop in the United States the low cost and large volume that housing corporations have developed in England.

B. Financing:

1. Equity capital. Set up a \$25,000,000 corporation, with initial paid-in capital of \$5,000,000.

This stock will be adequate to handle the construction of up to 10,000 housing units the first year, at a cost ranging from \$2000 to \$4000 per unit. The initial stock to be subscribed by corporations directly or indirectly interested in the housing field. The housing corporation will be under no obligation to use the materials or the products of any industry or concern that has contributed to its financing. On the contrary, it will be free to buy materials of the sort and at the price it finds are most advantageous.

The stockholder corporations will benefit through the large general expansion of building activity, rather than through the immediate but smaller effect on direct orders for their product.

2. Other capital. An initial bond issue up to \$5,000,000 (or possibly preferred stock, if found legal under existing legislation) to be subscribed by R.F.C.
3. Refinancing. Housing units to be constructed and refinanced under F. H. A.-guaranteed loans, up to 80% or 90% of finished value, depending on whether rented or sold.

With the reduced cost of construction possible under the large-scale program, this refinancing would return to the housing corporation almost all its equity capital as the units are completed and mortgages are placed.

C. Operation.

1. Parent and subsidiary corporations. The corporation will operate through local subsidiaries in each city or region selected. The

national corporation will provide plans and house designs, finances, labor relations service, general policy supervision, and purchasing service for materials. The local subsidiary will acquire land, construct the houses or let contracts for their construction, and sell the properties. Where properties are to be leased, they will be sold to a subsidiary local limited-divided corporation, which will be set up as the management corporation.

2. Land acquisition. The land acquired may be undeveloped land in suburban regions, or it may be series of lots in thinly-built subdivisions already equipped with utilities, whichever can be bought to best advantage in each local situation.
3. Selection of cities. Operations will be restricted to those cities or metropolitan districts where population growth, industrial development, and housing available indicates a continuing need for housing to be constructed.

Operations will not be started in any city until satisfactory commitments are secured:

- (a) As to arrangements with local labor unions on annual-wage agreements and suspending restrictive union regulation provisions.
- (b) As to availability of land at reasonable costs.
- (c) As to modifications in, or special exemptions from local building codes where needed to avoid unnecessary expense.

The promise of a large new volume of local employment should be powerful in helping to secure these concessions. The corporation will refuse to operate where the local conditions are unsatisfactory, and will pick the most favorable localities for the initial operations. It will not operate with non-union labor, but with union labor under reasonable agreed conditions.

4. Type of housing. The housing would be limited to units costing not over \$4,000 per family unit, exclusive of land.
5. Construction. Initially the construction will be of conventional type, using standard building materials for stock sizes and types, Houses will be pre-designed for economy, lumber will be pre-cut in small mills on the project.

The engineering and architectural problems of pre-designing and pre-cutting have been thoroughly explored by the Farm Security Administration during the past twelve months. More than 5,000 houses have been built at costs ranging from \$1200 to \$2500, exclusive of land and overhead, while paying prevailing wages and union rates for skilled labor. The engineering, architectural, and construction staffs of Farm Security will be drawn upon for part of the nucleus of the planning, design, and construction staff of the corporation.

the basic designs will be varied by alternative placing of porches, dormers, and facing of the houses, so as to avoid monotonous duplication. Six basic designs will provide 30 to 40 distinctive individual houses.

6. Pre-fabrication. Pre-fabrication concerns will be given opportunity to bid on supplying pre-fabricated houses. As satisfactory pre-fabricated houses are developed, small proportions of pre-fabricated houses will be mixed in with conventional-type houses on various projects, until consumer acceptance, relative cost, and relative durability can be determined. The distribution of subsequent construction as between conventional type and pre-fabricated will be based upon this operative and sales experience.
7. Sub-contracts. The initial construction will be by force account, until the economies of planned mass-construction are demonstrated. Thereafter local contractors will be given opportunity to compete for part of the construction, using the same erection methods. Force-account construction will be continued for a portion of the projects, to provide continuing improvement in the base designs through continuous operating experience.

#### D. Price policy

The basic price policy will be to make a small profit on each unit and thereby produce a large volume of sales.

Even with a small-profit policy, profits on invested capital may be large. A house and lot to sell complete at \$3,500 can be financed with about \$350 equity capital. If sold at 3% net profit, that would be \$105.00 profit on the transaction, or 30% on the equity capital. Once operations are well under way, the capital can be turned over two or three times a year, making the possible profit still larger, while maintaining a low rate per unit.

A second basic element of price policy will be to put further cost savings from new economies in construction as they are developed into lower prices or better houses, without widening the profit margin. This will provide the maximum stimulus to a large volume of housing construction and sales and to an expanding volume of industrial activity.

#### E. Control and management.

The parent corporation will be controlled by a board of directors representing the principal stockholders. If the government furnishes a substantial portion of the capital, it will also be represented on the board.

The general manager will be a practical builder of long experience in both individual and mass-construction of houses.

Tentative list of corporations which might be invited to participate in conference to discuss the formation of a housing corporation.

\* Concerns which have already been contacted directly or indirectly in connection with assisting in establishment of proposed corporation.

Steel

\* United States Steel Corp.  
Bethlehem Steel Corp.  
Republic Steel Co.  
American Rolling Mills

Lumber

Weyerhaeuser Lumber Co.

Cement

\* Universal Atlas  
Lehigh-Portland  
Lone Star  
Hercules

Plumbing equipment

\* American Radiator and Standard  
Sanitary Corp.  
Crane Company  
Kohler Co.

Other corporations

\* Standard Oil  
Sears & Roebuck  
American Telephone & Telegraph  
International Business Machines

Electrical supplies

\* General Electric  
Westinghouse Electric  
Western Electric

Copper

\* Kennecott Copper Co.  
\* Chase Brass  
\* American Brass  
\* Revere Copper and Brass  
Phelps Dodge Copper and Brass  
Anaconda Copper

Automobile concerns

(refrigeration, heating, etc.)

\* General Motors Corporation  
\* Chrysler Motor Co.  
\* Briggs Manufacturing Co.  
Ford Motor Co.

Insulating concerns and miscellaneous

\* Johns Manville Corp.  
Celotex Corp.