THE FEDERAL URBAN RENEWAL PROGRAM: A FINANCIAL AND ECONOMIC ANALYSIS

by

Martin Carl Anderson

A.B., Dartmouth College
(1957)

M.S., Amos Tuck School of Business Administration
and Thayer School of Engineering
(1958)

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Signature redacted

Signature of Author. . . . . .
School of Industrial Management

Signature redacted

Certified by . . . . . .
Faculty Advisor of the Thesis

May 11, 1962

Professor Phillip Franklin
Secretary of the Faculty
Massachusetts Institute of Technology
Cambridge 39, Massachusetts

Dear Professor Franklin:

In accordance with the requirements for graduation, I herewith submit a thesis entitled "The Federal Urban Renewal Program: A Financial and Economic Analysis."

Sincerely,

Signature redacted

Martin Carl Anderson

ACKNOWLEDGEMENTS

The preparation of this thesis has been aided in many ways by many people. I would particularly like to acknowledge the warm encouragement and helpful criticism from the Chairman of my committee, Professor Eli Shapiro. His guidance throughout the writing of the thesis was invaluable. In later stages, Professor Daniel Holland and Professor Lloyd Rodwin also contributed many timely and important criticisms that proved helpful.

My specific thanks must go to a number of people who discussed and criticized parts of earlier drafts of the thesis, thus markedly improving what appears on the following pages. Those who discussed some of the ideas presented in the thesis and criticized earlier drafts are: Frank Colcord, Martha Derthick, Bernard Frieden, Annelise Graebner, Marvin Manheim, Leon Mayhew and John Sevier.

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A special note of thanks is due Hazel Bright, who helped me immeasurably by typing the manuscript under extreme time pressure. Without her interest and enthusiasm the thesis would probably still be in rough form.

Finally, I wish to express my thanks to the Joint Center for Urban Studies of Harvard and M. I. T. Because of their generous support, excellent research facilities and stimulating environment, the thesis was completed much sooner than was expected.

An Abstract of

THE FEDERAL URBAN RENEWAL PROGRAM: A FINANCIAL AND ECONOMIC ANALYSIS

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Martin Carl Anderson

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In 1949 the Congress of the United States authorized the Federal Urban Renewal Program. The primary objectives of this program were to stimulate housing production and community development sufficient to remedy the housing shortage, eliminate substandard and other inadequate housing through clearance of slums and blighted areas, and realize the goal of a decent home and a suitable living environment for every American family. Maximum emphasis was to be placed on private enterprise and local governments were to have the responsibility for initiating and carrying out the specific urban renewal program in their cities. The government estimated that, for every $1.00 of public funds invested, private sources would invest $3.65. In 1961, $6 billion in public funds were available to implement the urban renewal process. On the basis of the government estimate, this should induce $20 billion of private investment.

Today hundreds of cities, millions of people and billions of dollars are involved in the complex process of federal urban renewal. An examination of the costs, consequences and progress of the Federal Urban Renewal Program from the viewpoint of its national objectives is overdue. This study attempts to evaluate the national implications of the Program. Aggregate statistics, compiled from official reports covering every urban renewal project in the country, are the primary data used to analyze and evaluate the past record of the Program.

Has the Federal Urban Renewal Program been successful? The evidence developed in this study indicates that the Program has not yet made significant progress toward achieving the goals set forth by Congress in 1949. During the decade from 1950 to 1960, 27,000 acres of urban land were taken, 126,000 dwelling units were destroyed, over 400,000 people were displaced from their homes and approximately $1.4 billion of public money was spent. The results of these actions have not been impressive. The number of new dwelling units constructed is less than one-fourth of the number demolished. Most of the new units are high-rent units (average monthly rent is $158); most of the

demolished units were low-rent units. Approximately $824 million of new construction has been started. Fifty-six per cent of the new construction is private residential, 30 per cent is public, 10 per cent is commercial and 4 per cent is industrial. It appears that at least half of this construction would have gone up even if there had been no Federal Program.

The Federal National Mortgage Association has played a predominant role in the long-term financing of private residential construction in urban renewal areas. Primarily because of this, it is estimated that for every $1.00 of public funds invested, private sources will invest $0.50. An examination of the total cost of the Program indicates that federal, state and local governments will finance 20 per cent of the total by cash grants and payments, the federal government will finance 45 per cent via the Federal National Mortgage Association, and private financial institutions will finance the remaining 35 per cent.

The federal urban renewal process takes a long time. It is estimated that an average-size urban renewal project takes approximately ten years to complete. Of this ten year period, three years will probably be devoted to planning and seven years to execution. Because of this long gestation period it is very important that the program be flexible. The basis on which a project was initiated may have changed significantly by the time the project nears completion. The housing sector in the United States has undergone broad, sweeping changes in the last decade--overall housing quality has improved tremendously, both relatively and absolutely. Twelve million new units were built and six million substandard units were eliminated or improved during the period from 1950 to 1960, thus decreasing the percentage of substandard homes from 37.0 per cent to 18.8 per cent.

Federal urban renewal construction activity is a relatively insignificant part of the economy of the United States. During the decade from 1950 to 1960 it was less than one tenth of one per cent of all construction activity. If the comparison is restricted to the cities with populations of over 100,000 it is found that urban renewal construction activity is less than 1.5 per cent of all building construction in these cities. It has been suggested that federal urban renewal might be an effective tool of counter-cyclical policy, but because of the long gestation period and the small volume of construction that it generates, this is highly unlikely.

In conclusion, the Federal Urban Renewal Program accomplished little during the decade of the Fifties, and indications are that it will accomplish little more during the decade of the Sixties.

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CHAPTER I

THE QUESTION OF URBAN RENEWAL

> "From earliest time, the city has had such an attraction and fascination for man that he has given it symbolic meaning, has made it a God."
>
> Tunnard, The City of Man, pp. 28-29

The Law

> The Congress hereby declares that the general welfare and security of the Nation and the health and living standards of its people require housing production and related community development sufficient to remedy the serious housing shortage, the elimination of substandard and other inadequate housing through the clearance of slums and blighted areas, and the realization as soon as feasible of the goal of a decent home and a suitable living environment for every American family, thus contributing to the development and redevelopment of communities and to the advancement of the growth, wealth, and security of the Nation.[1]

In 1949 the Congress of the United States authorized the Federal Urban Renewal Program. The primary objectives of this Program, as stated in the Housing Act of 1949, were:

1. To stimulate housing production and community development sufficient to remedy the housing shortage.
2. To eliminate substandard and other inadequate housing through clearance of slums and blighted areas.

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[1] Section 2, The Housing Act of 1949, as amended.

3. To realize the goal of a decent home and a suitable living environment for every American family.

Housing Act amendments in 1954 re-emphasized these objectives, and introduced a new concept of rehabilitating declining neighborhoods. Two major policies were to guide the Federal Urban Renewal Program during its implementation:

1. Maximum reliance was to be placed on private enterprise.
2. Local governments were to have the responsibility for initiating and carrying out the specific urban renewal program in their cities.

Costs and Consequences

An examination of the costs, consequences and progress of the Federal Urban Renewal Program from the viewpoint of its national objectives is overdue. It is impossible to judge the effectiveness of the program until we have a clear idea of what the major results have been, and how much it has cost to achieve these results. Up to now it has been very difficult to evaluate the costs and results of the federal program because so little aggregate data has been available. One of the primary purposes of this study was to develop and present aggregate statistical time series pertaining to the Federal Urban Renewal Program. Much of this data was abstracted and compiled from individual urban renewal project reports taken from the official files of the Urban Renewal Administration in Washington, D. C. The rest of

the data was summarized from official published reports of the Housing and Home Finance Agency and its constituents. These aggregate statistics, which summarize the activities of the Federal Urban Renewal Program since its inception in 1949, are the primary data used in the analysis.

Were the Objectives Achieved?

Thirteen years have elapsed since the initial act was passed by Congress, and during that time hundreds of cities, millions of people and billions of dollars have become involved in the complex process of federal urban renewal. To what extent has the Federal Urban Renewal Program achieved its objectives? The evidence developed in this study indicates that the program has not made substantial contributions toward the achievement of the objectives set forth by Congress in 1949 and if the program continues along the lines it has followed in the past, it appears doubtful that it will make a significant contribution in the foreseeable future.

The Federal Program's Contribution to Housing

From 1950 to 1960, 101,000 substandard dwelling units and 25,000 standard dwelling units were destroyed under the Federal Urban Renewal Program. During the same time approximately 32,000 private dwelling units and 5,000 public housing units were started. Assuming that 30,000 of the 37,000 units started were completed, we can safely

say that over four times as many homes were destroyed as constructed.[2] Most of the units torn down were low-rent ones; most of the new units are high-rent. Up to now the net effect of the Federal Urban Renewal Program has been to aggravate the housing shortage for low-income groups, and to alleviate it for high-income groups.

Public Subsidy

According to the latest estimate of the federal government, $3.65 of new investment by private sources is expected for each $1.00 of investment by federal, state and local governments.[3] On the basis of past experience this estimate seems to be overly optimistic. Primarily because of the large amounts of long term loans made by the Federal National Mortgage Association, it is estimated that only $0.50 of new investment by private sources will result from every $1.00 of public funds. If the present financing pattern continues, the federal government will eventually find itself committed to financing billions of dollars of "private construction." It appears clear that a very substantial amount of public subsidy is inherent in the present Federal Urban Renewal Program.

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[2] See Research Note No. 1.

[3] John W. Innes, Urban Renewal Policies and Programs in the U.S.A., Urban Renewal Administration (Washington 25, D.C., November 1960), p. 35.

The Displaced People

Millions of people, the majority of them low-income Negroes, will eventually be evicted from their homes. Fifty-seven per cent of the people forced to move by urban renewal are Negroes and other non-whites.[4] Past relocation experience demonstrates clearly that a majority of these displaced persons move into substandard housing within walking distance of the urban renewal area, pay higher rents, and intensify the slum problem by over-crowding.[5] Their incomes do not increase, their patterns of social behavior do not change, and they are still discriminated against. Some, of course, benefit--approximately 10 per cent move into public housing.

The Gleaming, New Buildings

Substantial amounts of new construction in urban renewal areas are under way. At the beginning of 1961 approximately $824 million of new construction had been started. Another $3 billion was in the planning stage. But over 56 per cent of the construction started was devoted to luxury apartments, renting at an average of $158 per

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[4] Urban Renewal Project Characteristics, Urban Renewal Administration (Washington 25, D.C., December 31, 1960), Table 3, p. 9.

[5] Harry W. Reynolds, Jr., Associate Professor, School of Public Administration, University of Southern California, "What Do We Know About Our Experience With Relocation," (four-year inquiry into relocation problems in 41 major cities of the United States).

month.[6] Because of the subsidy provided by government grants and loans, these apartments in essence constitute a special variety of public housing for high-income families who desire to live in cities.

Low-rent public housing to be used primarily for displaced families has accounted for only 6 per cent of the new construction. Other public construction, such as schools and streets, comprised 24 per cent of the total started. Two-thirds of the cost of the public construction in these areas was paid for directly by the federal government. Less than 14 per cent of the construction was started by commercial and industrial interests.[7]

Profits for Private Developers

Urban renewal construction may be very profitable for the developer. Because of favorable financing, high leverage exists. Financing is available for 90 per cent of the cost of construction and the cost estimate includes a 10 per cent builder's profit. However, the law requires that the redeveloper invest at least 3 per cent in cash. It is possible for a builder, who is also a developer, to obtain 97 per cent financing on any construction he puts up in an urban renewal area.

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[6] Fourteenth Annual Report, Housing and Home Finance Agency (1960), Table III-69, p. 142.

[7] See Chapter VI.

Urban renewal is attractive to high income investors. Even in cases where the cash yield is not attractive, there will be a large amount of depreciation available. This depreciation deduction can eliminate federal income taxes by as much as ninety-one cents on each profit dollar derived from other sources. These tax benefits are also available in conventional construction, but urban renewal offers the advantage of greater leverage.

The Benefits

What benefits have resulted from the Federal Urban Renewal Program? There is a good possibility that the net tax revenue from real estate will increase for cities employing the urban renewal process, but this is uncertain, and even if there is an increase, it is not likely to be large. Small areas of many cities have become or are becoming newer and perhaps more beautiful. The gleaming, new buildings contrast sharply with the drab slums they replace. The program has also focused attention on the problems of the cities, and this effect may be the program's most important benefit.

Counter-Cyclical Effects

If the construction activity generated by urban renewal could be synchronized with counter-cyclical policy, some real benefits might accrue to the economy. However, because of the very long gestation period (eight to ten years) associated with urban renewal and the

present state of the art of forecasting cyclical changes, it appears doubtful that we could sense a downturn or recovery phase soon enough to utilize urban renewal construction. An accentuation of cycles would appear to be as likely as a counter-cyclical effect.

Private Investment in Housing

If the urban renewal process is faltering badly, should we not be seriously concerned with the future of housing and cities in the United States? Off-hand the answer would seem to be yes, but a close look at the developments from 1950 to 1960 should allay some fears. In the past decade impressive progress has been made towards achieving the objectives set forth in the Housing Act of 1949. But this progress has come primarily through private building and renewal efforts operating independently from the Federal Urban Renewal Program. Most of the achievements in the housing field have resulted from the investment of large amounts of private funds in housing that was in no way connected with the Federal Urban Renewal Program. From 1945 to 1960 private mortgage debt outstanding in the United States increased by almost $140 billion.[8]

The proportion of all dwelling units in the United States classified as substandard by the Bureau of the Census declined sharply from 49.0 per cent in 1940 to 18.8 per cent in 1960. From 1950 to

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[8] Fourteenth Annual Report, Op.Cit., Table A-48, p. 357.

1960 alone, privately financed rehabilitation efforts, together with some demolition, reduced the absolute number of substandard dwelling units from 17.1 million to 10.7 million. During the same time over 12 million new dwelling units were added to the housing supply. Today there are 128 major cities in the United States with populations over 100,000. Only 11.4 per cent of the housing in these major cities is classified as substandard, and 3 per cent as dilapidated. Over 82 per cent of our substandard housing lies outside of these major cities.[9]

What Is Urban Renewal?

For years people have been unhappy with many of the characteristics of our cities. They objected to dirty, ugly areas, high crime and disease rates, poor minority groups living in overcrowded tenements, obnoxious smells, loud noises and congested streets. Sporadic efforts were made to eliminate these conditions but the results were negligible. In 1949 urban renewal was launched by the federal government to deal with these problems.

> Urban Renewal is the term used to describe the diversified efforts by localities, with the assistance of the federal government, for the elimination of slums and blight, whether residential or nonresidential, and the removal of the factors that create slums and blighting conditions.[10]

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[9] Bureau of the Census, 1960.

[10] "A Summary of Urban Renewal Programs," Housing and Home Finance Agency, Urban Renewal Administration (Washington 25, D.C., July 1961).

All federal aid to local communities to plan and execute urban renewal projects is administered by the Urban Renewal Administration in Washington, D. C. The Urban Renewal Administration allocates urban renewal funds and prescribes policies and procedures.

Urban renewal, broadly defined, is that process which attempts to continually improve the physical image and structure of the city. The attempts can be either private or public or some combination of both. Urban renewal activities may be divided into two broad categories: urban renewal activities with federal financial assistance and urban renewal activities without federal financial assistance. The primary purpose of this study is to evaluate the net contribution that the federally aided urban renewal program has made toward the renewal of the cities.

Federal financial assistance can only be given to local renewal agencies which have been authorized by state and local law to carry out the various activities involved. A local renewal agency may be a specially created redevelopment agency, an authority responsible for local public housing, or a city or county itself. There are various types of financial assistance available. These are summarized below:

Community Renewal Program. A community renewal program is designed to provide a comprehensive approach to the community's urban renewal needs by:

1. Identifying and measuring, in broad terms, the total need for urban renewal in the community.
2. Relating this need to the resources available in the community.
3. Developing a long-range program for carrying out urban renewal activities.

A federal grant, not to exceed two-thirds of the planning cost, may be made to a locality to develop a community renewal program.

General Neighborhood Renewal Plan. A general neighborhood renewal plan is used when an urban renewal area is of such scope that the renewal activities may have to be carried out in stages over a period of not more than ten years. It must be established that in the interest of sound community planning, it is desirable that this large urban renewal area be planned as a whole for urban renewal purposes.

Federal funds may be advanced to a locality for the preparation of a general neighborhood renewal plan. They may be repaid from loan funds provided for the initial project approved under the plan.

Urban Renewal Project. An urban renewal project is an undertaking in a specific area to prevent and eliminate slums and blight, and may be:

1. A redevelopment project, in which a slum or blighted area is acquired and cleared, after which the land is

disposed of for redevelopment, primarily by private concerns, according to planned uses.

2. A rehabilitation project, in which buildings are restored to good condition by those who own or acquire them, accompanied by the improvement of public facilities by the local government.
3. A combination redevelopment-rehabilitation project.
   (a) Federal financial assistance is available for the planning and execution of urban renewal projects. This includes planning advances, loans, capital grants and relocation grants for displaced residents and business firms.
   (b) Federal capital grants may amount to as much as two-thirds of the project's net cost in larger communities and up to three-fourths for communities of less than 50,000 population.[11]

However, both the general neighborhood renewal plan (GNRP) and the community renewal plan (CRP) are relatively untried programs. The past record of the federally-aided urban renewal program indicates

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[11] Ibid.

that virtually all activity was concerned with urban renewal projects. For this reason the scope of this study will be limited primarily to an analysis of project activity. And because project activity is an integral part of both GNRP and CRP, it is expected that any insights resulting from an analysis of project activity will also be useful in evaluating GNRP and CRP.

Because so little has been done with the rehabilitation concept of urban renewal, main emphasis will be placed on the redevelopment aspects.

Initiation of a Federal Urban Renewal Project

Assuming that enough interest has been generated locally to cause the creation of a local renewal agency, the first step is to apply for a federal planning advance. Funds will be advanced by the federal government to finance the necessary surveys and planning work.

In some cases funds will be advanced to the local renewal agency to study the feasibility of the project. If the result is favorable, the federal government will then provide advance funds for survey and planning. The survey and planning advance must be repaid with interest, out of the first federal or nonfederal funds which become available for the undertaking of the project.

Once the urban renewal plan is complete the local renewal agency will apply for a federal temporary loan and capital grant. If the urban renewal administration feels that all its requirements have been met it authorizes a contract between the federal government and the local renewal agency. This is called a "Loan and Grant Contract" and provides both temporary loans and capital grants.

To get the project underway, federal funds are temporarily loaned to the local renewal agency. As the project progresses, the local renewal agency uses the periodic capital grant payments from the federal government to repay the temporary loan.

The Steps of Urban Renewal

Land Acquisition. This involves the acquisition of the old buildings and land in the urban renewal area. The real estate is usually acquired through negotiation with the owner, but if this fails the local renewal agency may use condemnation proceedings to acquire the land.

Relocation. While the real estate is being acquired, the local renewal agency is required by law to relocate the people who are forced to move from their homes.

Site Clearance. As soon as feasible, the buildings in the areas which are not considered fit for further use are demolished.

Site Improvements. This includes the construction of necessary public facilities, such as streets, sewers, water mains and lighting systems.

Supporting Facilities. This is essentially public construction, and consists of facilities such as schools, libraries, other public buildings, and parks.

Land Disposition. The land may be disposed of in four ways. It can be sold, leased, donated or retained. If the land is sold it can be done by either public bidding or negotiation between the local renewal agency and the prospective buyer.

New Construction. This is the last and perhaps most important phase of urban renewal. If the land is sold or leased, the redeveloper is usually obligated to build according to a general plan approved by the local renewal agency. If the land is retained for public use, construction will be undertaken by public agencies. The new construction may be residential, commercial, industrial or public.

CHAPTER II

THE GROWTH OF THE PROGRAM

> "If urban renewal becomes a program with public housing down at one end and luxury and semi-luxury housing down at the other, leaving out a whole grey area in between, this program can go no place but into disrepute--and there it belongs."
>
> Mr. David M. Walker
> Commissioner, Urban Renewal Administration
> Before the Potomac Chapter, National
> Association of Housing and Redevelopment
> Officials, October 1, 1959.

The scope and magnitude of the Federal Urban Renewal Program in the United States has increased rapidly since its inception in 1949. Today hundreds of cities, millions of people and billions of dollars are involved in a complex process aimed at the revitalization of the central city. In spite of this, the majority of the people in the United States know little or nothing about the way in which the program can affect them. The growth of the program will be analyzed with respect to its most important parameters: cities--projects--land--people--dollars.

Cities

During the decade from 1950 to 1960, 475 cities became involved in federal urban renewal. The Federal Urban Renewal Program is concentrated in the larger cities (see Table I). Seventy-four per

cent of the large cities (over 100,000 population) in the United States have federal urban renewal projects, while only 8 per cent of the smaller cities (less than 100,000 population) have them.

Projects

At the end of 1960 there were 870 urban renewal projects in various stages throughout the United States. Forty-four per cent of them were in the planning stage, 51 per cent were in the execution stage and 5 per cent were classified as "complete" by the Urban Renewal Administration (see Table II). The Urban Renewal Administration's definition of a completed project means only that the final federal grant payment has been made; it does not necessarily mean that all new construction has been completed. Less than 3 per cent of the projects have all construction activity completed.

Urban Land

At the end of 1960, federal urban renewal projects covered almost 27,000 acres of urban land in the United States (see Table III). This is an area almost twice as large as the entire area of the Borough of Manhattan in New York City. Sixty-eight per cent of this acreage was taken by the Federal Urban Renewal Program from 1956 to 1960. During this period of time the rate of increase in acreage was roughly 25 per cent per year.

TABLE I

BREAKDOWN OF CITIES INVOLVED IN THE

FEDERAL URBAN RENEWAL PROGRAM

AS OF DECEMBER 31, 1960

Size of City	Number of Cities	Number with Federal Urban Renewal Projects	Per Cent with Federal Urban Renewal Projects
1,000,000 and over	5	5	100%
500,000 to 1,000,000	16	14	88
250,000 to 500,000	30	23	77
100,000 to 250,000	81	56	69
50,000 to 100,000	203	83	41
25,000 to 50,000	427	91	21
10,000 to 25,000	1146	107	9
2,500 to 10,000	3115	96	3
TOTAL	5022	475	9%
Large Cities (over 100,000)	132	98	74%
Small Cities (under 100,000)	4890	377	8%

Source: Urban Renewal Project Characteristics, Urban Renewal Administration (Washington 25, D.C., December 31, 1960), Table 1, p. 7.

TABLE II

NUMBER OF URBAN RENEWAL PROJECTS - Cumulative

1950 TO 1960

Year	Total	Number in Planning	Number in Execution	Number Completed	Per Cent in Planning	Per Cent in Execution	Per Cent Completed
1950	124	116	8	--	93.5%	6.5%	--
1951	201	192	9	--	95.5	4.5	--
1952	259	232	27	--	89.6	10.4	--
1953	260	199	61	--	76.5	23.5	--
1954	278	191	87	--	68.7	31.3	--
1955	340	230	110	--	67.7	32.3	--
1956	431	299	132	--	69.4	30.6	--
1957	491	298	193	--	60.7	39.3	--
1958	648	357	281	10	55.2	43.3	1.5%
1959	699	309	364	26	44.3	52.0	3.7
1960	870	385	444	41	44.3	51.0	4.7

Source: Ibid.

TABLE III

URBAN RENEWAL ACREAGE

CUMULATIVE - 1950 TO 1960

Year	Projects in Advanced Planning or in Execution	Total Gross Acreage
1950	---	--
1951	54	1,890
1952	116	4,700
1953	154	5,700
1954	185	7,067
1955	215	7,835
1956	238	8,731
1957	276	13,377
1958	347	16,999
1959	429	22,362
1960	522	26,915

Source: (1954-60): Urban Renewal Administration, Op.Cit., Table 3.

(1950-53): Annual Report, Housing and Home Finance Agency, (Washington, D.C.)

People

By the end of 1960, 216,000 families had been displaced or were about to be displaced because of the urban renewal process. This number is derived from estimates submitted by 447 projects now in execution. If we also include families who are now living in areas for which planning is underway, the number of families affected increases to approximately 400,000. Using the latest census estimates (1960) of the average size of families living in urban areas it is estimated that about 1.3 million Americans have been or will be displaced from their homes by the present urban renewal program by 1965.[1] This is slightly less than the combined populations of Boston and San Francisco.

Public Dollars

One indicator of a program's size is its cost. The costs referred to here are public costs--local, state and federal. They do not include private expenditures in urban renewal areas for private construction. The estimated amount of money that cities have collectively spent on urban renewal as of December 31, 1960 was approximately $1.43 billion.[2] Approximately 85 per cent of this was spent during the period from 1956 to 1961.

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[1] See Research Note No. 2.

[2] See Research Note No. 3.

Gross and Net Project Cost

Gross project cost is the sum of all public expenditures necessary to convert a slum into a land package which is salable to a private redeveloper or other buyer. Gross project cost includes expenditure for real estate purchases, site improvements, supporting facilities (schools, libraries, streets, etc.), interest on debt, land acquisition, site clearance, administration and overhead, survey and planning, relocation, inspection and rehabilitation.

Net project cost is derived by deducting the cash proceeds the local renewal agency receives from the sale of the improved land from the gross project cost. If gross project cost includes planning, administrative and local overhead costs, the federal government will pay up to two-thirds of the net project cost. If the local renewal agency chooses to pay for planning, administrative and local overhead costs, these costs are not included in gross project cost, and the federal government will pay up to three-fourths of net project cost.

The estimated final gross cost of projects in execution or completed has increased rapidly over the past ten years. At the end of 1960, the total gross project cost of the 485 projects in execution or completed was $2.2 billion. Over 80 per cent of this amount was added during the period from 1956 to 1960.

Gross project cost estimates are not available for projects in the planning stage. To estimate the magnitude of this amount it was

assumed that the ratio of gross project cost to federal capital grant reservations is the same for projects in planning as it is for those now in execution. On this basis the projected total gross cost of all current projects, regardless of their stage of completion, is almost $4 billion.

Private Dollars

The flow of private funds into urban renewal has been relatively small. It is estimated that approximately $260 million of private funds have been invested in urban renewal from 1950 to 1960.[3] Most of this was invested during the last few years.

Available Federal Funds

The Housing Act of 1949 authorized federal aid amounting to $1 billion for loans and $500 million for capital grants. By 1960 a total of $2 billion had been authorized for capital grants. In 1961, this total was increased to $4 billion. If the $4 billion is matched with $2 billion of local funds, there is a potential of $6 billion in public funds to implement the urban renewal process. Approximately $0.7 billion of this has been spent.

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[3] See Chapter VII, Private Financing.

The Rate of Growth

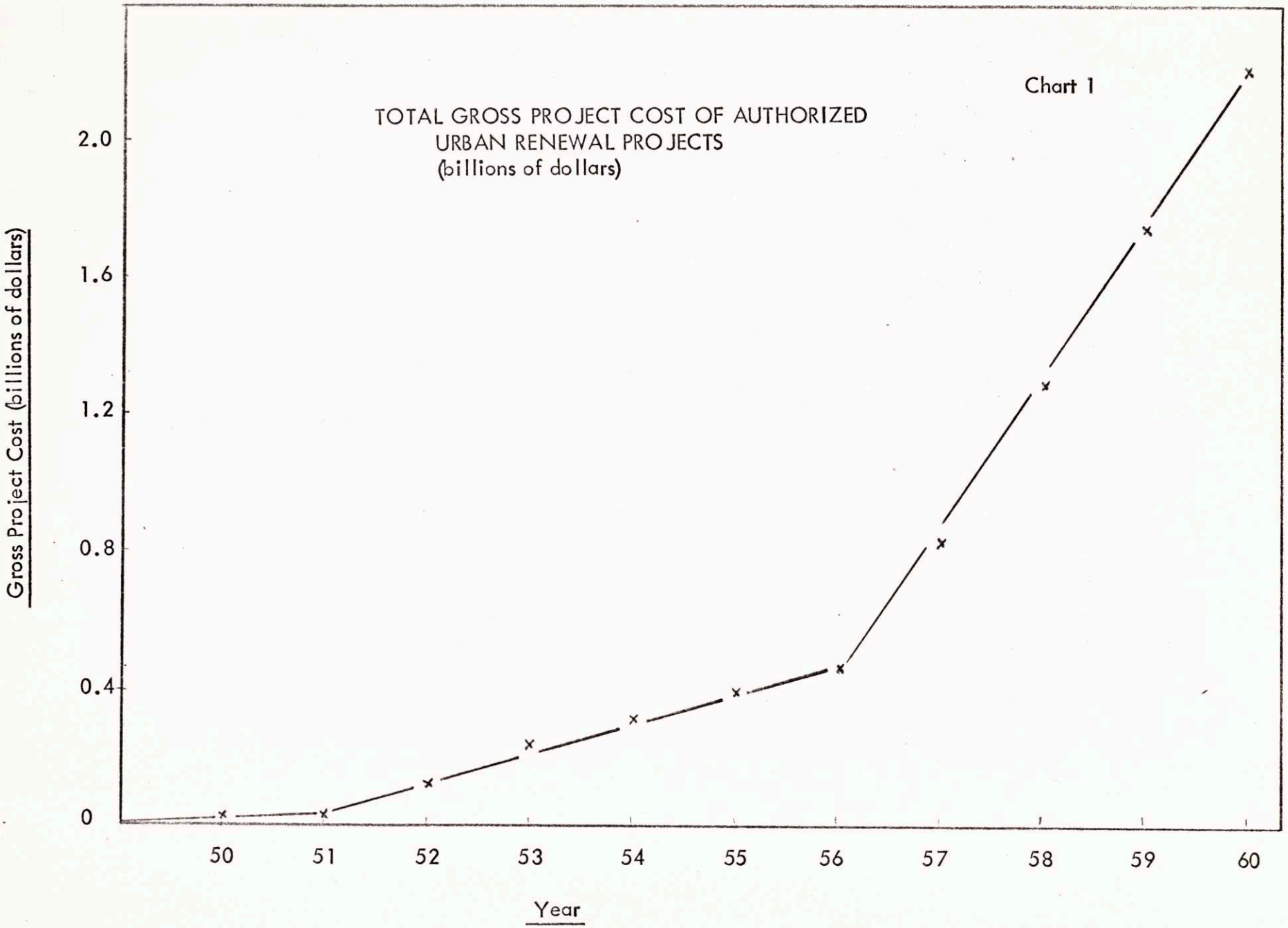
One of the indicators of the growth of the potential urban renewal program is the rate of growth of estimated gross cost of those projects for which contracts have been authorized. Measured in these terms the rate of growth of the urban renewal program has been high and appears to be increasing (see Chart 1). Total gross project cost jumped quickly to about $36 million in 1950, remained at this level throughout 1951, and then jumped to $127 million during 1952. From 1952 to 1956 the total estimated gross project cost climbed at a rate of 32 per cent per year. In 1956 total gross project cost was $461 million. During the period from 1956 to 1960 the growth rate increased to over 39 per cent. This high rate of growth resulted in a total gross project cost of $2.2 billion at the end of 1960.

Regional and State Growth

Most of the urban renewal program has been centered in the Northeastern part of the United States, although certain areas in the Midwest (Illinois) and the Far West (California) have also received large amounts of urban renewal funds. The distribution of urban renewal expenditures has been concentrated in a relatively few states. This is shown in Table IV.

Chart 1

TOTAL GROSS PROJECT COST OF AUTHORIZED
URBAN RENEWAL PROJECTS
(billions of dollars)



Source: Urban Renewal Project Characteristics, Urban Renewal Administration, Washington 25, D.C.
31 December 1960

TABLE IV

URBAN RENEWAL GRANTS (CUMULATIVE) MARCH 31, 1961

State	Rank by Amount "Reserved"	Total Amount of Grants "Reserved"*	Total Amount of Grants Disbursed	Per Cent of "Reserved" Grants Disbursed
New York	1	$289,195,515	$84,260,374	29.1%
Pennsylvania	2	257,854,901	47,708,308	18.5
New Jersey	3	127,971,307	18,496,518	14.5
Illinois	4	121,296,473	40,564,007	33.4
Massachusetts	5	106,297,044	15,891,792	15.1
California	6	105,206,479	16,000,843	15.2
Connecticut	7	103,655,800	19,165,589	18.5
Ohio	8	103,543,796	17,749,348	17.1
Missouri	9	83,124,222	14,390,845	17.3
Michigan	10	72,826,655	15,310,294	21.0
Tennessee	11	67,802,383	18,697,839	27.5
District of Columbia	12	66,226,175	17,077,167	25.7
Maryland	13	51,110,810	9,400,407	18.4
Virginia	14	45,415,042	18,276,524	40.2
Georgia	15	34,651,643	5,731,100	16.5
Minnesota	16	29,831,716	10,164,986	34.0
Alabama	17	29,287,589	6,171,109	21.1
Puerto Rico	18	28,216,621	6,501,747	23.0
Indiana	19	25,103,726	1,518,430	6.0
Hawaii	20	22,626,414	1,705,511	7.5
Texas	21	21,700,733	--	--
Kentucky	22	20,409,167	2,029,179	9.9
Rhode Island	23	18,048,720	4,792,144	26.6

*"Reserved" grants refers to the Urban Renewal Administration's estimate of the total amount of grants that are likely to be requested by local renewal agencies based on their current plans.

TABLE IV (Continued)

Kansas	24	16,397,453	1,390,159	8.5
North Carolina	25	14,932,931	--	--
Arkansas	26	14,245,491	2,076,250	14.6
Wisconsin	27	14,063,030	2,365,751	16.8
Washington	28	13,520,730	326,890	2.4
Iowa	29	9,064,986	--	--
Florida	30	7,117,828	--	--
Maine	31	5,559,551	613,698	11.0
Colorado	32	5,206,273	9,549	.2
Oregon	33	4,965,455	2,096,561	42.2
Alaska	34	4,244,337	737,018	17.4
Delaware	35	3,906,818	1,144,834	29.3
West Virginia	36	3,541,353	--	--
New Hampshire	37	3,172,699	1,244,141	39.2
Arizona	38	2,441,000	--	--
Nevada	39	1,719,699	399,141	23.2
North Dakota	40	1,434,670	806,653	56.2
Vermont	41	1,409,838	--	--
South Carolina	42	1,193,294	160,445	13.4
Virgin Islands	43	758,000	--	--
Oklahoma	44	587,508	--	--
New Mexico	45	358,057	--	--
Louisiana	46	1,939	1,939	100.0

Source: Urban Renewal Administration, Op.Cit., March 31, 1961.

Summary

The parts of the program that have grown rapidly are:

1. The amount of land and buildings acquired by negotiation or eminent domain.
2. The number of buildings demolished.
3. The number of people displaced.
4. The amount of public funds expended.

The parts of the program that have grown slowly are:

1. The amount of new construction put up.
2. The amount of private funds expended.
3. The number of projects completed.

CHAPTER III

THE PUBLIC COST

"For which of you, intending to build a tower,
sitteth not down first, and counteth the cost,
whether he have sufficient to finish it?"

14th Chapter of the Gospel
According to St. Luke, 28.

Gross Project Cost

The total gross project cost for 463 projects with contracts authorized under the two-thirds formula as of December 31, 1960 was $2.2 billion. The corresponding figure for 14 projects authorized under the three-fourths formula was $172 million. It should be kept in mind that these costs are aggregates of estimates made by each local renewal agency. The estimates reflect what the gross cost of the project is expected to be when it is finished.

Composition of Gross Project Cost

A very large part of the gross project cost of a typical urban renewal project can be attributed to buying old buildings and land in the urban renewal area. Over the course of the urban renewal program these purchases averaged approximately 65 per cent of the estimated total gross project cost. In 1960, over $1.4 billion was expected to be used to purchase real estate in urban renewal areas that had firm plans established for this operation. These purchases are summarized for the period from 1954 to 1960 in Table V.

TABLE V

REAL ESTATE PURCHASES (INCLUDING LAND ACQUISITION EXPENSE)

AS A PER CENT OF GROSS PROJECT COST

(Thousands of Dollars)

Year	1 Gross Project Cost (Cumulative)	2 Real Estate Purchases (Cumulative)	2 to 1 Real Estate Purchases as Per Cent of Gross Project Cost
1954	$ 317,290	$ 211,278	66.6%
1955	397,736	266,551	67.0
1956	460,633	309,983	67.3
1957	833,285	583,276	70.0
1958	1,290,912	855,276	66.3
1959	1,743,442	1,167,829	67.0
1960	2,206,349	1,467,139	66.5

Source: Urban Renewal Project Characteristics, Urban Renewal Administration, (Washington 25, D.C.), Based on 474 projects reporting as of December 31 for the years 1954 through 1960. Includes projects started under both the 2/3 and 3/4 formulas.

Site improvements and public facilities on the urban renewal sites together compose about 20 per cent of the estimated gross cost, or around $440 million. Site improvements cover the installation of public improvements which are necessary to carry out the urban renewal plan. These improvements include streets, parks, lighting, water, grading and flood protection. Public facilities include schools, police or fire stations, libraries, water, electric and gas distribution facilities, sewers and public housing.

The rest of gross project cost is made up of relatively minor expenses such as planning, overhead, interest and relocation costs. All together these account for about 15 per cent of the total gross project cost.

Summing up, approximately 85 per cent of the gross cost of a typical project can be attributed to buying the old buildings and land on the urban renewal site and improving the cleared land for resale. A detailed breakdown of gross project cost is given in Table VI.

Average Gross Project Cost

The average gross project cost of the additional urban renewal projects added annually has shown a clear upward trend, although it has not increased every year. The cumulative average gross project cost, which is based on all urban renewal projects authorized, has increased every year. It increased from $4.0 million per project in 1954 to almost $4.8 million in 1960. These averages are summarized in Table VII.

TABLE VI

GROSS PROJECT COST OF FEDERALLY AIDED URBAN RENEWAL PROGRAMS AS OF DECEMBER 31, 1960

(Thousands of Dollars)

	Amount	Per Cent
Gross Project Cost	$2,206	100.0%
Real Estate Purchases*	1,467	66.5
Site Improvements	242	11.0
Supporting Facilities	202	9.2
Interest	85	3.9
Site Clearance	67	3.0
Administration and Overhead	58	2.6
Survey and Planning	37	1.7
Other and Misc.	22	1.0
Relocation	12	0.5
Inspection	11	0.5
Rehabilitation	2	0.1

*Includes land acquisition expense.

Source: Urban Renewal Project Characteristics, Urban Renewal Administration, (Washington 25, D.C.), Based on 463 projects reporting as of December 31, 1960, Table 7, page 14.

TABLE VII

AVERAGE GROSS COST OF PROJECTS

IN EXECUTION

(Thousands of Dollars)

Year	Yearly Change in Gross Project Cost	Yearly Change in Number of Projects	Average Gross Cost	Cumulative Gross Project Cost	Cumulative Number of Projects	Cumulative Average Gross Project Cost
1954	$ 78,164	18	$4,342	$ 317,290	79	$4,010
1955	80,446	26	3,094	397,736	105	3,790
1956	62,927	17	3,702	460,633	122	3,780
1957	372,652	64	5,823	833,285	186	4,480
1958	457,627	97	4,718	1,290,912	283	4,560
1959	452,530	94	4,814	1,743,442	377	4,620
1960	462,907	86	5,383	2,206,349	463	4,760

*Includes projects started during the period 1950 to 1953.

Source: Urban Renewal Administration, Op.Cit., 474 Projects.

Land Writedown

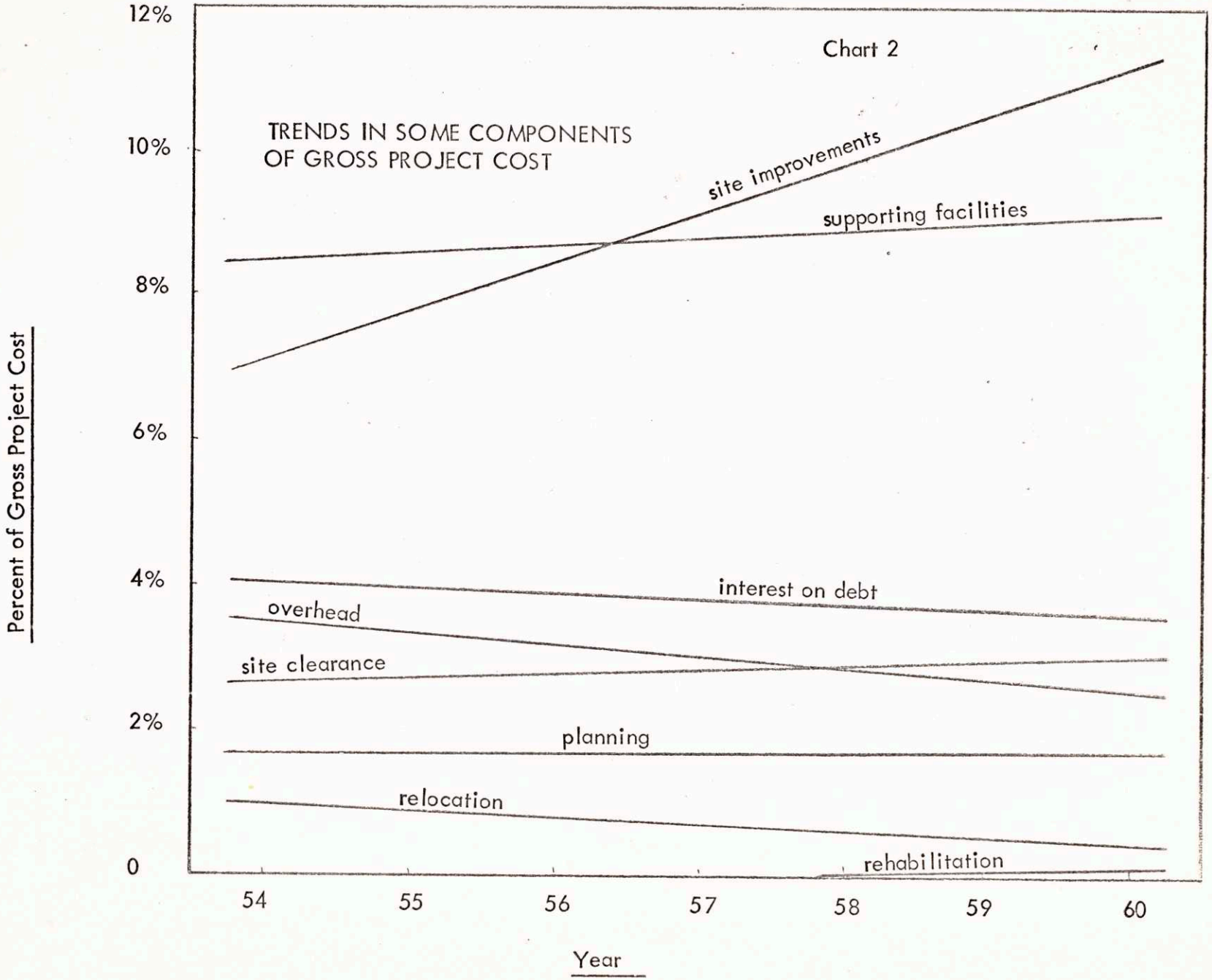
Usually the local renewal agency sells land in the urban renewal areas to private redevelopers or other parties for substantially less than it costs them to prepare the land. The difference between the cost to prepare the land and what the local renewal agency receives for the land is called the "writedown." Writedown as a percentage of the gross project cost is called "per cent writedown."

For 463 projects approved under the two-thirds formula at the end of 1960, the average writedown was approximately 70 per cent (see Table VIII). In effect private redevelopers and other buyers are getting improved areas of city land for roughly 30 per cent of what it would have cost them to secure comparable land on the private market. There is a good deal of variance in the per cent writedown for individual projects; the range extends from 0 per cent to 100 per cent.

Components of Gross Project Cost-Trends

Real estate purchases as a per cent of gross project cost has remained relatively constant at approximately 67 per cent from 1954 to 1960. At the end of 1960 it was 66.5 per cent. Trends of gross project cost components other than real estate purchases are shown in Chart 2.

The percentage of gross project cost allocated to site improvements has increased substantially. It has steadily climbed from 7.5 per cent in 1954 to 11.0 per cent in 1960. Supporting facilities, as



Source: same as chart 1

TABLE VIII

NET PROJECT COST AND PER CENT WRITEDOWN - PROJECTS APPROVED UNDER 2/3 FORMULA

(Thousands of Dollars)

Year	Cumulative Gross Project Cost	Cumulative Expected Disposition Proceeds From Sale of Land	Per Cent Writedown
1954	$ 317,290	$ 89,853	71.7%
1955	397,736	111,004	71.3
1956	460,633	134,332	70.8
1957	833,285	262,469	68.5
1958	1,290,912	401,448	68.9
1959	1,743,442	551,906	68.3
1960	2,206,349	677,463	69.3

Source: Ibid.

a percentage of gross project cost, has remained relatively constant over the years; in 1960 it was 9.1 per cent. The other components--interest, overhead, site clearance, planning, relocation and rehabilitation--either remained constant or declined slightly. The only really significant change in the gross project cost components occurred in site improvements. As will be shown in Chapter V, it clearly benefits the city to have a large amount of site improvements, and the percentage increase over the years may reflect a growing awareness of this.

Two-Thirds Formula Vs. Three-Fourths Formula

To date almost all urban renewal projects have been undertaken under the two-thirds formula. Why has this been so? Does one plan have definite advantages over the other? To analyze this, let:

P = planning, administrative costs and local overhead

E = all other execution costs

G = Gross Project Cost

$G = P + E$

The local share under the two-thirds formula, L_1, is given by:

(1) $L_1 = 1/3P + 1/3E$

where under the three-fourths formula the local share, L_2, is:

(2) $L_2 = P + 1/4E$

Comparing these two alternatives we can see that if $L_2 - L_1 > 0$ the two-thirds formula is preferable for the local authority.

Subtracting L_1 from L_2:

(3) $$L_2 - L_1 = (P + 1/4E) - (1/3P + 1/3E)$$

$$(P + 1/4E) - (1/3P + 1/3E) > 0$$

(4) $$2/3P > 1/12E$$

Thus if two-thirds of the planning and administrative costs are greater than one-twelfth of the execution costs, the two-thirds formula is preferable.

Has this been the case? For projects using the two-thirds formula P has been averaging 7 per cent of gross project cost. Thus:

$$P = .07G$$

$$E = .93G$$

Substituting these values in equation (4) we get:

$$2/3P > 1/12E$$

$$2/3\ (.07G) > 1/12\ (.93G)$$

$$.047 > .078$$

Although the absolute percentage difference between the two alternatives is slight, experience to date would indicate that local public agencies could have done better on the average by electing the three-fourths formula. This is, of course, only true on the average, and does not apply to all cases.

Why Public Subsidy is Necessary

Once a large building has been erected on a piece of land, it becomes very costly to replace the building with another one. This is

primarily because the old building usually retains a high economic value based upon the income it can generate. The salvage value of the old building if it is demolished or moved is usually small.

Consider two investment alternatives: (1) Assume an old building in the downtown area of a city is producing an annual net income of $(X) per year and the building has a market value of $(B) based upon this income. One alternative is to let things remain as they are. (2) The second alternative is to destroy the old building and erect a new one in its place which will cost $(C) and produce an annual income of $(Y) per year.

If alternative (2) is chosen, the old building is destroyed and an annual net income of $(X) per year is lost. Therefore the annual net income produced by the new building must be large enough to both pay off the cost of the new building and compensate for the lost income of the old building. This means that the demand for the new type of land use must be significantly greater than the demand for the present type of land use.

The primary reason the private market has not replaced large numbers of buildings in downtown areas is because the demand for a new type of land use was not sufficient to make it economically feasible to destroy old buildings, having a large amount of residual economic value, and build new ones. The Federal Urban Renewal Program attempts to make it possible to replace these old buildings with new ones in the framework of the private market. The program is essentially attempting to change the

land use pattern into one which the government feels is more desirable from the viewpoint of the public good. Abstracting from the question of what the public good is, the Program implicitly makes the assumption that the noneconomic gains from urban renewal will exceed the public cost. This is based on the argument that the amount of public cost involved is only an amount sufficient to make a more socially desirable land use pattern economically feasible from the viewpoint of the private market.

Summary

Two-thirds of the gross cost of an average urban renewal project is due to the purchases of land and old buildings in the urban renewal area. Another one-fifth is due to the construction of new public facilities and site improvements. The rest of the cost stems from a variety of items, such as planning, relocation, administration and interest expense. The cleared and improved land is usually sold for around 30 per cent of the cost of obtaining and preparing it.

Public money is needed because the federal government is attempting to meet certain social objectives by changing land use patterns in urban areas within the framework of private enterprise.

CHAPTER IV

FEDERAL FINANCING OF THE PUBLIC COST

> "No one can say exactly how much investment in urban renewal will eventually be required to achieve an efficient and attractive urban environment. Tastes and aspirations keep changing; so do levels of prices; so do urban problems or at least the perceptions of them."
>
> Meyerson, Terett and Wheaton,
> Housing, People and Cities, 1962, p. 331

Federal Financing of Urban Renewal

The federal government pays for approximately two-thirds of the net project cost of urban renewal. Federal financial assistance is provided throughout the life of a project by planning advances, temporary loans, long-term loans and outright grants. For purposes of analysis the various types of federal financial assistance have been split into three broad categories:

1. short-term financing
2. long-term financing
3. grants.

Under short- and long-term financing arrangements the federal government provides funds for the urban renewal process which must eventually be repaid. Federal grants are essentially federal gifts, and are not repaid.

Short-Term Financing--Planning Advances

The federal government will lend funds to cover expenditures during the survey and planning stage of a project which is being conducted on a two-thirds capital grant basis. If the project is being undertaken on a three-fourths capital grant basis, the local renewal agency must provide its own funds for survey and planning. The planning advance must be repaid, with interest, out of the first federal or local funds which become available to the local renewal agency for the undertaking of the project. The amount of short-term loans for planning purposes has grown steadily over the past decade (see Table IX). From 1950 to 1960 over $75 million of these loans were authorized. Of these, $49 million were disbursed to local renewal agencies. Thirty-two million dollars had been repaid, leaving $17 million outstanding.

The amount of money disbursed for planning advances is a rough indicator of future urban renewal project activity. The annual amount of money advanced for planning purposes has been increasing steadily. In 1960 nearly $11 million was advanced, the largest amount to date. This clearly indicates that the program is being taken seriously and extensive plans are being drawn up to implement it.

Short-Term Financing--Directed Federal and Federally-Secured Temporary Loans

Planning advances are used to finance the survey and planning phase of a project. Direct federal loans or federally-secured loans

TABLE IX

SHORT TERM LOANS--PLANNING ADVANCES

CUMULATIVE

(Thousands of Dollars)

Year	Contracts Authorized	Activity Under Contracts		
		Disbursed	Repaid	Outstanding
1950	$ 3,066	$ 889	$ --	$ 889
1951	5,824	3,470	--	3,470
1952	9,408	6,511	604	5,907
1953	11,484	8,465	2,092	6,373
1954	14,435	10,027	3,703	6,324
1955	20,707	12,433	4,865	7,568
1956	31,148	16,353	7,144	9,209
1957	38,198	21,524	9,885	11,639
1958	50,190	29,459	15,645	13,814
1959	57,290	37,679	21,825	15,854
1960	75,122	48,638	31,582	17,056

Source: Fourteenth Annual Report, Housing and Home Finance Agency, Washington 25, D.C., 1960, Table III-2, p. 292.

finance the actual execution of the project.[1] Federally-secured loans are temporary loans made by private lending institutions to local renewal agencies, and are guaranteed by the federal government. The major buyers of these short-term notes (six to twelve months) are commercial banks, industrial corporations and dealers.[2]

The interest rate of federally-secured loans has always been substantially lower than the rate on direct federal loans (see Chart 3). The interest rate on direct federal loans is the "going long-term federal rate" specified by the Secretary of the Treasury.[3] Because the market rate is lower than the "going federal rate," a direct federal loan will generally be made only when a private loan is not feasible for any of the following reasons:

1. The local renewal agency does not have the legal power to engage in private financing.
2. The local renewal agency is unable to furnish a no-litigation certificate required for the issuance of municipal obligations.
3. Private financing cannot be arranged at an interest rate lower than the project temporary loan interest rate.

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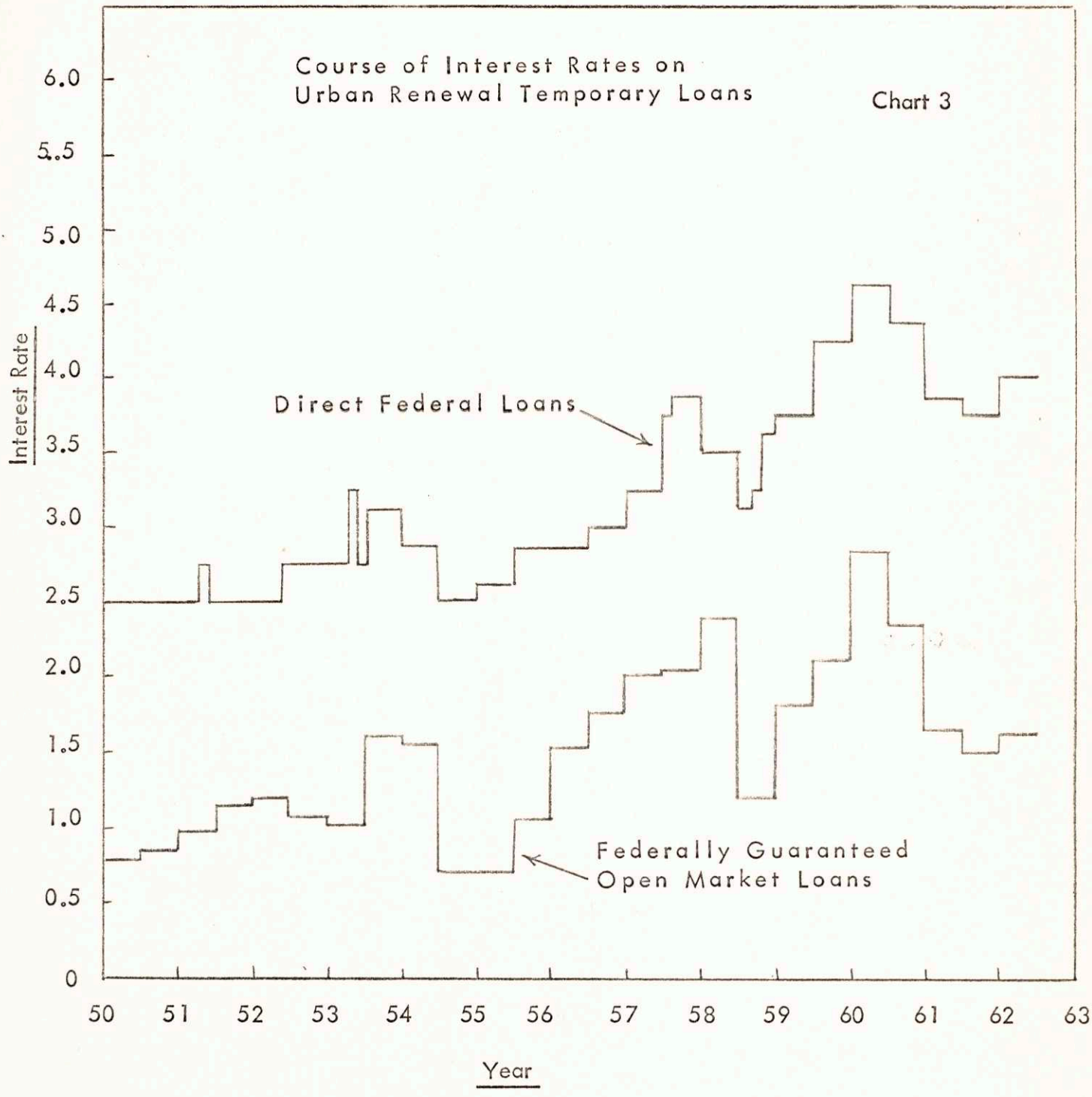
[1] See Research Note No. 3.

[2] Interview, Mr. Max Lipowitz, Director of Finance, Urban Renewal Administration (Washington, D.C., March 1962).

[3] Urban Renewal Manual, Urban Renewal Administration (Washington, D.C.), Section 17-6-8, Exhibit A.



Source: Mr. Max Lipowitz, Director of Finance, Urban Renewal Administration, Washington 25, D.C. 20 April 1962

4. There is not sufficient time for orderly completion of the private financing transaction before the loan funds will be needed.
5. The amount of the loan required is not sufficiently large to justify private financing. A private loan of less than approximately $200,000 is not desirable.[4]

The amount of temporary federal loans outstanding has increased dramatically during recent years (see Table X). At the end of 1960 almost $1.6 billion in loans was authorized and $1.2 billion had been actually borrowed by local renewal agencies. Of this, $383 million was disbursed from federal sources while the remaining $817 million took the form of federally guaranteed loans and was provided by the private capital market. Of the $1.2 billion that has been borrowed, $203 million was "outstanding." The $347 million classified as "refunded" is essentially in the same category as outstanding. These are loans which have been extended past their original due date. Thus, of the $1.2 billion that has been borrowed, almost $1.0 billion is still outstanding.

The amount of temporary loans disbursed is a good indicator of activity in the public component of urban renewal. It means that local renewal agencies are actively acquiring land, demolishing buildings, relocating people and making site improvements. This activity

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[4] Urban Renewal Manual, Op.Cit., Section 19-6-3, p. 1.

TABLE X

TEMPORARY SHORT TERM LOANS - FEDERAL AND FEDERALLY GUARANTEED - CUMULATIVE 1950 THROUGH 1960

(Thousands of Dollars)

Year	Authorized	Disbursed	Repaid	Refunded	Outstanding
1950	$ --	$ --	$ --	$ --	$ --
1951	282	--	--	--	--
1952	33,890	9,714	140	--	9,574
1953	104,068	41,690	2,345	6,512	32,834
1954	132,075	78,339	4,245	20,431	53,665
1955	185,057	130,583	25,014	42,159	63,412
1956	237,213	194,951	40,272	53,681	100,999
1957	456,624	300,480	58,117	72,111	170,252
1958	807,200	463,856	87,207	95,806	280,843
1959	1,183,472	795,318	122,503	219,722	453,094
1960	1,567,665	1,199,767	202,986	346,783	649,997

Source: Fourteenth Annual Report, Loc.Cit.

has only recently become strong; 75 per cent of the amount of temporary loans disbursed from 1950 to 1960 were disbursed after 1957.

This clearly shows that extensive activity in the preparatory stages of urban renewal is a recent phenomena. The amount of temporary loans disbursed shows no indication of declining. Thus it seems reasonable to assume that there will be a fairly high, sustained level of activity in the public component of the Federal Urban Renewal Program.

Duration of "Temporary" Loans

Although the loans only run for a period of from six to twelve months, they can be easily refinanced. These "temporary" loans usually cover the period of time required to complete the project. Because of the length of time required to complete a typical project, the loans could more appropriately be called medium- or long-term loans. Many of them have been outstanding for five years or more. This is clearly shown by the relatively small amounts which have been repaid (see Table X).

Relationship Between Temporary Federal and Federally-Guaranteed Loans

As the urban renewal program developed, a striking change took place in the breakdown between temporary federal and federally-guaranteed loans. In 1952, 100 per cent of the loans were federal. Ever since then the federal share has decreased, and at the end of 1960

only 31.9 per cent of actual temporary loans were of the direct federal variety. This change is summarized in Table XI.

It is obviously to the advantage of the local renewal agency to borrow on the open market because the interest rate is lower. However, as was previously shown, certain circumstances may make it impossible for them to do this. The trend toward federally-guaranteed loans reflects the fact that the per cent of local renewal agencies forced to borrow from the federal government is growing smaller.

Long-Term Financing--Definitive Loans

A definitive, or long-term, loan will be made to finance the capital values of that portion of a project area which is leased for redevelopment rather than sold. The duration of the loan cannot exceed forty years.[5] The loan is made by the federal government to the local renewal agency. The local renewal agency collects rent on the land and uses this rent to repay the federal loan. The annual lease rate to the redeveloper is usually 6 per cent of the land's capital value. To date few of these loans have been made. An official of the Urban Renewal Administration estimated that roughly $50 million were outstanding at the end of 1961.[6]

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[5]Annual Report, Housing and Home Finance Agency (1960), p. 286.

[6]Lipowitz, Loc.Cit.

TABLE XI

BREAKDOWN OF FEDERAL AND FEDERALLY-GUARANTEED

TEMPORARY LOANS - CUMULATIVELY

1950 TO 1960

Year	Per Cent Federal	Per Cent Non-Federal
1950	--	--
1951	--	--
1952	100.0%	--
1953	73.8	26.2%
1954	71.0	29.0
1955	56.5	43.5
1956	48.8	51.2
1957	42.1	57.9
1958	38.4	61.6
1959	34.5	65.5
1960	31.9	68.1

Source: Fourteenth Annual Report, Loc.Cit.

Federal Capital Grants--Project Execution

The most important type of financing is the federal capital grant. The government classifies federal grants in three ways:

1. earmarked or reserved
2. authorized
3. disbursed.

Disbursed capital grants refer to the total amount of money actually given to the cities by the federal government. Authorized capital grants are grants which have been authorized by a formal loan and grant contract between the local renewal agency and the federal government. Earmarked or reserved capital grants refer to the total amount of grants that the federal government anticipates being requested of them due to current plans of the local renewal agencies. Authorized grants, plus the amount expected to be needed for those projects in planning are equal to earmarked or reserved grants.

The amount of capital grants has grown rapidly over the years, with the main part of the growth taking place in the last few years. In 1960 earmarked capital grants rose to $1.87 billion. Of this, $1.14 billion had been authorized by contracts between the federal government and the local renewal agencies. No capital grants were disbursed until 1953, but since then the disbursements have grown steadily. By 1960, $365 million had been given to the cities (see Table XII).

TABLE XII

URBAN RENEWAL CAPITAL GRANTS - CUMULATIVE TOTALS

(Thousands of Dollars)

Year	Grant Reservations or Earmarkings	Grant Contract Authorized	Amount of Grants Disbursed	Per Cent of Authorized Grants Disbursed
1950	$ 198,774	$ --	$ --	--
1951	282,725	402	--	--
1952	329,229	54,098	--	--
1953	348,540	105,206	8,673	8.2%
1954	377,171	146,598	21,270	14.5
1955	553,793	185,036	58,829	31.8
1956	827,738	220,775	74,918	34.0
1957	1,021,056	389,140	105,138	27.1
1958	1,326,239	615,857	154,830	25.1
1959	1,390,866	871,512	233,294	26.8
1960	1,871,614	1,142,108	364,818	31.9

Source: Ibid.

An examination of Table XII shows that there is a definite time relationship between reserved or earmarked grants, authorized grants and disbursed grants. Grant reservations or earmarkings are indicative of the amount of urban renewal activity that will probably take place in the distant future (five to ten years). Authorized grants indicate the amount of activity that is likely to take place in the near future (one to five years). The amount of grants disbursed reflects the past progress of urban renewal.

The rapid, consistent growth of all three categories indicates clearly that the urban renewal program's scope is widening rapidly and shows no sign of slackening.

Progress Payments

Federal grant funds under a two-thirds or a three-fourths contract are payable in installments called "progress payments." In order to receive progress payments, at least 25 per cent of the real estate to be acquired for the project must have been acquired. The aggregate of progress payments cannot at any time exceed 75 per cent of the total authorized capital grant.[7] Progress payments are computed according to the following formula:

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[7] Urban Renewal Manual, Section 17-5-1.

Let:

P_t = Progress payment due at any time, t

TD_t = Total amount spent by local renewal agency at any time, t

ETC = Estimated net project cost

G = Amount of authorized capital grant

P_i = Amount of progress payment disbursed during i^{th} year

Then:

$$P_t = (0.75)\left[\frac{TD_t}{ETC}\right](G) - \left[\sum_{i=1}^{i=t-1}\right] P_i$$

Thus 75 per cent of the authorized capital grant may be obtained by periodic progress payments.

Major Completion Grant Payment

This part of the capital grant is payable when the project is substantially completed. This payment, together with progress payments, may equal 95 per cent of the capital grant.[8] In order to be eligible for this payment the following requirements must be met.

1. Title must be held to 100 per cent of the land, and 90 per cent must have been paid for.
2. 95 per cent of the relocation program must have been accomplished.
3. All demolition and site clearance must have been taken care of.

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[8] Ibid.

4. 60 per cent by value of project land to be disposed of must be sold. An additional 30 per cent must be under disposition contract.
5. 50 per cent of site improvement contracts must have been awarded.[9]

Final Capital Grant Payment

This payment is payable at the time of financial settlement when the project is completed. All phases of the project, exclusive of new construction, must be completed.

Federal Capital Grants - Relocation Payments

The federal government makes relocation grant payments to local public agencies to reimburse them for all payments made to individuals, families and business concerns. These payments are supposed to cover moving expenses and direct property losses resulting from their displacement from an urban renewal area.[10] They cannot be reimbursed for losses of goodwill or profit. A relatively small amount of funds has been devoted to relocation efforts. As of June 30, 1959, only $4.96 million had been spent in this area.

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[9] Ibid., Section 17-5-3.

[10] John W. Innes, Urban Renewal Policies and Programs in the U.S.A., Urban Renewal Administration (Washington 25, D.C., November 1960), p. 35.

Summary

Federal financial assistance is provided throughout the life of the project. It takes the form of planning advances, direct temporary loans, federally-guaranteed temporary loans, definitive long-term loans and outright grants.

Direct federal temporary loans and federal grants have accounted for most of the federal money disbursed. Because urban renewal involves a very long process the "temporary" loans have effectively developed into long-term loans.

CHAPTER V

LOCAL FINANCING OF THE PUBLIC COST

> "Life remains a war against death--civilized man, no more than archaic man, is not strong enough to die--and death is overcome by accumulating time-defying monuments. These accumulations of stone and gold make possible the discovery of the immortal soul....the ambition of civilized man is revealed in the pyramid--the achievement of the first modern individualists."
>
> Norman O. Brown,
> Life Against Death, p. 286

The local renewal agency usually supplies one-third of the funds necessary to cover the net project cost. This one-third share may be in the form of cash payments or noncash grants-in-aid. The latter consist mainly of the expenditures that the city makes on supporting facilities and site improvements within the urban renewal area. At the end of 1960, $530 million was the total estimated local share of the net cost of authorized urban renewal projects.

Much of this $530 million is expected to take the form of local noncash grants-in-aid. At the end of 1960 this category accounted for 61 per cent of the total local contribution. There is a strong incentive for the local renewal agency to use grants-in-aid. In some cases, public facilities which would have been built without urban renewal are erected in urban renewal areas. Because they are built in urban renewal areas rather than in other parts of the city, the federal government will pay two-thirds of the cost.

In other cases, local improvements may be shifted into an urban renewal area or the urban renewal area may be enlarged to include them. In either case the effect is the same; projects, largely independent of the urban renewal process, are constructed with the aid of large federal subsidies. In most cases the cities would not otherwise receive these subsidies.

Components of Local Financing

Noncash grants-in-aid can be divided into four categories:

1. Supporting facilities
2. Site improvements
3. Land donations
4. Demolition expense.

Supporting facilities have accounted for roughly 62 per cent of the noncash grants-in-aid since 1950. In earlier years the percentage was higher (69 per cent), but it dropped to 62 per cent by 1956, and has hovered about this mark since then. The percentage of grants-in-aid devoted to site improvements has been steadily increasing. From 20 per cent in 1954, it has climbed to over 30 per cent in 1960. Together, supporting facilities and site improvements compose over 92 per cent of the local noncash grants. The remainder is made up of land donations and expenses for demolition. The percentage accounted for by land donations has declined sharply from 14 per cent in 1956 to 6.6 per cent in 1960. Demolition expense has been relatively constant

at just over 1 per cent throughout the program. The local financing of estimated net project cost is summarized for the period from 1954 to 1960 in Table XIII.

Cash payments, as a percentage of the total local share, have declined steadily over the years. From a high of 48 per cent during 1955, they have declined to slightly over 39 per cent in 1960. During this period noncash grants-in-aid showed a corresponding increase.

The Lack of Local Incentive to Seek a High Disposition Price for Urban Renewal Land

The federal government pays two-thirds of the net project cost in cash. The local renewal agency takes care of the remaining one-third by a combination of cash payments and noncash grants-in-aid. Under this two-thirds formula local renewal agencies are allowed to subtract all expenditures for site improvements and public facilities from their one-third share. If the three-fourths formula is used, the local share is one-fourth, and the agencies' expenditures are subtracted from this amount. Because such a small percentage of the projects use this method, the following analysis is limited to projects using the two-thirds formula.

As the local renewal agency adds more site improvements and facilities, total local expenditures increase by the full cost of the improvements and facilities. Local expenditures are considered part of gross project cost, and thus gross project cost increases by the

TABLE XIII

FINANCING OF NET PROJECT COST - 2/3 FORMULA

(Thousands of Dollars - Cumulative)

Year	Net Project Cost	Federal Grant	Local Cash	Local Supporting Facilities	Local Site Improvements	Local Land Donations	Local Demolition
1954	$ 227,437	$147,603	$35,282	$ 30,557	$ 9,158	$ 4,227	$ 610
	(100%)	(64.9%)	(15.5%)	(13.4%)	(4.0%)	(1.9%)	(0.3%)
1955	283,732	184,530	47,472	33,958	10,782	6,330	660
	(100)	(65.0)	(16.8)	(12.0)	(3.8)	(2.2)	(0.2)
1956	326,301	214,064	53,781	36,262	13,152	8,208	834
	(100)	(65.6)	(16.5)	(11.1)	(4.0)	(2.5)	(0.3)
1957	570,816	373,908	85,148	71,679	24,779	13,511	1,791
	(100)	(65.5)	(14.9)	(12.6)	(4.3)	(2.4)	(0.3)
1958	889,464	569,282	124,654	122,486	52,751	17,911	2,380
	(100)	(64.0)	(14.0)	(13.8)	(5.9)	(2.0)	(0.3)
1959	1,191,536	766,033	176,881	153,223	74,081	18,272	3,046
	(100)	(64.3)	(14.8)	(12.9)	(6.2)	(1.5)	(0.3)
1960	1,528,886	993,772	208,438	201,706	97,989	21,334	3,841
	(100)	(65.0)	(13.6)	(13.2)	(6.4)	(1.4)	(0.3)

Source: Urban Renewal Project Characteristics, Urban Renewal Administration, Washington 25, D.C., 1954 to 1960.

full cost of the added supporting facilities and site improvements. As was noted previously, net project cost is computed by subtracting the proceeds derived from the sale of the improved land from the gross project cost. These proceeds are essentially independent of the amount of supporting facilities and site improvements, and thus net project cost increases by the same amount that gross project cost increases, i.e., by the amount of added local expenditures. And as net project cost increases, the federal government cash subsidy increases by two-thirds of the increase in net project cost. This results in the federal government's paying for two-thirds of the cost of added site improvements and public facilities.

According to the Urban Renewal Manual:

> "The maximum project capital grant for the first completed project is the least of:
>
> 1. The difference between the net project cost and the local grants-in-aid actually made;
>
> 2. Two-thirds (or three-fourths) of the net project cost;
>
> 3. The dollar amount stated in the contract for loan and grant."

Keeping this in mind, let:

N = net project cost

NC = noncash grants-in-aid.

The federal government will pay the least of the following alternatives:

(1) 2/3 (N)

(2) (N) - (NC)

When (NC) becomes greater than 1/3 (N), alternative (2) becomes less than alternative (1). Thus the federal government pays 2/3 of net project cost up to the point where (NC) = 1/3 (N). From there on it only pays the difference between (N) and (NC). It was shown earlier that (N) will increase by the same amount as (NC). As (NC) increases, the difference between (N) and (NC) remains constant, and the federal share does not increase further. Thus the federal government's contribution increases by two-thirds of the amount of increases in local expenditures up to the point where (NC) = 1/3 (N). From this point on the federal contribution is independent of increases in local expenditures. Thus, all local expenditures in excess of 1/3 (N) must be borne entirely by the local government.

Looking at it from the viewpoint of the individual city, it would be rational to increase local expenditures on site improvements and public facilities until they were equal to one-third of the net project cost. All improvements and facilities added within this range are in reality purchased by the city at a 66 2/3 per cent discount.

A Buyer's Market

Usually the local renewal agency is able to make a reasonably accurate estimate of what the total gross project cost and its components will be. Their estimate of net project cost is more uncertain

because it is a function of the amount received from the sale of the improved land, and this sale usually occurs much later in the project. In most cases the price received for the land is determined by negotiation between the local renewal agency and the developer.

What incentive is there for the local renewal agency to elicit the maximum price from the buyer? As was mentioned earlier, a critical point is reached when noncash grants-in-aid reach one-third of net project cost. Net project cost is a function of gross project cost and the price received for the urban renewal land. Thus the higher the price received for the land the lower the net project cost, and vice versa. If gross project cost and the amount of noncash grants-in-aid are known, it is possible to determine the sale price of the land that will cause noncash grants-in-aid to equal one-third of net project cost.

Let:

P = price received by local renewal agency for cleared land

*P = the "critical price" of the cleared land that makes noncash grants-in-aid equal to one-third of net project cost

G = gross project cost

NC = noncash grants-in-aid

N = net project cost

The critical point is reached when:

$$NC/N = 1/3$$

But:

$$N = G-P$$

And therefore:

$$NC/(G-P) = 1/3$$

$$3NC = (G-P)$$

Dividing both sides by G:

$$3NC/G = 1-(P/G)$$

Rearranging:

$$NC/G = (1/3)(1-(P/G))$$

Thus since (NC) and (G) are known, the (P/G) which will satisfy the equation can be determined. From the ratio (P/G) and (G), (P) can be computed. This (P) is then called the critical price, (*P). Calling (*P/G) the critical ratio, it can be shown that there will not be any incentive to the city to increase (*P/G) because benefits accruing from any further increases go entirely to the federal government. Because (G) and (NC) are assumed given, the only variable is (P). Thus there is no incentive to the city to increase (P) beyond (*P).

Calling the ratio of noncash local grants-in-aid to gross project cost (R_n), and the ratio of the sales price to gross project cost (R_p), the following formula results:

(3) $$R_n = (1/3)(1-R_p).$$

As was observed before, in most cases the local renewal agency knows (R_n) before it knows what price it can get for the land. The lower the price it asks for the land, the easier it is to sell the land. For example, assume that (R_n) is known. What is the maximum price that the local renewal agency should try to obtain?

Using formula (3), the (R_p) which corresponds to the given (R_n) can be determined. Because (R_n) and (G) are known, it is possible to calculate the maximum price. This will be (*P). If the offered price is less than (*P), it benefits the local renewal agency to attempt to increase the price, because the local renewal agency's share of the net project cost will be reduced by one-third of all such increases. However once (*P) is reached, all benefits accruing from further increases in price go solely to the federal government. If the local renewal agency attempted to raise the price past (*P), it would sell. Therefore it appears that the price received for the land will only exceed (*P) when this price is obtainable without any extra effort on the part of the local renewal agency.

Thus, as constituted, the present program has a built-in incentive to:

1. Increase the amount of local noncash grants-in-aid which in turn tends to
2. Decrease the price received by the local renewal agency for the cleared land.

Looked at from the city's viewpoint these effects are beneficial. New, public facilities are subsidized substantially by the federal government, and it becomes easier for the city to dispose of the improved urban renewal land. But from a national viewpoint, these same effects must necessarily increase the total cost of the federal renewal program.

One possible solution to this problem would be to require the local renewal agency to match the federal contribution in cash at some specified ratio. Local noncash grants-in-aid would be subtracted from net project cost to yield Residual Project Cost. The federal government would pay (x) per cent of this Residual Project Cost, and the local renewal agency would pay (1-x) per cent in cash. This formula would have a dual effect. It would effectively curtail excess construction of public facilities, because the city would now bear the full burden of their cost. It would also cause the city to seek the maximum price for the land, because the higher the price they received for the land, the lower their cash contribution would be.

Tax Effects

An analysis of the tax effects of urban renewal on a city should consider the total effect on tax revenues throughout the city. At present this is not feasible, primarily because of the lack of reliable data. However, it may be possible to get a good approximation by examining the tax effects on the urban renewal area alone.

Theoretically, tax revenues drop during the urban renewal process as the old buildings are torn down, and rise again as new buildings are erected.

Time is an important factor that must be considered in evaluating the tax effects of urban renewal. In the following analysis, present value techniques will be used to evaluate the alternatives. Consider two cases:

1. Time pattern of tax revenue without urban renewal
2. Time pattern of tax revenue with urban renewal.

Which alternative will produce the greatest tax revenue to the city?

Let:

PV_r = present value of tax revenue with urban renewal

PV = present value of tax revenue without urban renewal

R_r = expected tax revenue per year after urban renewal

R = tax revenue per year without urban renewal

i = minimum required rate of return

n = length of period for which no taxes are paid.

Assuming that the tax payments continue to infinity:

$$(4) \qquad PV = \frac{R}{i}$$

$$(5) \qquad PV_r = (R_r/i)(1/e^{in}) = \frac{R_r}{ie^{in}}$$

The present value of the net increase in taxes due to urban renewal is:

(6) $PV_r - PV$

Thus:

(7) $$PV_r - PV = \left[\frac{R_r}{e^{in}} - R \right] (1/i)$$

Other Effects on Tax Revenue

There are other side effects of urban renewal on the tax revenues of a city. The new tenants of the buildings constructed as urban renewal sites often tend to come from other parts of the same city. And unless the vacancies they create are filled by similar tenants from outside of the city, the value of these older buildings may decline, thereby decreasing the overall tax base of the city. However, the buildings surrounding the urban renewal area may increase in value because of the new urban renewal construction. This will tend to increase the tax base of the city.

Buildings erected on urban renewal sites are generally not net additions to the tax base. A substantial percentage of this construction would have been erected somewhere in the city irrespective of the urban renewal program.[1] Thus, the net increases in tax revenue to the city from an area of urban renewal land is apt to be considerably less than the gross figures indicate. Taking these other effects into account, it can be said that:

V = decrease in annual taxes in nonurban renewal areas of the city due to tenants shifting into urban

[1] See Chapter VI.

renewal areas. (This would only apply to the net gain in urban renewal construction, i.e., the building that would not have been erected without urban renewal).

S = increase in annual taxes due to increase in value of buildings surrounding urban renewal area.

C = the amount of annual taxes from buildings in the urban renewal area that would have been constructed if there had been no urban renewal program.

Then equation (5) becomes:

$$(8) \qquad PV_r = \frac{R_r}{ie^{in}} - \frac{(C+V-S)}{ie^{in}}$$

$$(9) \qquad PV_r = \frac{(R_r+S-C-V)}{ie^{in}}$$

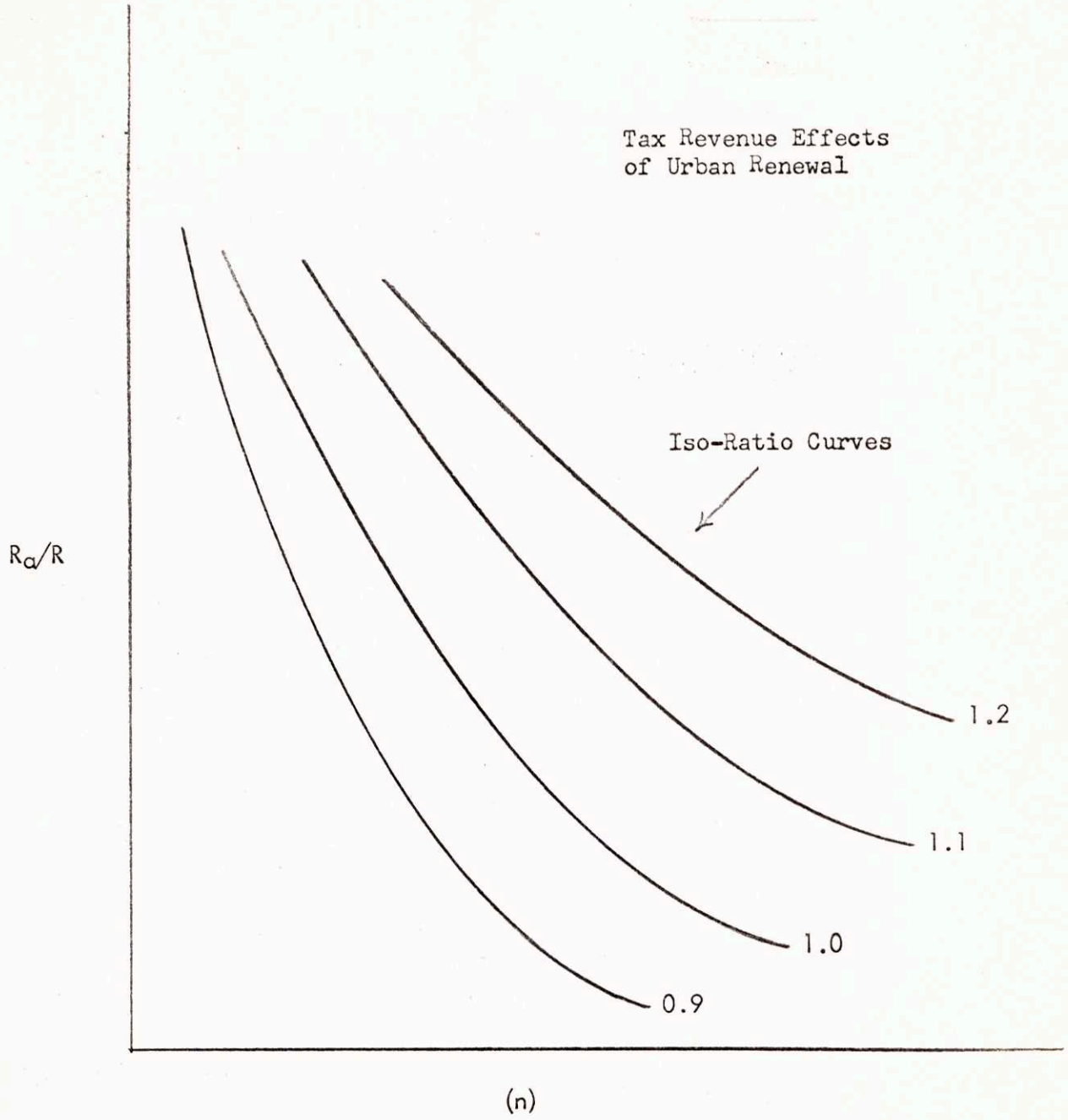
And:

$$(10) \qquad PV_r - PV = \frac{(R_r+S-Re^{in}-C-V)}{ie^{in}}$$

If the present value of tax revenue with urban renewal is greater than without urban renewal, PV_r-PV will be positive. In other words, the discounted value of the additional taxes gained from urban renewal must be compared to the discounted value of those taxes lost during urban renewal. Only in this way can it be determined if there has been a net loss or gain.

In Chart 4, a family of iso-ratio curves is presented. The ratio used is the present value of the tax gain divided by the present

Chart 4


Tax Revenue Effects
of Urban Renewal
Iso-Ratio Curves
R_a/R
1.2
1.1
1.0
0.9
(n)

value of the tax loss sustained while the old buildings are torn down; R_a/R is the ratio of annual tax revenue with urban renewal to the annual tax revenue without urban renewal; (n) is the number of years during which no tax revenue is derived from the urban renewal site. This graph can be used in many ways. For example, if it is possible to determine the length of time during which there will be no tax revenue, and the desired gain ratio is known, the annual tax revenue which will be necessary after urban renewal can be determined.

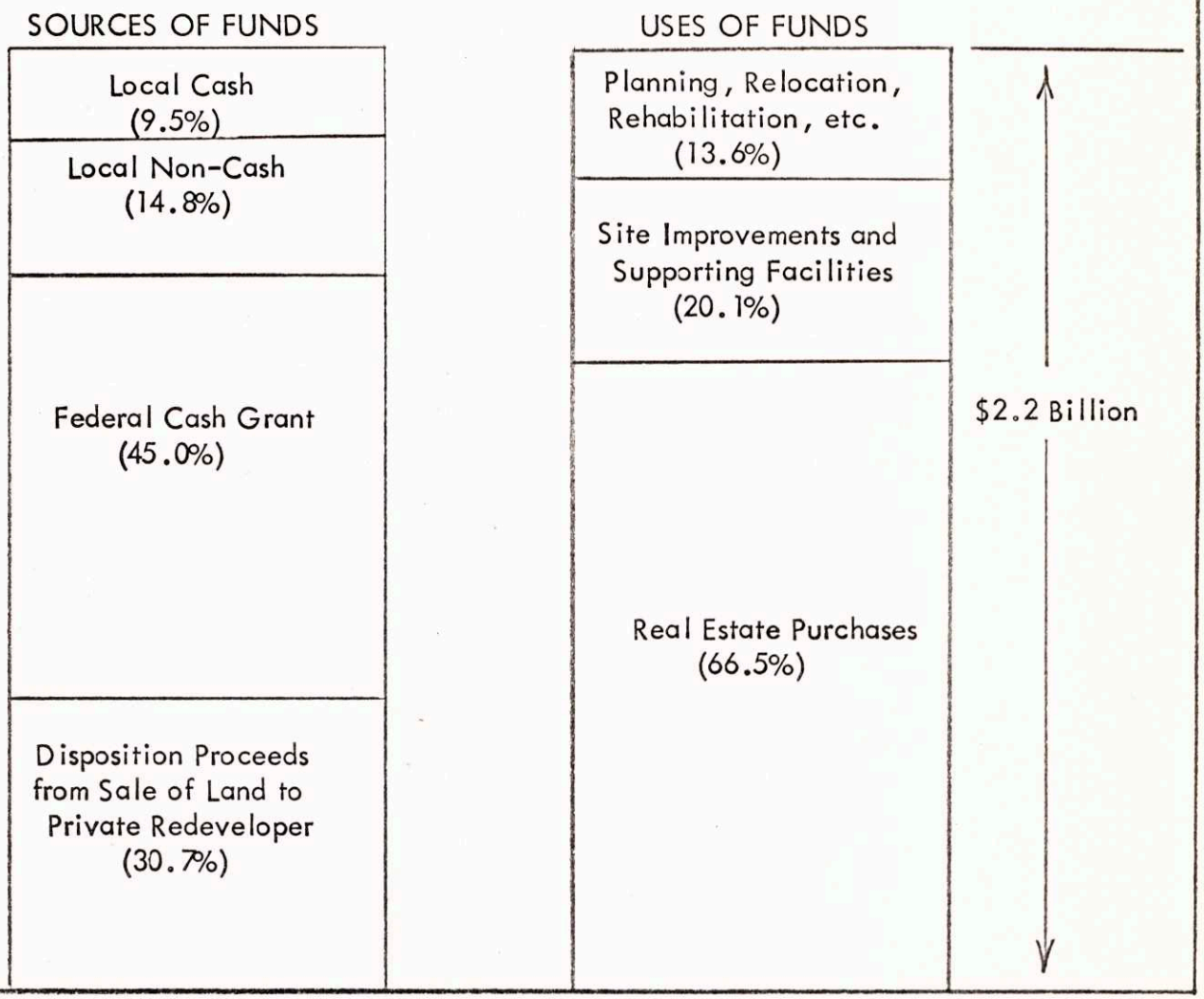
Gross Project Cost - Sources and Uses of Funds

A summary breakdown of the sources and uses of public funds in urban renewal is graphically presented in Chart 5. As was noted before, the major use of federal and local funds is devoted to real estate purchases. At the end of 1960 these expenditures accounted for 66.5 per cent of all uses of public funds. Public improvements and buildings accounted for another 20.1 per cent, while planning, relocation, interest and other expenses absorbed the remaining 13.6 per cent.

A full 45.0 per cent of the funds are supplied in the form of federal cash grants. Another 30.7 per cent is derived from the sale of cleared and improved project land to the developer. The remaining 24.3 per cent comes from the local government--9.5 per cent in cash and 14.8 per cent in noncash grants-in-aid.

Chart 5

FEDERAL AND LOCAL FINANCING
OF
GROSS PROJECT COST



Source: Urban Renewal Project Characteristics, Urban Renewal Administration, Washington 25, D.C., December 31, 1960, 463 Projects Reporting

Summary

Theoretically, the local share of the cost of urban renewal is one-third of net project cost. However, over 60 per cent of the local share is in the form of noncash grants-in-aid. The federal government pays for two-thirds of the cost of these noncash grants-in-aid, thereby directly subsidizing the construction of municipal facilities.

Thus there is a strong incentive for the local renewal agency to increase the amount of noncash grants-in-aid. As the amount of the noncash grants-in-aid increases, the incentive of the local renewal agency to obtain a high price for the cleared land decreases. The net result is an overall increase in the public cost of the program.

The net tax benefit of urban renewal is not as great or clear as it might appear to be at first glance. Three factors which tend to reduce the net increase in tax revenue to the city must be accounted for. They are:

1. Tax losses during the urban renewal process.
2. Tax revenue increases that would have accrued to the city without urban renewal.
3. Tax revenue declines due to tenants moving from buildings within the city to buildings within the urban renewal areas.
4. Tax revenue increases because of increases in value of buildings surrounding urban renewal areas.

CHAPTER VI

CAPITAL FORMATION

> ". . . . The pleasure of planned construction is one of the most powerful motives in men who combine intelligence with energy; whatever can be constructed according to a plan, such man will endeavor to construct. . . . the desire to create is not in itself idealistic since it is a form of the love of power, and while the power to create exists there will be men desirous of using this power even if unaided nature would produce a better result than any that can be brought about by deliberate intention."
>
> Bertrand Russell,
> The Scientific Outlook, 1931

The Amount of Capital Formation

The most dramatic and possibly most significant aspect of the urban renewal process is the erection of new, gleaming buildings in areas once designated as slums. The following analysis is based on estimates derived from official quarterly progress reports submitted by each local renewal project to the Urban Renewal Agency.[1] These data reflect the local public agency's best present estimate of the amount of construction that has been started and the amount that will eventually go up in the project area.

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[1]The author is solely responsible for the compilation and interpretation of the data pertaining to capital formation in urban renewal areas. The Urban Renewal Administration kindly permitted the abstraction of the basic data from their official files during the summer of 1961. The views and opinions expressed in this study concerning capital formation are the author's and should not be interpreted as being official views and opinions of the Urban Renewal Administration.

From the program's inception in 1949 to March, 1961, approximately $824 million of new construction was started in urban renewal areas. A large part of the total construction started was concentrated in a few states. Three states (New York, Pennsylvania and Illinois) accounted for almost 50 per cent of the total. New York City alone accounted for 32 per cent. The amount started in each state is shown in Table XIV.

Time Pattern of Capital Formation

Using presently available data, it is difficult to get an accurate picture of the value of construction put in place annually on urban renewal sites. The data used in the following analysis were also derived from official estimates of the Urban Renewal Administration. Using these data, it was possible to develop time series showing the estimated amount of construction started annually--both public and private--in urban renewal areas. These series are summarized in Chart 6 and shown graphically in Table XV.

As expected, construction activity was slow during the first few years of the Federal Urban Renewal Program. Virtually no construction was started during 1950 and 1951. As the program evolved, construction activity increased; $36 million of construction was started in 1952, followed by $86 million in 1953. The amount of construction started in 1954 was only $19 million, and for the next two

TABLE XIV

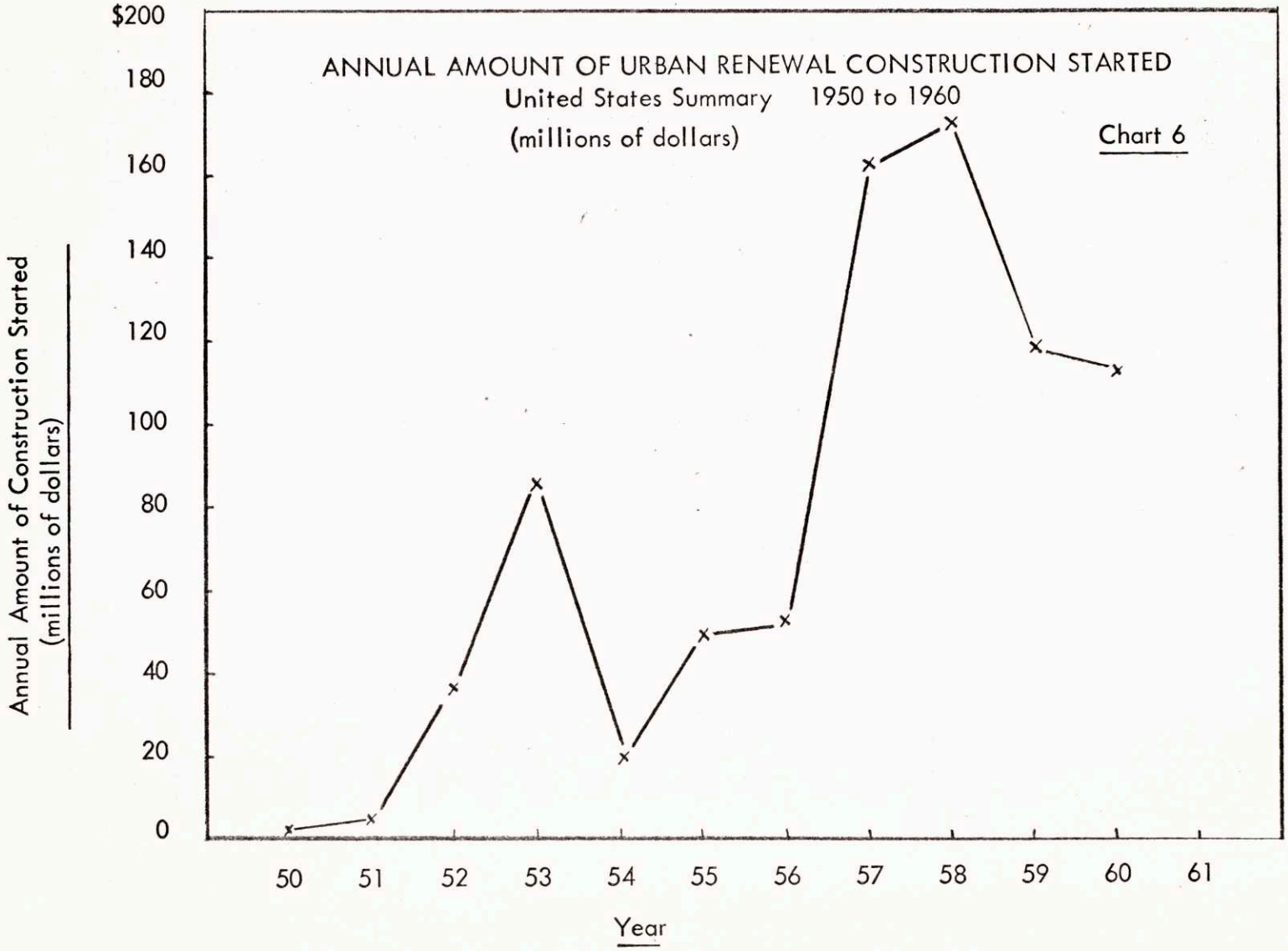
VALUE OF ALL URBAN RENEWAL CONSTRUCTION STARTED

BY STATES - 1950 TO MARCH 1961

(Millions of Dollars)

State	Rank by Amount Started	Amount Started	Cumulative Amount Started	Per Cent of Total	Cumulative Per Cent of Total
New York	1	$267	$267	.324	.324
Pennsylvania	2	69	336	.084	.407
Illinois	3	67	403	.081	.489
Virginia	4	55	458	.067	.555
Connecticut	5	48	506	.058	.614
New Jersey	6	42	548	.051	.665
California	7	40	588	.049	.713
Minnesota	8	37	625	.045	.758
Maryland	9	30	655	.036	.794
District of Columbia	10	29	684	.035	.830
Missouri	11	25	709	.030	.860
Tennessee	12	23	732	.028	.888
Michigan	13	21	753	.025	.913
Massachusetts	14	19	772	.023	.936
Ohio	15	19	791	.023	.959
Alabama	16	14	805	.017	.976
(13 other states)	17-39	19	824	.023	1.000
(11 remaining states)	40-50	--	824	--	1.000
TOTAL		$824	$824	1.000	1.000

Source: Physical Progress Quarterly Reports, Urban Renewal Administration, March 31, 1961 (191 projects), FHA Division of Research and Statistics, March 31, 1961.



Source: Physical Progress Quarterly Report -- Urban Renewal Administration -- Form H-6000
Housing and Home Finance Agency -- Washington 25, D.C. -- 31 March 1961
Estimates derived from 191 projects reporting construction started.

TABLE XV

URBAN RENEWAL CONSTRUCTION ACTIVITY - 1950 TO 1961

ANNUAL AMOUNTS OF PUBLIC AND PRIVATE

CONSTRUCTION STARTED

(Millions of Dollars)

Year	Amount of Public Construction Started	Amount of Private Construction Started	Total Amount of Construction Started
1950	$ 2	$ --	$ 2
1951	5	--	5
1952	13	23	36
1953	11	75	86
1954	11	8	19
1955	5	44	49
1956	10	40	50
1957	26	131	157
1958	50	122	172
1959	50	68	118
1960	52	61	113
1961*	12	5	17
TOTAL	$247	$577	$824

*First quarter

Source: Ibid.

years construction activity remained fairly inactive: $49 million in 1955 and $50 million in 1956.

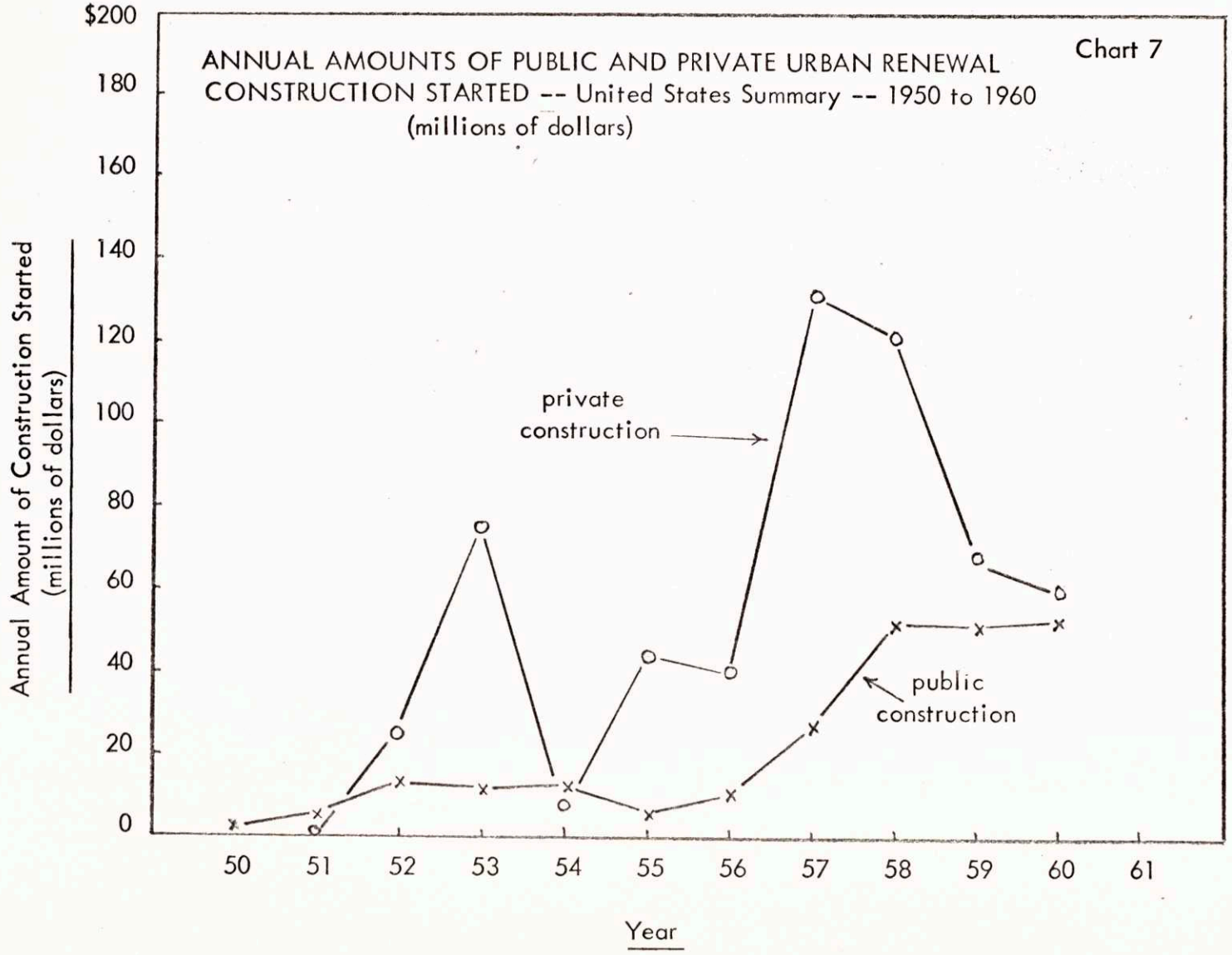
Construction activity increased sharply in 1957, with $157 million of new construction being started. Activity moved even higher in 1958 when over $172 million of construction was started. The 1958 figure marked the peak of the annual amount of construction started in urban renewal areas.

Since 1958, construction activity has declined. In 1959 the value of construction started fell to $118 million, and in 1960 declined still further, to $113 million. During the first three months of 1961, slightly over $17 million of construction was started.

In spite of the fact that these are rough estimates, it appears reasonably certain that there was a definite downward trend in urban renewal construction activity from 1958 to 1961. Why did annual construction starts decline during the most rapid period of growth of the overall program? Is this trend apt to continue? Before attempting to answer these questions, the composition of the construction started will be examined.

Public Vs. Private Construction

The trend of the amount of annual construction started in urban renewal areas is significantly different for public construction than it is for private construction, as can be seen in Chart 7. From 1950 to 1956, public construction in urban renewal areas averaged $8 million



Source: same as chart 6

per year. In 1957 it climbed to $26 million. From 1958 through 1960, the amount of public construction started averaged $51 million per year. Based on the amount started in the first quarter of 1961, it is estimated that approximately $50 million will be started in 1961.

Summing up: Public construction activity in urban renewal areas has been characterized by a long initial period of low construction activity up to 1956, a substantial increase from 1956 to 1958, and a relatively high, constant amount of activity from 1958 through 1961.

Private Construction

The pattern of private construction activity differed considerably. After two years of inactivity during the initial phase of the program, the annual amount of private construction increased rapidly for two years, hitting a peak of $75 million in 1953. It then plunged to $8 million in 1954, picked up to $44 million in 1955 and slipped back slightly to $40 million in 1956.

During the next two years there was a burst of construction activity in the private area--$131 million in 1957 and $122 million in 1958. The $131 million started in 1957 was the highest figure for any year to date. In 1959 the amount of private construction started declined sharply to $68 million, and in 1960 it declined further to $61 million. During the first quarter of 1961 only $5 million was started.

Thus, the recent decline in overall construction activity in urban renewal areas throughout the United States is due entirely to a decline in private construction activity. Because of the large number of urban renewal projects that appear to be moving forward, this decline will probably be reversed in the near future. However, an absolute decline in private construction activity, during a period of time when the number of projects was growing rapidly, is a clear indication that the program is not moving as smoothly as it might.

The Reasons for Private Construction Fluctuation

Most of the sharp increase in private construction activity in 1953 can be attributed to the amount started in New York City. During this time Robert Moses wielded considerable control over the urban renewal program of New York City, and he appears to have been primarily responsible for this burst of private construction activity. He was able to use all the influence, resulting from the important, appointed public offices he held, to persuade private and public interests to proceed rapidly. Usually the sale of the land was arranged before it was acquired by negotiation or eminent domain.

The sharp jump in private construction activity during 1956 and 1957 is probably due to the introduction of direct federal financing of private urban renewal construction via FNMA. A large amount of "potential" private construction was generated by the program from 1950 to 1955, but it appears that it did not materialize because of

the lack of adequate financing. Financing appears not to have been available because the lending institutions felt there was a high degree of risk attached to this type of construction. FNMA remedied this in late 1955, thus releasing the backlog of private residential construction.

The decline experienced from 1958 to 1960 seems to be due to the fact that the Eisenhower administration was becoming dissatisfied with the program and was slowing it down by extensive "red tape."[2] During this time, the redeveloper was faced with many delays caused by the slow processing of applications. At the same time it appears that the private developers, themselves, were becoming dissatisfied with the program. The following quotation refers to New Haven, Connecticut, often called the outstanding example of urban renewal in the United States.

> Although Lee foresees a "spanking new and exciting" New Haven by 1965, he isn't planning to run again. Nor is Roger Stevens planning new redevelopment ventures ("I'll never go into another one of these things.")[3]

This lack of desire for urban renewal arises from many sources. First, financial institutions have been reluctant to lend money for projects in these areas, and understandably so--as of June 30, 1961,

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[2]Interview, Mr. Chester Rapkin, Professor, University of Pennsylvania (April, 1962).

[3]"City Face-Lifting--New Haven (Connecticut) Points Up the Problems of Redevelopment," Wall Street Journal (New York, January 17, 1962). Mr. Lee is the Mayor of New Haven, and Roger Stevens is the private developer.

over 45 per cent of the urban renewal apartment building mortgages in FNMA's portfolio were delinquent from one to six months (see Chapter VII). Political pressures and red tape have considerably slowed down the construction process in urban renewal areas.

> Developer Stevens. . . admits that political maneuvering caused costly delays. "Some decisions about the Church Street project didn't make economic sense from the beginning, but they were politically necessary."[4]

Generally speaking, urban renewal has not turned out to be as lucrative as was first believed--and redevelopers have been re-evaluating the program. This will be discussed in more detail in Chapter VIII.

New York City

New York City alone has accounted for roughly 32 per cent of the urban renewal construction started (see Table XIV). Because of the large effect that New York City has on the total figures of the country, it was decided to eliminate New York City from the total summary in order to get a clearer idea of what has been happening in the rest of the nation (see Chart 8). In general, the experience of the rest of the United States is comparable to New York City's. The same pattern of increasing construction activity up to 1958 and then a sharp decline that was characteristic of the entire United States is also evident in Chart 8.

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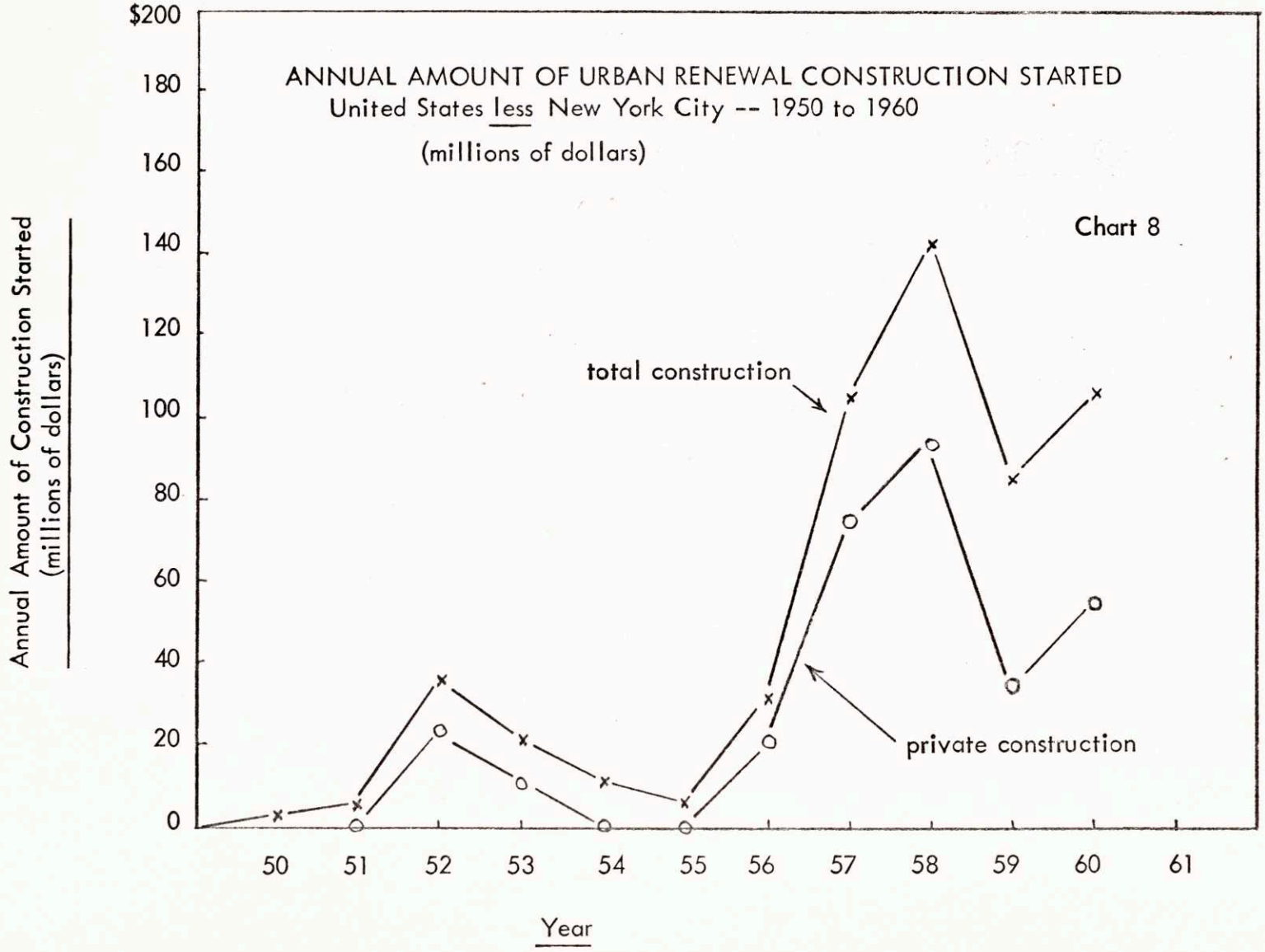
[4] Ibid.



Source: same as Chart 6

Composition of Urban Renewal Construction Started

Almost 56 per cent of the construction started in urban renewal areas has been devoted to private residential use. This construction is typically high-rise apartment buildings. The monthly rent per dwelling unit ranges from approximately $90 to over $300, with the average being $158.13.[5] Only 3 per cent of people renting homes in the United States pay more than $120 per month.[6] Thus the people renting new apartments constructed in urban renewal areas pay higher rents than at least 97 per cent of all rentees in the United States. A more valid comparison would be with rentees in urban areas, but the statistics are unavailable.

The next largest category of construction was public and semi-public facilities, which accounted for over 21 per cent of the total started. Site improvements, comprising streets, alleys and rights-of-way, accounted for another 3 per cent. Six per cent of the construction in the urban renewal area was public housing, presumably to be used by people originally displaced from the area.

Business interests showed little enthusiasm for building on urban renewal sites. Only 14 per cent of the construction was started by business interests, 10 per cent went into commercial buildings and 4 per cent was devoted to industrial buildings. The breakdown of construction started is summarized in Table XVI.

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[5] Fourteenth Annual Report, Housing and Home Finance Agency, Table III-69, p. 142.

[6] Statistical Abstract of the United States, 1961, p. 767.

TABLE XVI

BREAKDOWN OF URBAN RENEWAL CONSTRUCTION STARTED, CUMULATIVE FROM BEGINNING OF PROGRAM TO MARCH 31, 1961

(Millions of Dollars)

Category		Amount		Per Cent of Total
Total Cost		$824		100.0%
Private Residential		462		56.1
Business		115		13.9
Commercial	80		9.7	
Industrial	35		4.2	
Public		247		30.0
Public Housing	50		6.1	
Public and Semi-Public	174		21.1	
Streets, Alleys, Rights of Way	23		2.8	

Source: Physical Progress Quarterly Reports, Urban Renewal Administration, Form H-6000 (Washington, D.C., March 31, 1961) 191 projects reporting.

Planned Construction

Estimates of the total value of new construction were reported by 369 local renewal agencies. These estimates reflect the local renewal agencies' future plans for all new construction within the urban renewal area. The amount of planned construction also includes construction that has already been started for 191 of the local renewal agencies reporting.

The composition of planned construction differs significantly from that of started construction. An examination of Table XVII shows that over 40 per cent of the total amount of construction is planned to be devoted to business uses. But so far business interests have been slow in responding to urban renewal (less than 14 per cent of construction started has been started by business interests). This trend could change in the future, but it is suggested that, in light of the small degree of interest exhibited in the past, local renewal agencies should carefully examine the feasibility of their future construction plans. If business interests do not respond as expected, either the total amount of construction will be less than expected or public and private residential uses will have to fill the gap.

Projects reporting estimates of future construction also submitted estimates of the completion date of this construction. The estimated amount of construction to be completed each year from 1961 to 1975 is shown in Table XVIII. Seventy-eight per cent of the reported amount planned is expected to be finished by 1965.

TABLE XVII

BREAKDOWN OF ALL PLANNED URBAN RENEWAL CONSTRUCTION

(Millions of Dollars)

Category		Amount		Per Cent of Total
Total Cost		$3964		100.0%
Private Residential		1511		38.1
Business		1601		40.4
Commercial	$1078		27.2	
Industrial	523		13.2	
Public		852		21.5
Public Housing	75		1.9	
Public and Semi-Public	677		17.1	
Streets, Alleys, Rights of Way	100		2.5	

Source: Ibid.

TABLE XVIII

URBAN RENEWAL CONSTRUCTION - ESTIMATED AMOUNTS TO BE COMPLETED IN FUTURE YEARS

(Millions of Dollars)

Year	Amount Estimated to be Completed
1961	$304
1962	447
1963	551
1964	532
1965	852
1966	344
1967	137
1968	26
1969	169
1970-75	102

Source: Physical Progress Quarterly Reports, Op.Cit., 369 Projects.

However, unless construction progress becomes much faster than it has been in the past, it appears that these estimates are optimistic. The amount of construction that is expected to be completed by 1965 would require a large influx of private and public capital, and at present there are no clear indications that this may happen.

The Relative Importance of Federal Urban Renewal to the Economy

How important is urban renewal construction to the economy of the United States? One way to gain insight into this is to compare the amount of new construction in urban renewal areas with the amount of new construction in the entire United States.

The total amount of construction started in urban renewal areas from 1950 to 1960 was roughly $824 million. Although the amount actually put in place is not known, it will be less than $824 million. Over the same period of time, approximately $500 billion worth of construction was put in place throughout the United States. Even if the optimistic assumption is made that $500 million of the urban renewal construction started was actually put in place, it would still be only one-thousandth of all construction put in place in the United States during the past ten years.

Clearly then, urban renewal has not yet affected the economy of the United States to any significant extent. Interestingly enough, over the course of the urban renewal program (1950 to 1960), about three hundred times as much money was spent on "private rehabilitation"

than was expended on all urban renewal construction and rehabilitation (see Table XIX, Maintenance and Repair column).

The Relative Importance of Urban Renewal to Cities

In many ways, however, the former comparison is not a fair one. All it shows is that urban renewal has not contributed significantly to the economy of the United States during the ten year period from 1950 to 1960. A more pertinent question is: during these ten years, what portion of the new building construction in cities took place in urban renewal areas?

Approximately $52.6 billion of new building construction took place in cities with populations over 100,000 from 1950 to 1960 (see Table XX). The valuation figures are derived from estimates of construction costs made by prospective builders when applying for permits to build and value of contracts awarded by the federal government. They do not include land cost. The types of building construction included are: residential, commercial, industrial, garages, educational, institutional, religious and public. Also included are alterations, additions and repairs. During the same period of time, the total amount of all construction started in urban renewal areas throughout the United States was about $824 million. Both the annual amounts of construction started under the auspices of the Federal Urban Renewal Program and the annual amounts of building construction started independently of urban renewal are presented graphically in

TABLE XIX

VALUE OF PUBLIC AND PRIVATE CONSTRUCTION

(Millions of Dollars)

Year	New Private Construction	New Public Construction	Maintenance and Repair	Total
1945	$ 5,809	$ 2,398	$ 6,096	$11,905
1950	29,947	6,866	12,084	42,301
1955	44,164	11,724	15,843	60,007
1956	45,815	12,748	16,978	62,793
1957	47,845	14,079	17,920	65,793
1958	48,950	15,457	17,713	66,663
1959	54,109	16,107	19,282	73,391
1960	(55,556)*	(15,953)*	(a)	(a)

*adjusted new series

(a) not available

Source: Statistical Abstract of the United States, 1961.

TABLE XX

BUILDING CONSTRUCTION IN CITIES WITH OVER 100,000 POPULATION

- 1950 TO 1960

(Value of Construction Started Does Not Include Land Costs)

(Millions of Dollars)

Year	Value of Construction Started
1950	$4,660
1951	3,830
1952	3,720
1953	4,190
1954	4,420
1955	4,710
1956	4,770
1957	5,000
1958	5,570
1959	5,740
1960 (estimate)	(6,000)
TOTAL	$52,610

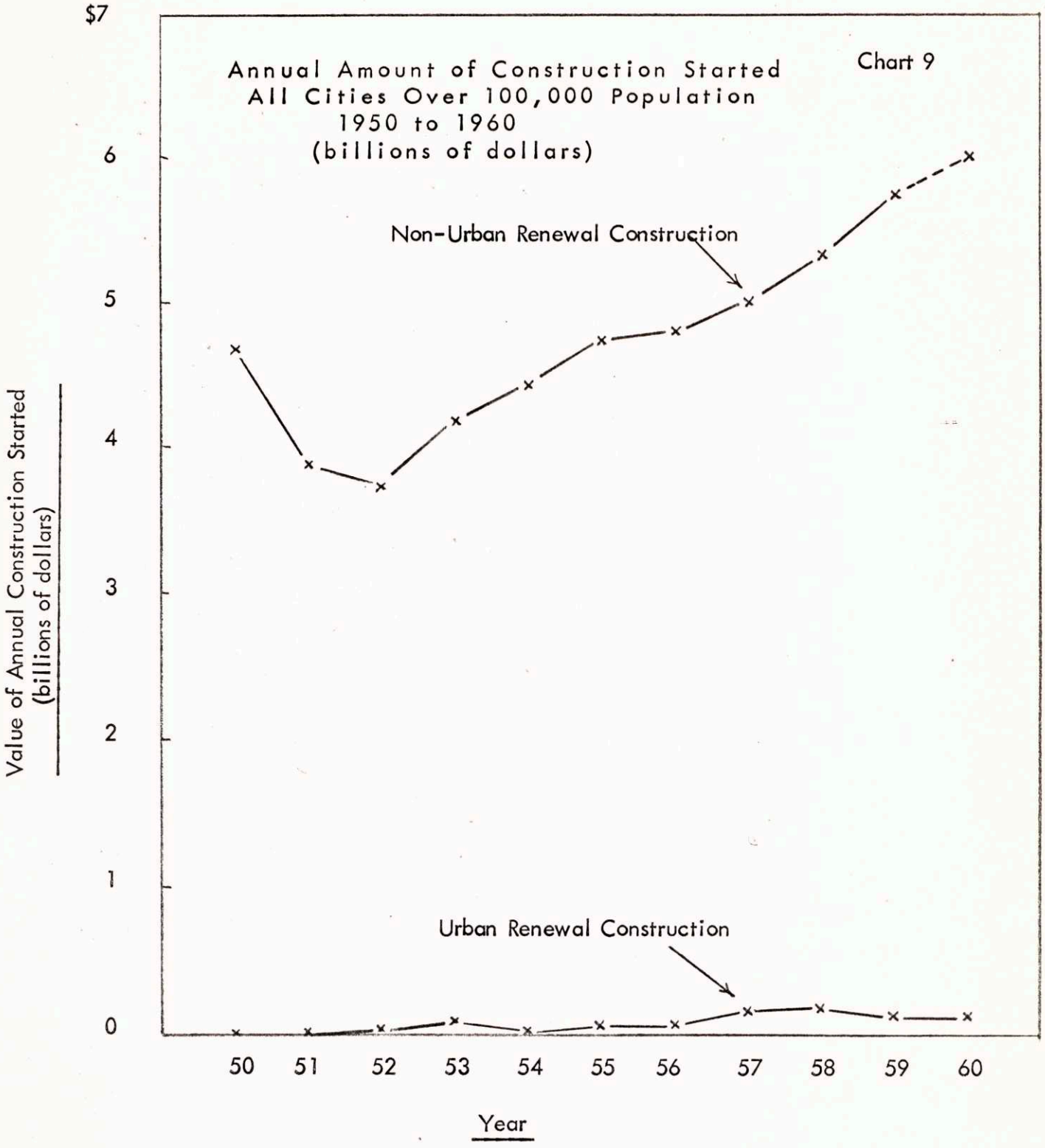
Source: Statistical Abstract of the United States, 1961 and other issues.

Chart 9. It can be ascertained from inspection alone that the Federal Urban Renewal Program has played an insignificant role in the construction activity of these cities.

The Net Contribution of Urban Renewal

One of the most serious criticisms that can be leveled at the Federal Urban Renewal Program is that it may have only caused shifts in construction activity rather than increases in construction activity. Some shifts in construction activity may be desirable, but it then becomes necessary to consider the effect on the area of the city that the construction was shifted from. Proponents of urban renewal generally speak of the large amount of construction activity the program will bring to the city. However, the greater the amount of shifted construction is, the weaker this argument becomes. And the lure of new construction coming into the city appears to be one of the strongest motivations for majors and other city officials to push for an urban renewal program. For this reason it is important that an attempt should be made to determine the percentage of the construction in urban renewal areas that would have been erected elsewhere in the city if the Federal Urban Renewal Program had not existed. This question will never be answered with certainty, but it is possible to get an idea of what the order of magnitude of the numbers might be.

As was shown previously, the public subsidy involved in the urban renewal program is only intended to lower the cost of



Source: Statistical Abstract of the United States, U.S. Department of Commerce, Washington 25, D.C., 1961 and other issues; Physical Progress Quarterly Reports, Urban Renewal Administration, 31 March 1961, 191 projects reporting, Washington 25, D.C.

construction in an urban renewal area to a level where urban renewal construction can compete with conventional construction in the housing market. The people renting space in new urban renewal construction pay rents comparable to similar space in conventional buildings. The subsidy they receive is location; without the urban renewal program they would have been forced to pay higher rents to acquire similar space at that particular location.

If there is sufficient demand to absorb urban renewal construction as well as conventional construction, it can reasonably be assumed that the market would eventually accomodate this demand even if urban renewal were not present. The market could do this by either increasing the supply of construction or increasing the price of construction. It is most likely that some combination of these events would occur. Hence, it appears that the net contribution of urban renewal has been to keep prices slightly lower than they might have been and to speed up the supply of construction. This contribution would only occur under ideal operating conditions for urban renewal. Considering the fact that the urban renewal process is very long, the value of the net contribution mentioned above decreases. It is doubtful if urban renewal actually speeds up the supply of construction.

Based on this type of reasoning, some experts in the economics of urban renewal have estimated that anywhere from 50 to 75 per cent of the construction in urban renewal areas would have been put up even

if there had been no urban renewal program.[7] In making this estimate they relied heavily on their experience in New York City. In a nub, the argument is this: If there is sufficient demand to absorb a given amount of urban renewal construction at market prices, it seems reasonable to assume that a large part of this demand would eventually be accomodated by normal market processes. For purposes of analysis, it will be conservatively estimated that about 50 per cent of urban renewal construction is shifted--only 50 per cent can be considered a net gain.

Summary

Approximately $824 million of new construction was started in urban renewal areas from 1950 to 1960. Of this, $577 million was private construction and $247 million was public. The amount of private construction started annually peaked in 1957 and then declined each year from then up to 1960. The amount of public construction started annually peaked in 1958 and remained at this level through 1960.

Of the total construction started, 56 per cent was private residential, 30 per cent was public, 10 per cent was commercial and 4 per cent was industrial.

Urban renewal construction is not important to the construction industry of the United States. It accounted for about one-thousandth

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[7] Interviews: Louis Winnick, Director, Housing Redevelopment Board, New York City (April 1962); Chester Rapkin, Professor, University of Pennsylvania (April 1962).

of all construction put in place from 1950 to 1960. It was only 1.5 per cent of all building construction which took place in major cities (over 100,000 population) from 1950 to 1960. Its net contribution has been even smaller. It is conservatively estimated that 50 per cent of the construction started in urban renewal areas would have been started had there been no Federal Urban Renewal Program.

CHAPTER VII

SOURCES OF FUNDS FOR PRIVATE CONSTRUCTION

> "Estimates of the capital requirements to renew our cities cover a wide range--from $120 billion up. These estimates assume that three-fourths to seven-eighths of the total outlay will take the form of private capital outlay. The government's role is viewed as setting the stage for private development and providing financial assistance only to the extent required to permit the private real estate market to function effectively."
>
> A Statement on Policy by the Research and Policy Committee of the Committee for Economic Development, August 1960.

What are the capital requirements for urban renewal? The estimates vary widely. One conservative estimate, limited to the improvement of residential neighborhoods needing clearance or substantial rehabilitation, is $125 billion.[1] A less conservative estimate, based on the total of all public and private actions which must be taken to provide for the continuous sound maintenance and development of urban areas, places the amount at $1.3 trillion.[2] Who will provide these funds? Are the funds available? What reallocation of national resources will be required? Is the required reallocation possible?

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[1] L.N. Bloomberg, H.G. Brunsman and A.B. Handler, "Urban Redevelopment," in America's Needs and Resources: A New Survey, 20th Century Fund (1955), p. 512.

[2] Dyckman and Isaacs, Capital Requirements for Urban Redevelopment and Renewal (1961), Table 1, p. 17. Estimate is based on the total expenditure requirements for "total" renewal of American cities during the period from 1958 to 1970.

The Urban Renewal Administration has estimated that $3.65 will be invested by private enterprise for each $1.00 invested by federal, state and local public bodies.[3] To date, most proponents of urban renewal have assumed that the government's contribution would be "seed money," and that the use of public funds would not be so extensive as to put the government into the real estate business. The government's role was seen as helping the "writedown" of land costs in slum areas to enable private developers to go ahead profitably.

David Rockefeller, speaking on the Federal Urban Renewal Program before the General Electric Forum in January of 1962, stated:

> Funds for housing and commercial construction must come in large part from private sources. Public monies can only be "seed" money, except for public facilities such as roads, schools, etc. We must consider the other demands on the Nation's means.[4]

A tremendous amount of money is needed to effectuate the urban renewal process; if it is not supplied by private financial institutions it must be supplied by the government via grants and long-term loans. Even if it is assumed that noninflationary policies would be pursued, there would be extensive side effects resulting from a very large amount of federal financial assistance. An increase in taxes to finance the program would result in a redistribution of wealth to

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[3] John W. Innes, Urban Renewal Policies and Programs in the U.S.A., Urban Renewal Administration (Washington, D.C., November 1960), p. 35.

[4] Mr. David Rockefeller, President and Chairman of the Executive Committee, Chase Manhattan Bank, New York, N.Y.

provide better housing and more amenable cities. If loans are used to finance the program it means that these funds will be unavailable to other users. It is doubtful whether these side effects could proceed very far without evoking very strong opposition. The alternative uses of public funds will play an important role in the determination of how much should be allocated to urban renewal.

Financing of Private Residential Construction

From 1950 to 1960, it is estimated that approximately $824 million of construction was started in urban renewal areas. Of this, $577 million was private construction; $462 million was devoted to residential uses, $80 million to commercial uses and $35 million to industrial uses.[5]

A large percentage of the private residential construction in urban renewal areas is insured by the Federal Housing Administration under Section 220 of the Housing Act. Up to December 31, 1960, FHA had insured approximately $315 million of mortgages in urban renewal areas. This is 68 per cent of the estimated amount of private construction started. Multi-family mortgages accounted for about 95 per cent of the total insured. The time pattern of the insurance activity of FHA is shown in Table XXI.

FHA is also active in other areas of housing related to urban renewal. Under Section 221 of the Housing Act, FHA is authorized to

[5] See Chapter VI.

TABLE XXI

INSURANCE ACTIVITY OF FHA IN URBAN RENEWAL AREAS

(SECTION 220) MORTGAGES - 1956 TO 1960

(Millions of Dollars)

Year	Annual Amount Insured	Multi-Family	Single Family	Multi-Family as a Per Cent of Total	Single Family as a Per Cent of Total
1956	$ 9,973	$ 9,375	$ 598	94.0%	6.0%
1957	64,772	59,929	4,843	92.5	7.5
1958	37,841	31,579	6,262	83.5	16.5
1959	103,143	100,865	2,278	97.8	2.2
1960	80,863	79,116	1,747	97.8	2.2
1961*	17,725	17,725	(a)	100.0	n/a

*First quarter

(a) Not reported

Source: Fourteenth Annual Report, Housing and Home Finance Agency (1960), Tables III-15, III-17, III-18 and III-19; Title II, Section 220, Rental Project Operations; Form 2002-P, Federal Housing Administration, Division of Research and Statistics.

insure construction outside of urban renewal areas when that construction is estimated to be used for families displaced from urban renewal areas. In this study, primary emphasis will be placed on construction activity within the urban renewal area.

Degree of FHA Participation

As stated previously, 68 per cent of the private residential construction started in urban renewal areas since 1950 has been insured by FHA. However, FHA was not authorized to insure this type of mortgage until 1954. A more relevant measure of FHA's degree of participation would be based on the private residential construction started after 1954. It is estimated that $86 million of private residential construction was started prior to 1954.[6] Of this total ($376 million), fully 83.8 per cent was insured by FHA.

Originators of FHA Insured Mortgages

Under FHA insurance, many types of financial institutions have provided funds to urban renewal developers (see Table XXII). State banks have played a major role in the initial financing of private residential real estate in urban renewal areas by originating over

[6] See Research Note No. 5.

TABLE XXII

ORIGINAL SOURCES OF FUNDS FOR FHA

INSURED, SECTION 220 MORTGAGES

1956 TO 1960

(Thousands of Dollars)

Financial Institution	Amount Financed	Per Cent of Total Financed	Number of Institutions by Type of Holding	
			Multi-Family Mortgages	Single Family Mortgages
State Banks	$170,162	57.4%	9	8
National Banks	40,695	13.7	5	2
Mortgage Companies	34,778	11.7	6	16
Savings Banks	27,608	9.3	3	4
Insurance Companies	18,890	6.4	2	1
Savings & Loan Associations	3,311	1.1	-	6
Federal Agencies	12	--	1	1
All Other	441	0.1	1	2
TOTAL	$296,592	100.0%	27	40

Source: Fourteenth Annual Report, Table III-15, p. 83.

57 per cent of the amount of the mortgages. Commercial (state and national) banks together provided over 71 per cent of the initial financing. Mortgage companies originated 11.7 per cent and savings banks 9.3 per cent of the amount of the mortgages.

The financing pattern for Section 220 urban renewal multi-family mortgages developed above is similar to the financing pattern for all FHA insured multi-family mortgages (see Table XXIIa). A large part of conventional construction financing is done by commercial banks, and it was expected that this financing pattern would be similar for urban renewal construction.

Purchases and Sales of Urban Renewal 220 Mortgages

The financing picture for urban renewal is complex because many of the mortgages are traded. The amount held in the portfolios of the financial institutions reflects their buying and selling activities, as well as the loans they originate. From 1956 to 1960 there was brisk traffic in urban renewal mortgages and approximately 39 per cent of the existing mortgages were traded. This trading activity is summarized in Table XXIII. State banks, savings banks and mortgage companies accounted for 96.3 per cent of all sales of "220" urban renewal mortgages. State banks alone accounted for 67.6 per cent of the total sold. On the purchasing side, FNMA played a predominant role, accounting for 86.3 per cent of all purchases.

TABLE XXIIa

PER CENT DISTRIBUTION OF ALL FHA INSURED MULTI-FAMILY MORTGAGES BY TYPE OF FINANCIAL INSTITUTION AND BY TYPE OF HOLDING INSTITUTION

Type of Institution	Per Cent of Total Financed During 1959	Per Cent of Total Held as of 12/31/59
National Bank	33.2%	6.7%
State Bank	38.6	11.5
Mortgage Company	10.7	2.1
Insurance Company	0.2	23.9
Savings and Loan Association	2.9	0.8
Savings Bank	11.6	28.8
Federal Agency	--	10.2
All Other	2.8	16.0

Source: Ibid., Table III-17 and Table III-19.

TABLE XXIII

TRADING ACTIVITY IN URBAN RENEWAL MORTGAGES

- SECTION 220 - 1956 TO 1960

Institution	Purchases	(Sales)	Net (Sales) or Purchases
State Banks	$ 3,253	$(78,408)	$(75,155)
Savings Banks	2,434	(16,720)	(14,286)
Mortgage Companies	3,200	(16,132)	(12,932)
Savings & Loan Associations	--	(3,200)	(3,200)
National Banks	10	(620)	(610)
Insurance Companies	75	--	75
All Other	6,827	(358)	6,469
FNMA	99,651	(12)	99,639

Source: Ibid., Tables III-18 and III-19.

What is behind these large portfolio changes? In essence, commercial banks make short-term construction loans to developers after the developer has succeeded in getting an FHA mortgage commitment. The banks charge interest plus a fee of 1 1/2 per cent as a service charge.[7] The FNMA commitment is good for 24 months and at any time during this period the bank may sell the mortgage to FNMA. This appears to be a lucrative arrangement for the banks--they obtain short-term, relatively risk-free loans paying an interest premium of 1 1/2 per cent over the market rate.

Summing up: Commercial banks are primarily engaged in providing construction funds for relatively short periods of time. As soon as construction is complete they dispose of the mortgage to a long-term lender.

The Ultimate Suppliers of Long-Term Funds for Private Residential Housing Insured by FHA

The ultimate sources of long-term funds can be determined by examining the outstanding holdings of the financial institutions dealing in urban renewal mortgages. The outstanding holdings are summarized in Table XXIV. The largest supplier is FNMA. As of December 31, 1960, FNMA had 33.6 per cent of the 220 urban renewal mortgages in its portfolio. State banks held 32.0 per cent of the total, but it is

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[7] Interview, Mr. John Tyler, Loans Manager, Federal National Mortgage Association, Washington, D.C., March 1, 1962.

TABLE XXIV

FINANCING, PURCHASES, SALES AND OUTSTANDING HOLDINGS

OF SECTION 220 URBAN RENEWAL MORTGAGES

- 1956 TO 1960

(Thousands of Dollars)

Institution	Amount Financed 1956-60	Net (Sales) or Purchases 1956-60	Per Cent of Holdings Sold 1956-60	Outstanding Holdings as of 12/60	Per Cent of Total Outstanding as of 12/60
FNMA	$ 12	$ 99,639	--	$99,549	33.6%
State Banks	170,162	(75,155)	44.1%	95,001	32.0
Nat'l Banks	40,695	(610)	1.5	40,109	7.3
Ins. Cos.	18,890	75	--	18,964	6.4
Savings Banks	27,608	(14,286)	51.7	13,312	4.5
Savings & Loan Assoc's	3,311	(3,200)	96.6	104	--
All Other	441	6,469	--	7,605	2.6

Source: Fourteenth Annual Report, Tables III-15, III-17, III-18, III-19.

anticipated that, following the pattern outlined above, they will eventually sell most of these to FNMA. National banks accounted for 13.5 per cent of the loans, and so far have only disposed of a small percentage of them. However, all the mortgages held by national banks were financed during 1959 and 1960. Because construction of a large building takes approximately two years it is too soon to determine what percentage they will sell. The remaining 20.8 per cent of mortgages outstanding was primarily supplied by mortgage companies and savings banks.

At the end of 1958 the amount of the outstanding holdings of Section 220 urban renewal mortgages was $111.8 million. During 1959 and 1960, $95.7 million worth of mortgages were sold by the various financial institutions, and $88.6 million worth of mortgages were purchased by FNMA.[8] If it is assumed that the typical large construction project has a two-year time lag, it appears that a very high percentage (79 per cent) of the long-term funds are coming from FNMA.

Normally large suppliers of long-term funds for multi-family residential construction, such as insurance companies and commercial banks, have not been very active in the financing of multi-family urban renewal construction. This is probably because alternative real estate investments, in terms of effective yield and risk, are considered more attractive.

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[8] Ibid.

Direct Federal Financing of New Private Construction

As was shown earlier, the Federal Housing Administration (FHA) insured a high percentage of new private construction in urban renewal areas. Once FHA has issued a firm commitment to insure the mortgage, the latter becomes eligible for purchase by FNMA. Funds for financing the urban renewal activities of FNMA are obtained primarily by borrowing from the Secretary of the Treasury; small additional sources of funds are the net proceeds from operations and portfolio liquidation. Under the provisions of the Housing Act of 1961, the President's authorization for special assistance to urban renewal was increased by $957.2 million to $1,957.2 million by:

1. A general increase of $750.0 million in special assistance authority, and
2. An increase of $207.2 million (represented by the transfer to his specific control of the unused authorization as of June 30, 1961) remaining from the special assistance program established by the Emergency Housing Act of 1958.

Once FHA has insured the mortgage, FNMA may issue a commitment to purchase the mortgage. This commitment is good for 24 months, and experience to date has shown that most commitments made by FNMA are exercised by the lenders. Thus we can determine the degree of FNMA involvement by calculating the percentage of the multi-family

mortgages insured by FHA that have been purchased or are under commitment to be purchased by FNMA.

As of December 31, 1961, FHA had insured $367 million of multi-family mortgages in urban renewal areas, and FNMA had purchased or issued commitments to buy $302 million of these mortgages. Thus FNMA had purchased or agreed to purchase 82.3 per cent of the multi-family urban renewal mortgages insured by FHA.

As has been shown, the ultimate long-term supplier of most of the funds required for urban renewal construction is the Federal National Mortgage Association. Through this public financing medium, loans are insured by an agency of the government (FHA) and purchased by another agency (FNMA). In effect, this constitutes a large direct lending program of the federal government. The primary purpose of this direct lending program is to stimulate private construction on urban renewal sites. Because of the circuitous route that the financing takes, few people are even aware that the program is in existence.

A Danger Signal

FNMA's experience with its urban renewal portfolio has been of short duration, but already there are indications that the mortgages are in trouble. To date FNMA has actually purchased $120 million of

Section 220 mortgages. The worst experience has been with Section 220 multi-family mortgages. As of June 30, 1961, fully 45.92 per cent of the amount of multi-family mortgages in urban renewal areas were delinquent (see Table XXV). Of these, 25.80 per cent had been delinquent for three to six months and another 20.12 per cent for one to three months. Single-family mortgages within the urban renewal area were faring much better--only 1.12 per cent were delinquent.

This high delinquency rate has serious implications for the future of urban renewal. In the past, FNMA has played a major role in the financing of private residential construction in urban renewal areas, and private residential construction has accounted for a major part of urban renewal construction activity. Indications are that these two trends will continue in the future. And if this happens, FNMA will eventually find itself with a large amount of Section 220 mortgages in its portfolio. Thus it is important to ascertain whether the high delinquency rate is of a temporary nature or whether it indicates that these mortgages are of poor quality. If they are of poor quality the federal government will probably be forced to foreclose on a substantial number of them.

Why have such a large percentage of the mortgages fallen behind in their payments? It may be due to a temporary lack of demand due to the newness of urban renewal, i.e., people may be wary of moving into a good apartment if it is located in the midst of a slum. This problem will decrease somewhat as more buildings are constructed within

TABLE XXV

STATUS OF SECTION 220 URBAN RENEWAL MORTGAGES IN FNMA PORTFOLIO

AS OF JUNE 30, 1961

(Thousands of Dollars)

	Multi-Family 220		Single Family 220	
	Number	Amount	Number	Amount
Total Outstanding	46	$105,531	1,349	$14,839
	(100.00%)	(100.00%)	(100.00%)	(100.00%)
Current	34	57,075	1,333	14,673
	(73.91)	(54.08)	(98.81)	(98.88)
Total Delinquent	12	48,456	16	166
	(26.09)	(45.92)	(1.10)	(1.12)
1-3 Months Delinquent	4	21,226	10	106
	(8.70)	(20.12)	(0.74)	(0.71)
3-6 Months Delinquent	8	27,230	1	10
	(17.39)	(25.80)	(0.08)	(0.07)
Over 6 Months Delinq.	--	--	--	--
In Liquidation	--	--	5	50
	--	--	(0.37)	(0.34)

Source: Quarterly Report of the Federal National Mortgage Association, (June 30, 1961).

the urban renewal area. However, the average urban renewal project only encompasses 51 acres.[9] In most cases an area of this size will not be sufficient to completely overcome the negative effects caused by the surrounding neighborhood. For this reason it is expected that, although demand will probably increase in the future as the added construction within the urban renewal area improves the immediate surroundings, demand for space in these areas will remain relatively light.

Summing up: Indications are that private residential construction will continue to be a major part of total urban renewal construction, FNMA will continue to finance a high percentage of this private residential construction and demand for this type of construction will continue to be light, causing the mortgages to be risky investments. The net result is that the federal government is apt to find itself in the private real estate business to a considerable degree, with the very real possibility of having a significant amount of defaulted mortgages on its hands.

Financing the TOTAL COST of Urban Renewal

The total cost of urban renewal can be approximated by adding the net project cost to the cost of new private construction. On the basis of past experience, the sources of funds for the total cost of urban renewal are summarized below:

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[9] Urban Renewal Project Characteristics, Urban Renewal Administration, (Washington 25, D.C., June 30, 1961) Table 3, p. 9.

1. Net project cost plus private construction = total cost of urban renewal.
2. Two-thirds of net project cost is paid for by the federal government; one-third by the local government.
3. Sixty-nine per cent of private residential construction is financed by the federal government, 31 per cent by private sources.
4. One hundred per cent of the rest of private construction, commercial and industrial, is financed by private sources.

Let:

T = total cost of urban renewal

N = net project cost

P = total private construction cost

R = private residential construction cost

B = private business construction cost (commercial and residential)

F_p = total private financing

F_{fp} = total federal cash payments

F_{ff} = total federal construction financing

L = total local payments (including grants-in-aid)

X = total funds supplied

$T = N + P$

$P = R + B$

$T = N + R + B$

And:

(1) $F_{fp} = 0.67N$

(2) $L = 0.33N$

If, on the basis of past experience,

(a) Eighty per cent of the total amount of private construction will be private residential construction

(b) Eighty-four per cent of the private residential construction in urban renewal areas will be FHA insured

(c) Eighty-two per cent of these mortgages issued by FHA will be purchased by FNMA,

Then it follows that approximately 55 per cent of the total private construction in urban renewal areas will be financed by FNMA.

Thus:

(3) $F_{ff} = 0.55P$

And:

(4) $F_p = 0.45P$

(5) $X = N + P$

(6) $P = 3.65N$

From this:

(7) $P = 0.785X$

Substituting this value of P in equation (4) we get:

$$F_p = 0.45\ (0.785X)$$

(8) $F_p = 0.353X$

Therefore, approximately 35 per cent of the total funds required to finance urban renewal will come from private sources. The remaining 65 per cent will have to come from public sources.

Even if this estimate is only roughly correct as to the proportion of public financing needed, it shows that there must be a tremendous flow of public capital into the program, if urban renewal is to succeed on any significant scale. An examination of the total cost of urban renewal indicates that:

1. Federal, state and local governments together will finance 20 per cent of the total by cash grants and payments. The federal government alone will provide 13 per cent; state and local governments will put up 7 per cent.
2. The federal government will finance 45 per cent of the cost through the Federal National Mortgage Association. FNMA will loan funds to developers for up to 40 years.
3. Private financial institutions will finance the remaining 35 per cent with long-term loans. Some of these loans will be insured by the Federal Housing Administration.

Because of the large amount of direct federal financing through FNMA, the major supplier of funds for the renewal of the cities will be the federal government. Private financial institutions will be the

secondary source. State and local governments will only contribute relatively small amounts of funds.

This is probably the most significant conclusion coming out of this study. The view that the public will finance most of the cost of urban renewal differs significantly from the current view held by those people now associated with the program. In a recent speech, William R. Slayton, the present Commissioner of the Urban Renewal Administration, stated:

> Some idea of the possible size of that investment was given recently by Housing Administrator Robert C. Weaver when he said:
>
> > "The Housing Act of 1961 authorizes $2 billion in urban renewal grants over the next four years--the same amount Congress authorized when it inaugurated the urban renewal program twelve years ago. So in money terms alone we expect to be moving three times as fast in the years ahead as we have in the years past.
> >
> > "This total of $4 billion in Federal money is just 'seed money,' of course. The communities taking part in the urban renewal program will match this with about two billion dollars in cash or kind. And we expect these expenditures to generate the investment from private sources of another twenty billion dollars.
> >
> > "Altogether this comes to the investment of $26 billion in urban renewal."
>
> In addition to this "seed money," the special assistance purchases by the Federal National Mortgage Association of Section 220 mortgages are also a form of seed money, until the private markets are ready to carry the full load.[10]

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[10]"Investment Needs in Urban Renewal," Remarks by William L. Slayton, Commissioner, Urban Renewal Administration, Housing and Home Finance Agency, at the Urban Renewal Seminar sponsored by the Mortgage Bankers Association of America in Cooperation with ACTION, Inc., Chase-Park Plaza Hotel, St. Louis, Missouri, Wednesday, February 21, 1962.

If the federal government and the local communities collectively put up $6 billion and $20 billion of "private" investment is generated, this study indicates that $11 billion of the private investment will probably be directly financed by the federal government. Thus the public share of a $26 billion investment in urban renewal is likely to be $17 billion; $11 billion of direct federal loans, $4 billion of federal grants and $2 billion of local funds.

This clearly demonstrates the great importance of the role that FNMA may play in urban renewal. It has been assumed in the past that the funds supplied by FNMA will be seed money, and that the private markets will eventually carry the full load. This assumption, on the basis of evidence presented, appears to be subject to considerable question.

Summary

On the basis of past records the federal government's share of the total cost of urban renewal is expected to be approximately 58 per cent; 13 per cent via direct capital grants and 45 per cent through direct, long-term loans by FNMA. Private financial institutions are expected to finance 35 per cent by long-term loans, some of them insured by FHA. State and local governments will only pay for about 7 per cent of the total cost.

In conclusion, for every public dollar spent or invested, approximately fifty cents will be invested by private enterprise, and

at least one-half of this fifty cents would have been invested anyway.[11] Thus every public dollar spent or invested will probably draw forth about twenty-five cents of new private investment.

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[11] See Chapter VI.

CHAPTER VIII

THE REDEVELOPER

> "The statesman who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted to no council and senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it."
>
> Adam Smith

The private redeveloper is an important link in the urban renewal process. He can be safely ignored during the acquisition, relocation and clearance stages of a project, but in the new construction phase he is usually indispensable. Most of the cleared land in urban renewal areas is intended to be used for private construction, and unless a redeveloper is willing to undertake this work, the project, for all practical purposes, collapses. In short, the private redeveloper is the necessary catalyst who makes the final stage of urban renewal work, if it is to work at all.

Who Are the Redevelopers?

Most of the redevelopers are real estate speculators, intent on building, leasing and selling vast real estate complexes with the primary purpose of making money. A few industrial firms are interested in urban renewal because they believe it will increase the market for their products. An example of the latter is the aluminum industry.

Some are academic institutions who wish to expand their facilities and improve the quality of their environment. There are also a few nonprofit redevelopers whose objectives are primarily social rather than economic. They usually take advantage of the liberal federal financing available to nonprofit corporations, a nd attempt to build low cost housing.

The Profit Potential

An analysis of the profit potential in urban renewal for redevelopers is difficult for two reasons: first, because of the paucity of actual experience and second, because of the diversity and complexity of the financial arrangements involved. Realizing this, the best that can be done is to make some educated guesses and attempt to develop a model which will show the order of magnitude of possible profits and the sensitivity of these profits to the various components of the model.

Investment Requirements

The Federal Housing Administration requires a redeveloper to make a minimum cash investment equal to 3 per cent of the actual project cost. This is primarily to prevent "mortgaging out" of the type that occurred under the old Section 608 program. Most redevelopers will have invested this 3 per cent or more by the time the project is completed. The equity investment of 3 per cent may not be withdrawn

for three years. If the full 3 per cent has not been invested by the redeveloper, he is required to make a cash deposit sufficient to bring his total cash investment up to three per cent.

An equity investment of 3 per cent is the "ideal" from the redeveloper's point of view, but it is doubtful if all of them will be able to attain it. However, it would be unreasonable to think that a sophisticated redeveloper would have to invest more than 5 or 6 per cent. It is estimated that the redeveloper's equity will range from 3 to 6 per cent of the actual project cost.[1]

The redeveloper's equity is not invested at one time. His expenditures usually start three to five years before the project construction starts. Redevelopers have high minimum required rates of return and the time value of their money must be considered when estimating their capital investment. It must also be remembered that the redeveloper is not likely to be awarded every job he bids for, and thus the profits from the projects he does succeed in getting must offset the expenses incurred on all projects he bids for.

In the simplified model which follows, it will first be assumed that the redeveloper's investment occurs at one point in time, and that he succeeds in getting all projects he bids on. Later these

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[1] Private Financing Consideration in Urban Renewal--a report of the Proceedings of the Sixth Annual NAHRO conference on urban renewal (Washington, D.C., 1961); Albert M. Cole, former Housing Administrator, "Good Business in Urban Renewal," Business Week (April 15, 1961); Interviews with: Marvin S. Gilman, Redeveloper, Gilman and Schwartz; John Ohara, Webb and Knapp; Stanley Berman, Webb and Knapp.

restrictions will be relaxed, and the probable effects on profits examined.

The Model

After the mathematical model is constructed, estimates of the quantitative range of each parameter of the model will be made. These estimates will be substituted back into the model to determine the cash flow under the least favorable conditions, the most favorable conditions and the most likely conditions.

Let:

t = some time period, say a year

r = occupancy rate

I_t^r = total gross rental income during period t with an occupancy rate, r

E_t = operating expenses and tax payments during period t

I = interest rate per period including insurance premium

C_t = amortization rate during period t

n = periodic growth rate of C_t

P_t = amount of principal outstanding at end of period t

F_t = net cash flow during period t

p_M = the per cent that gross rental income is of the initial mortgage amount

p_E = the per cent that operating expenses and tax payments are of effective gross rental income (As defined by FHA, effective gross rental income is computed by assuming a constant 93 per cent occupancy rate)

The net cash flow, F_t, is equal to:

(1) $$I_t^r - E_t - IP_{t-1} - C_t P_o$$

And:

$$I_t^r = rp_M P_o$$

$$E_t = pE^{I^{.93}} = (.93)p_E p_M P_o$$

$$C_t = C_o e^{nt}$$

where C_o is the original amortization rate.

Thus:

(2) $$F_t = rp_M P_o - (.93)p_E p_M P_o - IP_{t-1} - C_o e^{nt} P_o$$

or [Net Cash Flow] = [Gross Rental Income] less
[Operating Expenses and Tax Payments] less
[Mortgage Payments]

The amount of interest paid each year will decline as the principal outstanding decreases, and the amount of amortization will increase each year at a specified rate, (n).

To simplify the analysis, it will be assumed that the sum of interest payments and amortization payments will remain constant:

$$IP_{t-1} + C_t P_o = IP_o + C_o P_o = P_o (I + C_o) = K \text{ (constant)}$$

Substituting this constant into equation (2):

$$F_t = rp_M P_o - (.93)p_E p_M P_o - (I + C_o)\ P_o$$

$$(3) \qquad F_t = P_o(rp_M - (.93)p_E p_M - I - C_o)$$

Given estimates of r, p_M, p_E, I and C_o it is now possible to estimate F_t. The estimates of the parameters and their ranges are given below.[2]

Parameter	Estimated Range of Value	Estimated Average Value
r	93% to 100%	96.5%
p_M	13% to 15%	14%
p_E	40% to 44%	42%
I	5.75%	5.75%
C_o	1% to 1.5%	1.25%

Substituting these values in equation (3) results in:

Least favorable cash flow = $-48P_o \times 10^{-4}$

Most likely (average) cash flow = $+104P_o \times 10^{-4}$

Most favorable cash flow = $+267P_o \times 10^{-4}$

Summing up: The most likely annual cash flow is roughly 1 per cent of the initial principal amount of the mortgage.

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[2] See Research Note No. 6.

Depreciation

Depreciation is one of the most important considerations to the redeveloper because of the effect it can have on income derived from other sources. In the following analysis it is assumed that the building itself accounts for 75 per cent of the project cost and has a forty year life. The equipment in the building accounts for the remaining 25 per cent and has a twenty-five year life. Using the double declining balance method, the annual depreciation rate will be 5 per cent for the building and 8 per cent for the equipment. Letting depreciation equal D_t:

$$D_t = (.05)(.75)\ P_{t-1} + (.08)(.25)\ P_{t-1}$$

$$D_t = 0.0575\ P_{t-1} \tag{4}$$

Net Taxable Income

To determine the net taxable income, the reserve for replacement and the amortization payment must be added to the net cash flow. Assume:

$$P_t = \text{Reserve for replacement} = 0.002p_o$$ [3]

The net taxable income before accounting for depreciation is then:

$$F_t + P_t + C_t$$

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[3] Ibid.

Letting NI_t represent net taxable income and accounting for depreciation:

$$NI_t = F_t + P_t + C_t - D_t$$

This can also be written as:

$$(5) \qquad NI_t = P_o[C_o e^{nt} - C_o + rp_M - (.93)\, p_E p_M - I - .002] - .0575P_{t-1}$$

Substituting the average quantitative estimates of the parameters:

$$(6) \qquad NI_t = (0.0125e^{0.02t} + 0.008)\, P_o - (0.0575)\, P_{t-1}$$

In the early years of the project, the depreciation component will be large enough to make the net taxable income negative. For example, during the first year:

$$NI_1 = (0.0208)\, P_o - (0.0575)\, P_o = -(0.0367)\, P_o$$

The excess amount of depreciation is $0.0367P_o$, which is approximately 1.75 times as much as the taxable income before depreciation. This means that the entire cash flow from the project is tax free, and that an amount equal to 1.75 times this can be applied against taxable income from other sources. The amount of excess depreciation is approximately 3.5 times as much as the net cash flow during the first year.

Effect on Taxable Income From Other Sources

The net effect on taxable income from other sources will depend on the marginal tax rate bracket of the investor. Calling the marginal tax rate (α), the net effect will be:

(α) (excess depreciation)

Letting β_t equal the ratio of excess depreciation to cash flow, F_t, the benefit accruing to the redeveloper is:

(7) $$F_t + \alpha\beta_t F_t \text{ or } F_t (\alpha\beta_t + 1)$$

During the first year, for a redeveloper in the 91 per cent tax bracket, this would be:

$$F_t [(0.91)(3.5) + 1] = 4.19 F_t$$

In other words, it is possible that 76 per cent of the first year's net gain to the redeveloper would be due to tax advantages caused by depreciation. Of course, β_t decreases each year and therefore the annual benefits to the redeveloper would decrease. The greatest portion of the benefits from excess depreciation accrue to the redeveloper early in the project.

Rates of Return

Because of the relatively small amount of equity involved, the before-tax rate of return on these projects is very sensitive to minor percentage changes in the various cost and revenue components of the model. Consequently there is a very wide range of rate of return possibilities.

To arrive at an approximate rate of return, R, the net annual cash flow is divided by the redeveloper's investment. A matrix showing the rate of return possibilities is given in Table XXVI. From an examination of this matrix it is estimated that the redeveloper's rate of return after taxes will probably range from 20 to 25 per cent.

TABLE XXVI

MATRIX SHOWING POSSIBLE RATES OF RETURN AS A FUNCTION OF REDEVELOPERS' EQUITY INVESTMENT

	Redevelopers' Equity Investment			
	3%	4%	5%	6%
Least Favorable Conditions	Loss	Loss	Loss	Loss
Most Likely Conditions	33.5%	26.0%	20.8%	17.3%
Most Favorable Conditions	86.1%	66.7%	53.4%	44.5%

However, considering the fact that the redeveloper must have his equity tied up for a considerable amount of time during which his return is zero, his effective investment increases substantially. For example, if a developer's equity were tied up for three years and his minimum required rate of return were 25 per cent, his investment, compounded at 25 per cent, would be doubled at the end of three years. This would lower his expected rate of return by approximately one-half, reducing it to the range of 10 to 13 per cent. If it is also recognized that he will not get every project he bids for, his effective investment is increased further because the bidding expenses on non-successful projects must be carried by the successful projects. This could easily reduce the rate of return to the range of 5 to 7 per cent.

These are certainly not spectacular rates of return. Then why does the redeveloper go into urban renewal? One possible reason is that the benefits accruing to him can be increased substantially by the taxes saved by depreciation. This will be a function of β_t and α. But this only holds high appeal if α is very high, and does not explain why redevelopers who are not in high income tax brackets enter the field.

Potential Capital Gains

There is only one reasonable answer left. The most important reason why redevelopers enter urban renewal is the lure of large capital gains. If the urban renewal area ever achieves its goal of being

renewed, there is a strong possibility that the renewed environment will cause a substantial increase in the value of the real estate located within that environment. And a slight percentage increase in the total value of the property will result in a capital gain that is very large relative to the redeveloper's equity. A capital gain of 10 per cent on the total value of a building will produce a 200 per cent capital gain before taxes to a developer with 5 per cent equity in a project. Developers seem to feel that urban renewal is the area where they can take the greatest "gamble" with the smallest amount of capital.

The Redeveloper, the Equity Investor and the Mortgage Lender

In this section an attempt will be made to define the roles that the redeveloper, the equity investor and the mortgage lender play in the private construction phase of urban renewal. The different types of financial motivations will also be explored.

The private developer is an entrepreneur whose main function is to bring together and coordinate the various people and groups necessary to private urban renewal construction. He invests a great deal of his own and his staff's time and energy as well as a substantial amount of his capital. Because the eventual success of urban renewal is still very much in doubt, there is a high degree of risk attached to his operations. Because of the high degree of risk associated with

the typical urban renewal project, it should be expected that the profit prospects should also be high. Urban renewal offers the speculative entrepreneur the possibilities of a huge gain on a relatively small investment.

If the redeveloper is incorporated, his risk is limited to his time and the capital he has invested. Even if he is not incorporated, it is possible to sponsor a project on essentially the same basis by including an "exculpatory" clause which frees him from any personal liability beyond what he has invested in the project.

The mortgage lender puts up the bulk of the money and receives a small, steady return with a minimum amount of risk. FHA insurance on the mortgage virtually eliminates all of the risk. This is true because FHA will insure 90 per cent of the replacement cost, and replacement cost includes a 10 per cent redeveloper's profit. The primary consideration of the lending institution then becomes the rate of interest that it can charge. FHA mortgage rates are presently limited to 5 1/4 per cent, and if conventional rates are higher, the lending institutions must decide between going into conventional loans with higher yields or FHA loans with lower risk and lower yields. So far only a few lending institutions have been willing to accept the low yields on FHA Section 220 mortgages. Consequently, most of them have been purchased by the Federal National Mortgage Association.

The Decision to Go Into Urban Renewal

The private redeveloper must analyze and evaluate many factors before he can decide whether or not to go into an urban renewal project. So far the problems have been numerous and their solutions long and difficult.

> The problems have seemed so great and the pitfalls so deep that many experienced real estate men have been unwilling to bid for sponsorship of urban redevelopment projects, even in their home cities. . . . No segment of the field of real estate development involves contact with so many public agencies--federal, state and local.[4]

Besides the conventional problems encountered in construction, the urban renewal developers must face up to the additional ones caused by their interaction with public agencies. For the duration of the project, the redeveloper is forced to be in continual contact with the various government agencies involved in the urban renewal process, and thus it is important to him that the government agencies be well staffed and coordinated with one another. Time delays due to governmental "red tape" can be very costly to the redeveloper, because of the high "time value" he places on his invested capital.

A strong incentive to the private redeveloper is the real estate tax abatement. It appears that many cities offer substantial real estate tax abatements to the redeveloper. One common formula requires him to pay 20 per cent of the project's effective gross

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[4]Eli Goldston, Allan Oakley Hunter, and Guido A. Rothrauff, Urban Redevelopment--The Viewpoint of Counsel for a Private Redeveloper.

income in lieu of normal real estate taxes. Regardless of the technique used, substantial tax concessions result. The size of the tax concession may be the determining factor in the redeveloper's decision to bid for the project.

In preparing his proposal the redeveloper is faced with another set of problems. He must somehow create a well designed project that appeals to different groups, each one having its own idea of what the project should be. The local renewal agency is primarily interested in the type of construction and the attractiveness of it. FHA is interested in the soundness of the structure and its economic feasibility. The URA is interested in getting a high price for the land and starting construction as soon as possible. As can be imagined, these goals tend to conflict, and the redeveloper must negotiate a compromise acceptable to all parties.

By the time the design competition occurs the redeveloper has incurred expenses which may amount to $20,000 for a small project, and $75,000 or more for a large one.[5] If the redeveloper only secures, say, one out of every five jobs he bids on, this means that the one job must bear initial proposal expenses ranging from $100,000 to $375,000.

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[5]Interview, Mr. Marvin Gilman, Private Redeveloper, Lindenhurst, New York, April 9, 1962.

> Of course, urban renewal being what it is, this has been a field in which, to date, I have done a good amount of planting, but relatively little harvesting. My conversations with other redevelopers indicate that this is by no means a unique experience. Yet, if we, as redevelopers, are to continue to sow, soon we shall have to reap, or one must be off to greener fields.[6]

Also, at the time of submission of the bid the local renewal agency will probably request a "good faith" deposit which may run to 5 or 10 per cent of the price of the land. Because the redeveloper has to invest so much in the form of expenditures for architectural plans and models, market surveys and promotional activities, this additional immobilization of capital for six months or longer may be more than he is willing to undergo. This will depend on the potential returns from this, relative to alternative uses of his funds.

Financial Arrangements

The redeveloper's financing problem, after he is awarded the bid, is essentially this: He must first secure temporary funds for the construction phase of the project and, when the construction is finished, he must secure permanent financing.

The first financing step the redeveloper usually takes is to secure an insurance commitment from FHA. Once he has obtained the

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[6]Gilman, "Entrepreneurial Considerations in Residential Redevelopment," from a report on the proceedings of the Sixth Annual NAHRO Conference on Urban Renewal, (April 16-18, 1961).

commitment, for which he must pay a fee of 0.15 per cent of the face value of the mortgage, he goes to either a conventional lender or FNMA and secures a purchase commitment for the mortgage. The purchase commitment is usually based upon the FHA insurance commitment. Once the redeveloper has secured both these commitments he will go to a construction lender that specializes in short-term construction loans. The construction lender, usually a commercial bank, will advance funds for the construction phase on the basis of the commitments. There is little risk attached to this short-term loan because FHA will insure it and FNMA or a conventional lender will purchase the mortgage when the construction is finished.

FNMA Versus Conventional Lenders

The redeveloper is free to go to either FNMA or a conventional lender to get a purchase commitment for the mortgage. His choice depends primarily upon the price each one is willing to pay for the mortgage. An FHA mortgage usually runs for forty years and presently carries an interest rate of 5 1/4 per cent. The market demand for these long-term, low-interest mortgages is small. Conventional lenders usually demand an effective yield that is well above the quoted yield. Presently a long-term conventional lender will pay between 92 and 94 per cent of the face value of the mortgage. This large discount would reduce the net proceeds to a redeveloper by 6 to 8 per cent.

Realizing that a discount of this size could reduce the redeveloper's potential profit substantially, and that profit was required to keep the urban renewal program viable, Congress authorized FNMA to purchase FHA insured mortgages in urban renewal areas with its "special assistance" funds at a low rate of discount. Presently FNMA purchases the mortgages at par (no discount), and charges a purchase commitment fee of 1 per cent and a purchase fee of 0.5 per cent. Essentially FNMA pays 98 1/2 per cent of the face value of the mortgage. Thus, if the redeveloper deals with FNMA, his net proceeds will increase by the difference between the discount charged by a conventional lender and that charged by FNMA.

The Construction Lender

The construction lender goes to great lengths to eliminate risk. In order to guard against the possibility of having its funds tied up if the project is not finished for some reason, the construction lender will usually require FHA insurance on the mortgage advances it makes during the course of construction. Also, FNMA will not purchase the mortgage unless FHA insures it, and therefore the construction lender wants to be sure that FHA is satisfied with the construction work as it progresses. The only possible risk left is the amount of the discount; FNMA will only give the redeveloper 98.5 per cent of the mortgage; the remaining 1.5 per cent which is due the construction lender must be supplied by the redeveloper. To eliminate

this risk the construction lender may require the redeveloper to deposit an amount equal to 1.5 per cent of the mortgage before construction starts. While the money is deposited with the construction lender, the redeveloper is paid the going rate of interest on savings accounts. Thus, when the time comes for the redeveloper to pay, the construction lender is assured that he will be able to. In conclusion, the construction lender assumes very little risk. Almost all of the risk involved is assumed by the federal government and the private redeveloper.

Summary

The past experience of private redevelopers indicates that federal urban renewal has not been as lucrative or as easy as it was originally expected to be. The possible rates of return on the redeveloper's equity appear to be relatively modest, although these rates of return increase substantially if the redeveloper happens to be in a high income tax bracket. Urban renewal construction has a high degree of risk attached to it, and redevelopers are willing to assume this risk, primarily because urban renewal offers them the possibility of large capital gains in addition to the annual income derived from the project. In addition, the amount of equity the redeveloper must invest is very small relative to the size of the project. Summing up: The redeveloper's equity investment is small, his risks are great, and his possible rewards are high.

In spite of the special financing arrangements available to private redevelopers through FNMA and FHA, it has been difficult for many projects to attract a sufficient number of qualified redevelopers. Without these strong financing incentives it seems likely that only a few of the most desirable sites would be developed.[7] Because of this, it is expected that federal financial aids will be necessary in the future to attract redevelopers to federal urban renewal projects.

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[7] Goldston, Hunter and Rothrauff, Op.Cit.

CHAPTER IX

URBAN RENEWAL AND TIME

> "It takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that."
>
> Lewis Carroll, Alice in Wonderland

Urban renewal is a tedious, drawn-out process. Most of the projects initiated during the last ten years have not yet been finished, and most of the projects that have been finished have been very small ones. If this same tendency continues it will be decades before the current urban renewal projects show significant results, to say nothing of the number of years that will go by before the projects yet to be planned are completed.

The urban renewal process can be divided into two major stages --planning and execution. The planning stage includes the identification of project boundaries; demonstration of eligibility under applicable federal, state and local laws; demonstration of economic possibility; preparation of detailed project plans, cost estimates and time schedules. The execution phase concerns the implementation of the plans developed in the planning stage, and consists of:

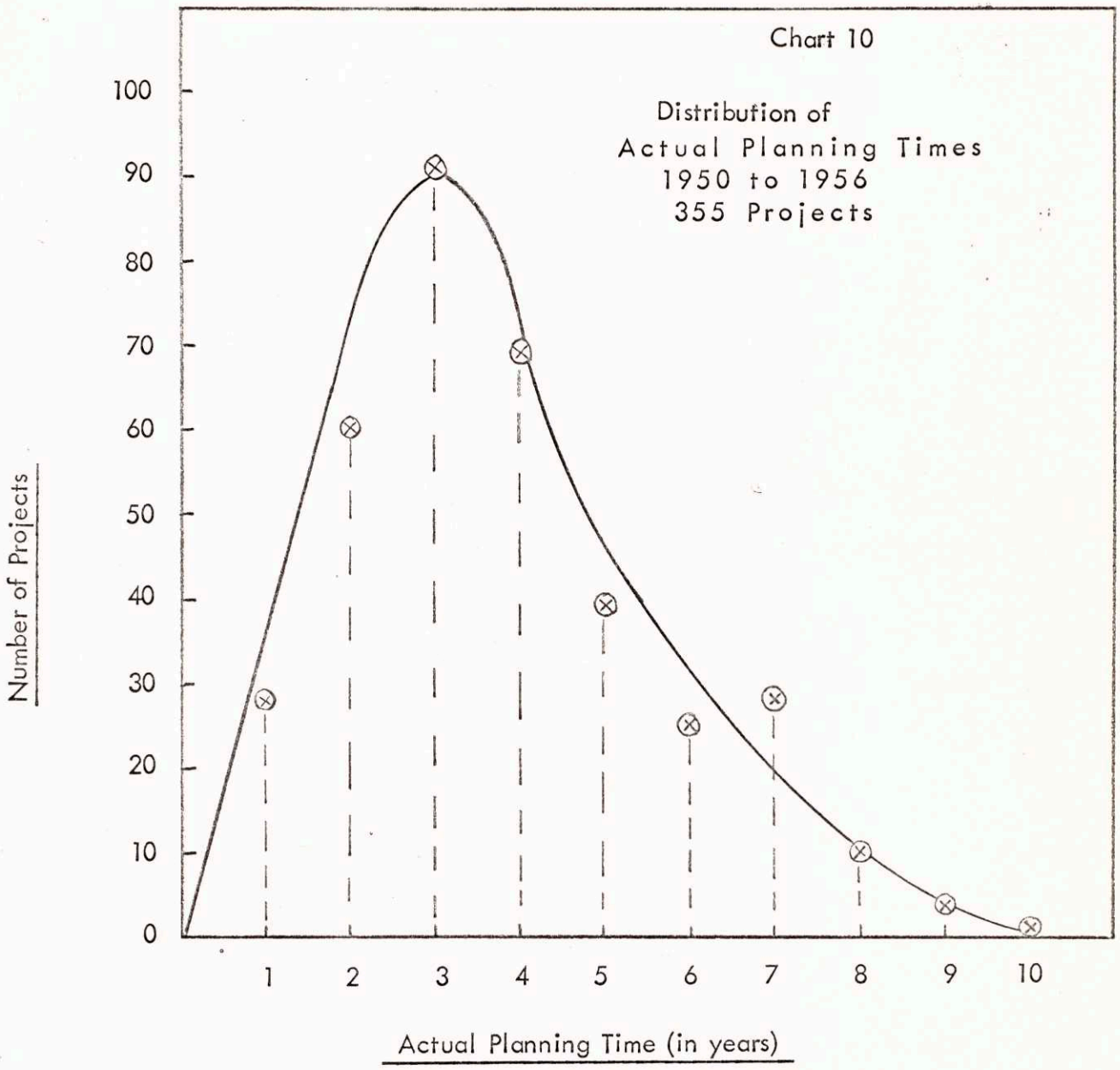
1. Land acquisition
2. Relocation
3. Site clearance
4. Site improvements
5. Construction of supporting facilities

6. Land disposition
7. New Construction by redevelopers
8. Rehabilitation.

The Planning Stage--Time Lags

As of March 31, 1961, 491 projects throughout the United States had completed planning. Four hundred and six other projects were in the planning stage. Another 65 projects had not reported planning times; for these projects, planning began simultaneously with the execution phase. The length of the planning period for the 491 projects which had completed the planning stage varied from a few months to over ten years.

The only valid way to determine the average planning time of the projects is to include all projects which have started planning activity. However, a large percentage of the projects started from 1957 on have not completed their planning, and thus we can only estimate the length of time it will take them to finish. We are then faced with the choice of either estimating the planning time for projects not yet finished or restricting our analysis to projects started in earlier years. It was decided to restrict the analysis to earlier years. Here we know what the experience has been, and from this experience it may be possible to make some reasonable estimates of the length of future planning periods, assuming conditions do not change.



Source: Urban Renewal Project Directory, Urban Renewal Administration, Housing and Home Finance Agency, Washington 25, D.C., 31 March 1961

The following analysis is restricted to those projects which initiated planning activity during the period from 1950 to 1956. The number of urban renewal projects which have started planning activity some time in the past is summarized in Table XXVII. Of the 366 projects reporting some planning time, 353 had completed the planning phase. The average planning time for these projects was 3.41 years.[1]

Twenty-five projects started between 1950 and 1956 indicated that the starting date of their planning activities coincided with the starting date of their execution phase and therefore reported zero planning time. Because of the impracticability of determining their planning times they were elimiminated from the calculation. And it seems reasonable to assume that their elimination will not affect the average significantly, i.e., if we make the extreme assumption that these 25 projects actually took zero amount of time to plan, the overall average would only decline to 3.18 years.

Decreasing Planning Time

An examination of trends in average planning time of urban renewal projects indicates that there is a "learning curve." Analysis of the average planning time of projects by the year in which they were started reveals a definite downward trend. As experience has accumulated, projects have taken less and less time to plan. However, following learning curve principles, the downward trend in planning is

[1] See Research Note No. 7.

TABLE XXVII

STARTING DATES OF PLANNING FOR ALL URBAN RENEWAL PROJECTS

1950 TO 1961

Year Planning Started	(1) Total Number of Projects	(2) Projects Not Indicating Planning Time	(3) Projects Indicating Planning Started	(4) Projects with Planning Complete	(5) (4) as a Per Cent of (3)
1950	79	6	76	73	100.0%
1951	34	--	34	34	100.0
1952	36	--	36	36	100.0
1953	31	1	30	30	100.0
1954	34	--	34	33	97.1
1955	57	3	54	52	96.3
1956	120	15	105	95	90.5
1957	68	6	62	45	72.6
1958	117	5	112	77	68.8
1959	91	3	88	6	6.8
1960	226	17	209	10	4.8
1961*	69	9	60	--	--
TOTAL	962	65	897	491	54.7

*First Quarter

Source: Urban Renewal Projects Directory, Urban Renewal Administration, (Washington, D.C., March 31, 1961).

now beginning to level out. This is a phenomenon associated with many types of new programs; the initial gains are usually the largest and the easiest to attain. As efficiency improves, it becomes more and more difficult to maintain the same relative gains.

Projects started during 1950 and 1951 took, on the average, 4.55 years to plan. For projects started during the period from 1952 to 1955, the average planning time was 3.10 years. It is more difficult to determine the average planning time for projects started after 1955, because so many of them have not yet finished planning. However, a large percentage of the projects started during the period from 1956 to 1958 have finished planning (see Table XXVII, column 5).

The length of the planning period of those projects which have not completed the planning phase was estimated,[2] and these estimated planning times were combined with the actual planning times. The actual average planning times for projects started during the period from 1950 to 1955 and the estimated average planning time for projects started during the period from 1956 to 1958 are summarized in Table XXVIII and Chart 11.

Planning Time Vs. Project Size

The average planning time required for projects was found to increase as the gross cost of the project increased. This is shown in

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[2] Ibid.

TABLE XXVIII

AVERAGE PLANNING TIME FOR URBAN RENEWAL PROJECTS

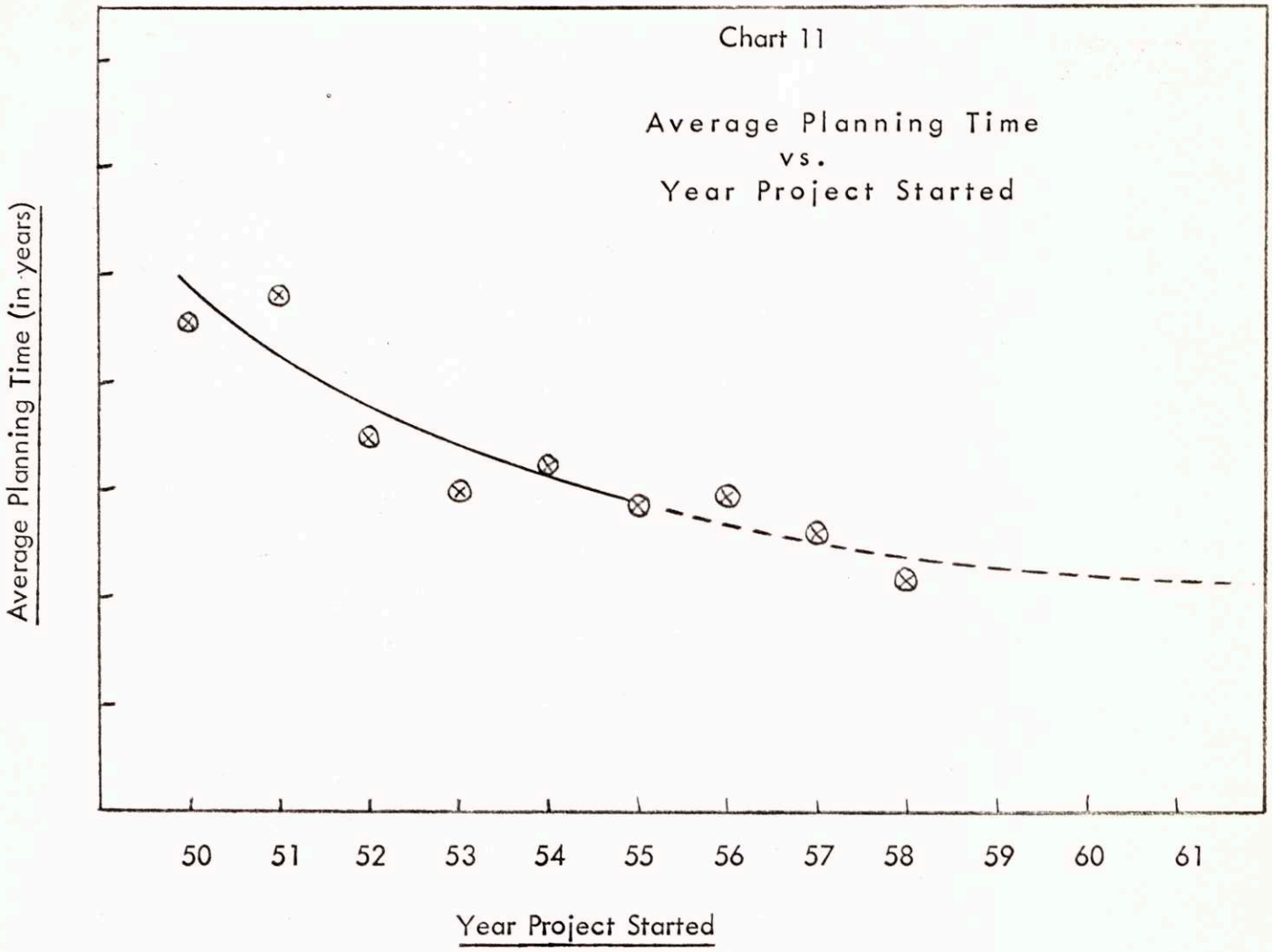
BY YEAR PLANNING STARTED

1950 TO 1958

(In Years)

Year Planning of Project Started	Estimated Average Planning Time
1950	4.55
1951	4.56
1952	3.46
1953	2.99
1954	3.21
1955	2.85
1956	2.93
1957	2.58
1958	2.16

Source: See Research Note No. 7.



Source: same as chart 10

Table XXIX. However, there is a high degree of variance about these averages, and it would not be possible to predict the planning period of an individual project from its gross project cost within any reasonable confidence limits.

The Execution Stage--Time Lags

As of March 31, 1961, construction was complete in 25 projects. In another 14 projects, the loan and grant contract with the federal government had been completed, but only a part of the new construction was finished.

The 25 projects with all construction complete were relatively small ones. The average gross cost for these 25 projects was $0.93 million. The other 14 projects, which are considered "complete" by the federal government, had an average gross cost of $1.94 million. The average estimated gross project cost for the remaining projects is $5.08 million.

Thus the projects which have progressed the fastest have been very small ones. The Federal Urban Renewal Program has not yet demonstrated that it can effectively carry through a large project to completion. Substantial progress has been made on a few of the larger projects, but so far no project with a gross cost over $5 million has been completed.

TABLE XXIX

AVERAGE ESTIMATED PLANNING TIME AS A FUNCTION OF GROSS PROJECT COST

Gross Project Cost (Millions of Dollars)	Number of Projects	Average Planning Time (In Years)
Under 1	141	2.58
1 to 10	284	3.26
Over 10	59	3.52

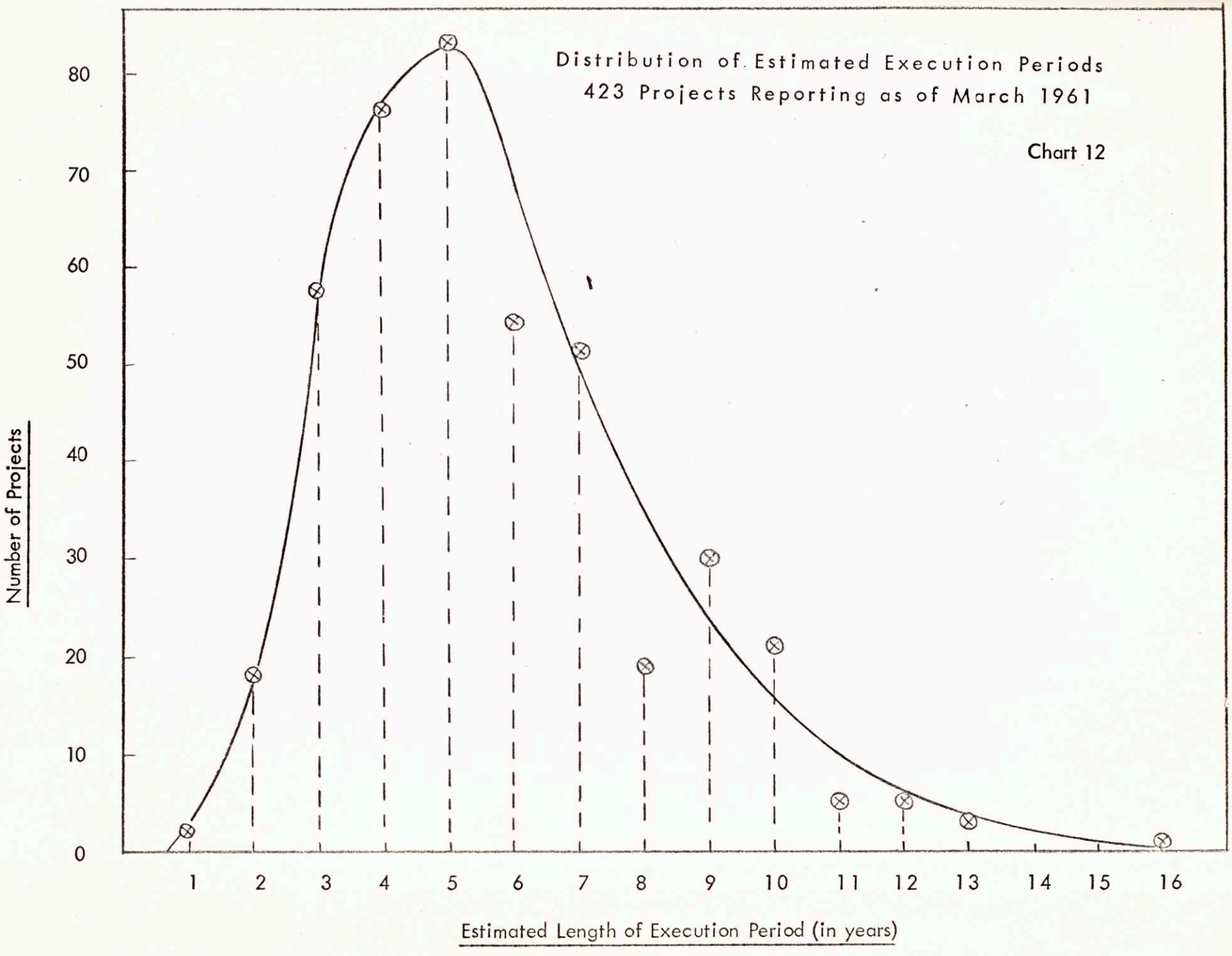
Source: Ibid.

Length of Execution Period

Because so few projects have completed the execution phase, it is difficult to get an accurate idea of its average length. However, every three months each local renewal agency is required to submit an estimate of when they expect the project to be finished. Using the data reported on March 31, 1961, for 423 projects, the total execution period was estimated by adding the estimated time to completion to the actual length of execution as of the reporting date. For the 25 projects that were complete, the actual execution time was used. The average estimated execution time for all projects was 5.3 years. Individual execution periods varied from 1.3 years to 15.7 years. Chart 12 shows the distribution of estimated execution time for the 423 reporting projects. The distribution is skewed toward the low end with 76 per cent of the projects having execution times from three to seven years. The median execution time is five years.

Estimates of the Future and the Past Record

It was shown in the preceding section that the average estimated execution period was 5.3 years. How much confidence can we put in the "estimated" part of the average? People usually have a tendency to be optimistic in their prediction of the future, especially when they have a deep involvement in the process they are predicting.



Source: Physical Progress Quarterly Reports, Urban Renewal Administration, Washington, D.C., 31 March 1961

The projects in execution, excluding the 25 which are finished, were divided into 12 groups by the starting date of their execution period. The first group covers 1950, the next ten groups each cover one of the years from 1952 to 1960, and the last group covers the first quarter of 1961. No projects entered the execution phase in 1952. The average execution time up to March 31, 1961 and the average estimated execution time to completion was computed for each group. This is summarized in Table XXX.

These same averages are also shown in Chart 13. The actual execution time is, of course, proportional to the year in which execution was started. However, the average estimated time to completion shown is relatively constant for all projects started from 1950 through 1957, and increases steadily from 1958 to 1961. The estimated average overall execution time is the sum of the average actual execution time to date and the averaged estimated execution time to completion. The chart shows a dramatic decrease in the estimated average overall execution time from 1950 to 1961.

Applying learning curve principles, it is not unreasonable to expect a substantial decrease in project execution time as the program gets older, but an examination of Chart 13 leaves one with the feeling that perhaps the indicated increase is too dramatic.

To correct for any over-optimism on the part of the local renewal agency, the following technique was used. In Chart 13, line (a) represents the reported trend in average estimated time for

TABLE XXX

BREAKDOWN OF ACTUAL AND ESTIMATED EXECUTION TIMES

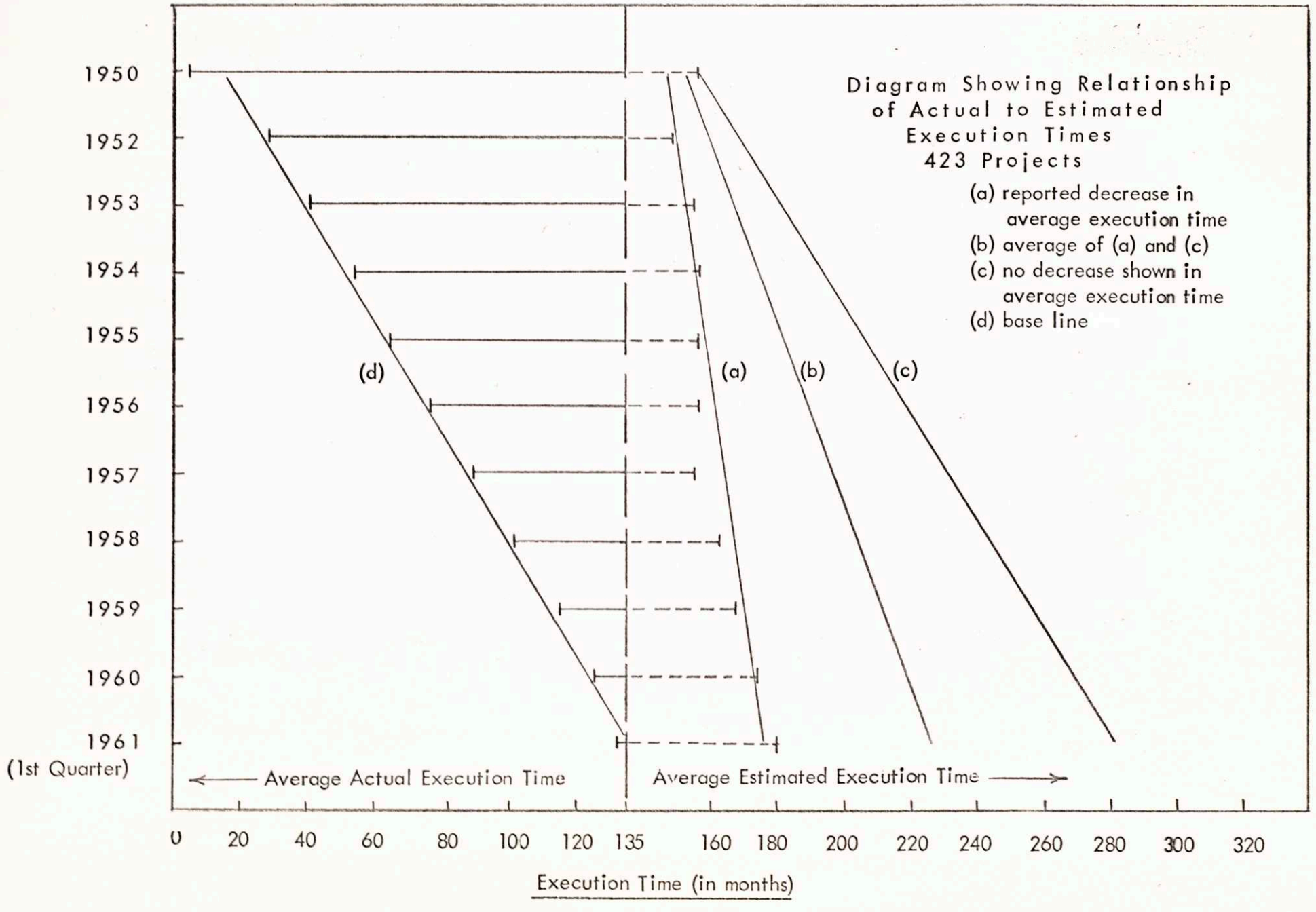
BY YEAR EXECUTION STARTED

(In Years)

Year Execution Started	Number of Projects	Average Actual Execution Time	Average Estimated Time to Completion	Total Execution Time (Estimated plus Actual)
1950	4	10.8	1.8	12.6
1952	11	8.7	1.1	9.8
1953	10	7.8	1.7	9.5
1954	12	6.7	1.8	8.5
1955	16	5.8	1.9	7.7
1956	20	4.8	1.9	6.7
1957	49	3.7	1.8	5.5
1958	74	2.8	2.3	5.1
1959	95	1.7	2.8	4.5
1960	87	0.8	3.2	4.0
1961*	11	0.1	3.7	3.8

*First Quarter

Source: Urban Renewal Project Characteristics and Physical Progress Quarterly Reports, Urban Renewal Administration (Washington 25, D.C., March 31, 1961).



Source: same as chart 12

completion. Line (c) represents what the trend would have been if execution time had not shortened at all. Line (b) represents the average of (a) and (c). Line (d) is a base line to which lines (a), (b) and (c) are compared. It is then assumed that line (b) most accurately represents the trend of decreasing execution time. Based on this assumption, the average execution time increases sharply to 8.5 years. This is summarized in Table XXXI.

Because of the "learning curve" effect present, average execution time will probably continue to decrease in the future. The rate of this future decrease is unknown, but because substantial experience with the execution phase of urban renewal has now been accumulated, it is doubtful if the future decrease will be large. It is estimated that the average execution time for future projects will range between seven and eight years.

Execution Time Vs. Project Size

As could be expected, the execution time increases with the size of the project. The total number of projects was divided by the amount of estimated gross project cost into 13 groups, each one having roughly the same number of projects, and the average estimated execution time was computed for each group. This is summarized in Table XXXII.

TABLE XXXI

MODIFIED ESTIMATE OF AVERAGE EXECUTION TIME

BY YEAR EXECUTION STARTED

(In Years)

Year Execution Started	Number of Projects	Modified Estimate of Average Execution Time
1950	4	12.7
1952	11	10.6
1953	10	10.5
1954	12	9.8
1955	16	9.7
1956	20	9.3
1957	49	8.8
1958	74	8.4
1959	95	8.1
1960	87	7.8
1961*	11	7.7

*First Quarter

Source: Ibid.

TABLE XXXII

AVERAGE ESTIMATED EXECUTION TIME AS A FUNCTION OF GROSS PROJECT COST

Group	Amount of Gross Project Cost (Millions of Dollars)	Number of Projects	Average Estimated Execution Time (In Years)
1	0 to $0.5	53	3.83
2	0.5 to 1.0	51	4.60
3	1.0 to 1.5	49	4.83
4	1.5 to 2.0	36	5.19
5	2.0 to 2.5	26	5.23
6	2.5 to 3.0	27	4.91
7	3 to 4	38	5.42
8	4 to 5	24	5.86
9	5 to 6	24	6.53
10	6 to 8	22	6.33
11	8 to 11	22	6.56
12	11 to 18	24	6.23
13	18 to 112	24	7.28

Source: Ibid.

Total Project Time

The length of the period from the start of project planning to the completion of project construction can be estimated by summing planning and execution time. This is called the "gestation period" of the project. A distribution of gestation periods is presented in Chart 14. The estimated average planning period is 3.4 years and the estimated average execution period is 8.5 years. Therefore, the estimated gestation period of a typical urban renewal project is 11.9 years. This, however, applies only to projects started in the past. If it is assumed that, because of the "learning curve," future planning periods will average two to three years and execution periods will average seven to eight years, then total gestation time will average somewhere between nine and eleven years. It is estimated that the typical future urban renewal project will take approximately ten years.

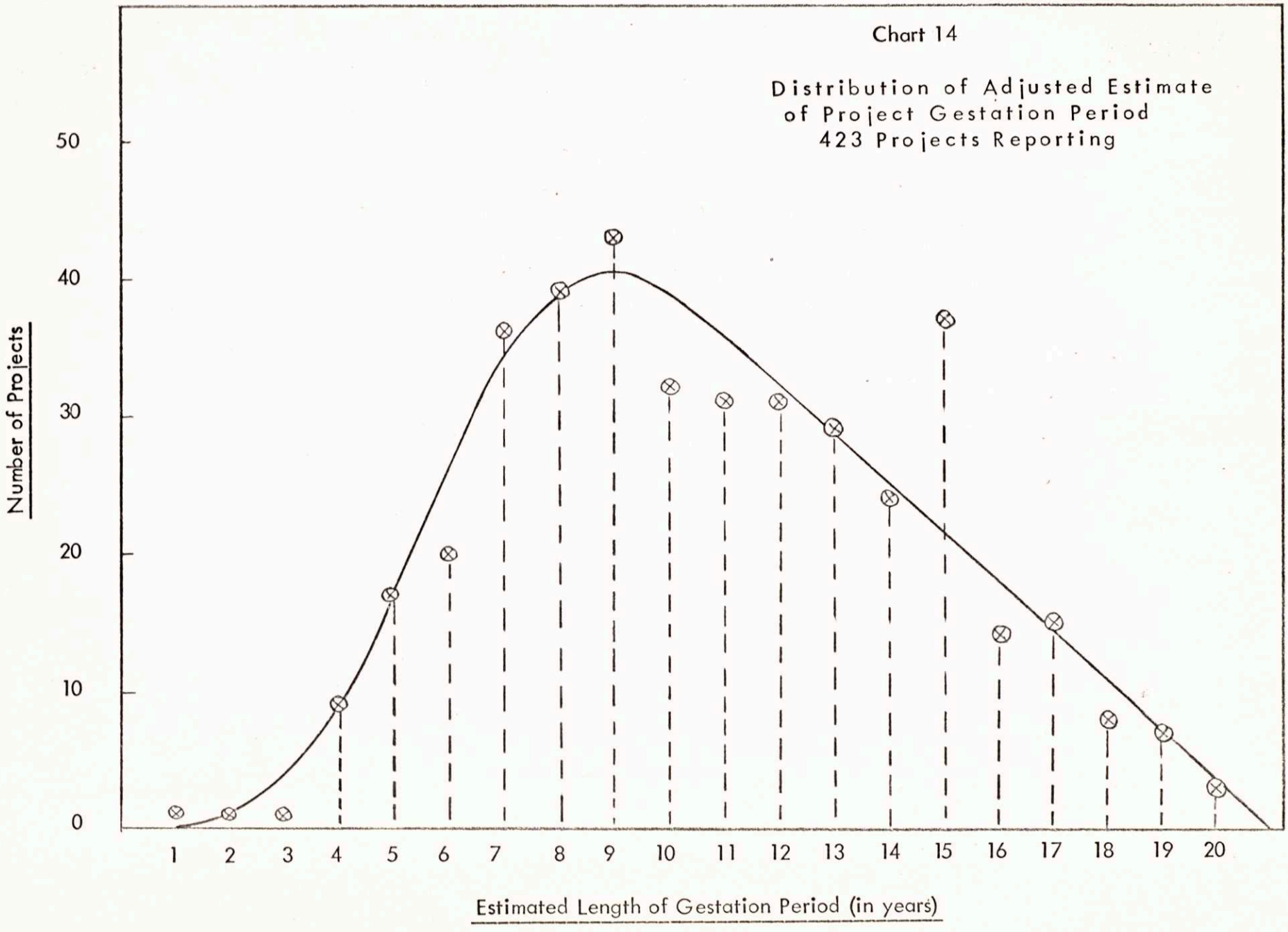
Summary

Urban renewal takes a long time. An average-sized urban renewal project will take approximately ten years to finish; three years will be spent in planning and seven in execution. As is to be expected, large projects will usually take longer than small ones.

Thus, the Federal Urban Renewal Program is definitely not a quick solution to urban problems. It is important that federal, state and local government officials recognize that a long period of time is

Chart 14

Distribution of Adjusted Estimate
of Project Gestation Period
423 Projects Reporting



Source: Urban Renewal Project Characteristics and Physical Progress Quarterly Reports, Urban Renewal Administration, Washington 25, D.C., 31 March 1961 -- Reported figures have been adjusted

associated with the urban renewal process. For the program to be effective it must be flexible; the basis on which a project was initiated may have changed significantly by the time the project nears completion. Public officials should attempt to be aware of the changing needs for urban renewal and modify the program accordingly.

CHAPTER X

THE FUTURE

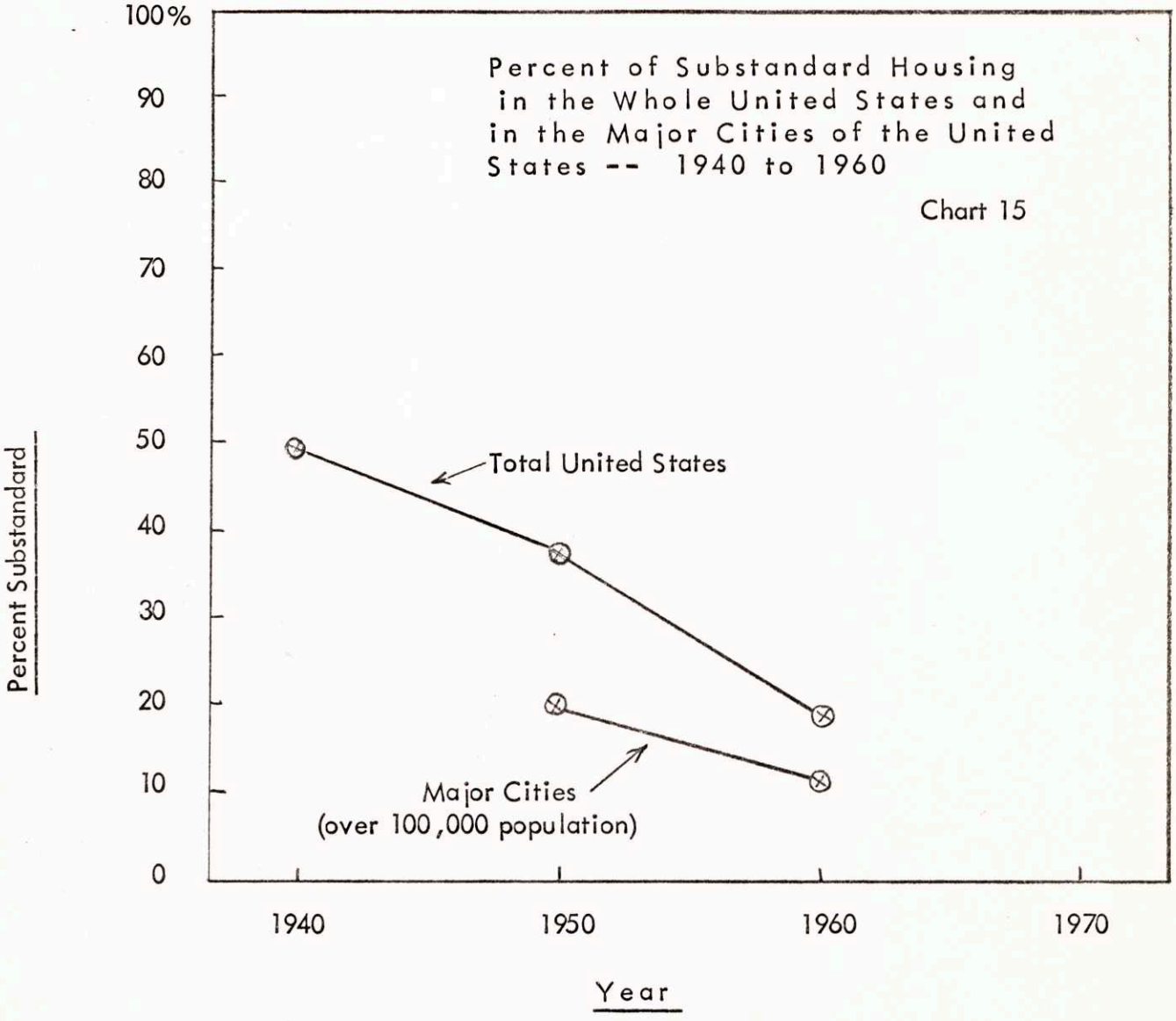
"What is the city but the people?"

Shakespeare, Coriolanus

Urban renewal takes a long time. The urban renewal program which may have been proper in 1950 may be out of step in 1960 and hopelessly outdated by 1970. Perhaps an examination of the past record of urban renewal will help us to more effectively orient the program with the pattern of events unfolding in the urban sector of the economy. The clearest danger resulting from the very long gestation period of urban renewal is that by the time the plans become effective, the basis on which the plans were made may have substantially changed. Thus it is important to be sensitive to any broad changes in the factors which underlie the need for the program.

Changes in Housing Quality

The Federal Urban Renewal Program is primarily concerned with housing. In 1940, 49 per cent of the housing in the United States was classified as substandard by the Bureau of the Census. In 1950 it was 37 per cent. And today (1960) it is 18.8 per cent. The absolute changes in substandard housing have also been striking. In the decade from 1950 to 1960, the number of substandard units declined from 17.1 million to 11.4 million (see Chart 15).



Source: Bureau of the Census

But is it not true that this increase in the quality of housing has been due to the rapid growth of the suburbs, and that the quality of housing has deteriorated seriously in the cities? In 1960, when 18.8 per cent of all housing in the United States was classified as substandard, only 11.4 per cent of the housing was substandard in cities with populations over 100,000 (see Chart 15). Confining the analysis to the 24 largest cities in the United States, the percentage drops even further to 10.7 per cent. In 1960, approximately 82 per cent of the substandard housing in the United States lay outside of the borders of our large cities (over 100,000 population).

The housing sector in the United States has undergone broad, sweeping changes in the last decade--overall housing quality has improved tremendously, both relatively and absolutely, and today most of the substandard housing lies outside the cities. More interesting implications lie ahead. If the same forces that caused the increase in housing quality from 1950 to 1960 continue to operate, the decade of the Sixties will witness further dramatic increases in housing quality.

The Vanishing "Raison d'Etre" of Urban Renewal

It appears that two broad trends have been developing simultaneously in the urban areas of the United States since 1950.

1. A tremendous amount of private investment has taken place in housing, thereby causing a very substantial increase in the housing quality of the United States.

Indications are that this upward trend will continue in the future, further increasing housing quality. If results comparable to those achieved in the last decade are achieved in the next decade, the housing problem will probably be of relatively minor importance by 1970.

2. During the same decade that witnessed a considerable improvement in housing quality in the United States, the Federal Urban Renewal Program was established. It grew rapidly and will probably continue to grow in spite of the fact that its primary "raison d'etre"--low housing quality--is steadily decreasing.

Rehabilitation

Rehabilitation of existing homes is often held out as the only feasible solution to the problem of deteriorated housing. However, progress in rehabilitation to date has not been encouraging. As of December 31, 1959, 157 projects were involved in federal rehabilitation or conservation programs under the urban renewal program. In these areas, 119,314 dwelling units were to be retained; of these, 91,769 units required rehabilitation. Of the units that required rehabilitation, 6,027 had been completed, 4,662 were in the process of being rehabilitated and 81,080 had not been started.

Perhaps the major reason for this slow progress is the fact that the conservation and rehabilitation program is dependent on the voluntary expenditures of private owners and code enforcement by the local government.[1] Private owners are very receptive to the idea of

[1] John W. Innes, Urban Renewal Policies and Programs in the U.S.A., Urban Renewal Administration (Washington, D.C., November 1960).

rehabilitation until they realize that they must expend a substantial amount of their money to improve their property. Then they balk. The enforcement of adequate housing codes is a necessary part of any rehabilitation program. But housing codes have seldom been rigorously enforced by local governments in the past, and the situation has not yet changed.

If rehabilitation is to work, new financial devices will have to be developed. Rehabilitation is expensive and someone must pay for it. If the private owners balk at making extensive improvements, an effective rehabilitation program will require extensive public action aided by substantial financial assistance from the federal government. The fact that the federal government clearly recognizes this is reflected in the Housing Act of 1961. The new Housing Act includes a provision which provides for FHA insurance on alterations and improvements to residential structures in urban renewal areas. It also permits the refinancing of the existing mortgage with an FHA insured loan. Thus a homeowner in an urban renewal area can secure an FHA insured loan for an amount equal to the cost of rehabilitation plus the amount of the outstanding mortgage.

For private owners in a renewal area, the most favorable terms on which financing can be obtained are those of mortgages insured under FHA Section 220. As of June 1961, the interest rate was 5 1/4 per cent plus an insurance premium of 1/2 per cent on the outstanding

balance. Mortgages could be amortized over thirty years, or three-quarters of the estimated remaining life of the property, whichever was less.[2]

A case study of the effects of a new FHA Section 220 mortgage upon debt service shows that for 40 per cent of the currently mortgaged properties the monthly debt service would be substantially reduced, to under 80 per cent of the current monthly charges. For another 24 per cent the costs would remain approximately the same. For the remaining 36 per cent, debt service would rise, from a slight increase in some cases to triple the amount in others. For properties not now mortgaged (37 per cent of the total number of properties), the monthly debt service will, of course, rise by an amount equal to that necessary to carry a mortgage of an amount equivalent to the cost of rehabilitation.[3]

The lure of lower monthly payments would surely be attractive to some homeowners in slums, and could cause a substantial amount of rehabilitation if the money were available. But will financial institutions increase the amount of the mortgage, lower the interest rate and lengthen the loan period on property to which they originally

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[2]Chester Rapkin, The Washington Park Urban Renewal Area: An Analysis of the Economic, Financial and Community Factors That Will Influence the Feasibility of Residential Renewal, (December 1961), p. 43.

[3]Ibid., p.61 and 65.

assigned a high risk? It is difficult to say what will happen in the future, but the limited experience which the government has had with the program to date has been discouraging. It appears that other investment alternatives have been more attractive to the financial institutions.

> To facilitate rehabilitation, the Housing Act of 1961 included a provision for insurance (by FHA) . . . . Unfortunately, the financial institutions have been slow to support this program.[4]

Then where will the money come from? Under the 1961 Housing Act a further inducement is offered to private lending institutions to take these mortgages by authorizing their purchases by FNMA. As an additional added incentive, in case of default, payment may now be made to the lender in cash rather than FHA debentures. Whether or not these incentives will be adequate remains to be seen. And, even if financing does become available, some serious problems still remain. For a considerable number of home owners, rehabilitation will mean an increase in monthly payments in spite of the liberal federal financing. If these people are unable to afford the additional cost, the local renewal agency has the power to seize the property, rehabilitate it and sell it. Thus the federal "rehabilitation program" either forces the property owner to fix up or move out. An

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[4]"The Urban Frontier," Address by Robert C. Weaver, Administrator, Housing and Home Finance Agency, before the Worcester Economic Club, Sheraton-Bancroft Hotel, Worcester, Massachusetts, March 8, 1962.

additional implication of the program is the fact that as rehabilitation progresses and the area becomes improved, two side effects will occur: real estate taxes will rise unless the city provides for special tax concessions, and property values will increase. The combination of increased taxes and increased property values will be reflected in rent increases unless rent controls are imposed. If rent controls are not imposed, the increased rents may effectively displace the original low-income inhabitants of the area as surely as urban renewal which involves clearance.

Counter-Cyclical Policy and Urban Renewal

The hope has often been expressed that the urban renewal program could be used as an instrument to help effect counter-cyclical policy. This hope is based primarily on the amount of new construction activity generated by urban renewal. However, the amount of construction started in urban renewal areas is relatively small when compared with the total amount of construction activity in the United States. Also, the gestation period for urban renewal is long and uncertain; ten years could easily elapse between the start of planning and the completion of construction.

It has been suggested that this time lag could be shortened for purposes of counter-cyclical activity by clearing large areas of urban land and holding them in reserve. But it is doubtful that this is politically feasible; large, vacant lots of urban land lying fallow for years would probably elicit a storm of criticism.

Because of the unusually long time lag involved, it is entirely possible that, by the time construction activity was generated by urban renewal, the cycle would be in its next phase, or even in the next phase of the following cycle. This would produce pro-cyclical effects. Considering the present state of economic forecasting, pro-cyclical effects would seem as likely as counter-cyclical effects.

Summing up: It is doubtful that the Federal Urban Renewal Program can be an effective instrument of counter-cyclical policy, primarily because of the long time lags inherent in the process. And even if the time lags were short, the actual amounts of construction would probably be insignificant. There is, however, one side-effect of urban renewal that might have a stimulating effect on the economy. As of June 30, 1961 approximately $1.7 billion had been spent or was expected to be spent for real estate purchases in urban renewal areas. This has the effect of turning $1.7 billion worth of fixed assets into highly liquid assets. Some very interesting questions could be posed as to who gets the money and what they do with it. This liquification of fixed assets could have significant effects in certain areas of the economy.

Urban Renewal for Whom?

Who wants urban renewal? Certainly not the lower-income groups --they get displaced from their homes to make way for luxury apartments they cannot afford to rent. It is also doubtful if the vast

middle class are very much concerned with the changes that have occurred in the cities. Of course, they care somewhat; almost everyone would agree that a beautiful, clean city is preferable to an unattractive, dirty one. But their degree of concern can be determined by asking how much they would give up of what they have or hope to have in order to realize the goals of urban renewal. The achievement of these goals would probably make it necessary for people to allocate a much larger share of their income to housing and public facilities. There have been no indications of a strong desire to do this in the past, and it seems doubtful that their values will change significantly during the next ten to twenty years.

Then who is behind the tremendous push for urban renewal? Raymond Vernon, former Director of the New York Metropolitan Region Study, expressed some interesting views on this question.[5] He felt that the main stimulus for urban renewal came from two elite groups--the wealthy elite and the intellectual elite. Both groups have strong attachments to the city--both economic and social--and are in a position to attempt to maintain these attachments regardless of the wishes and desires of the nonelite. These two elite groups are composed of the financial institutions, the newspapers, department stores, owners of downtown real estate, academic intellectuals, city planners, city

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[5]Seminar given by Professor Raymond Vernon at the Joint Center for Urban Studies of Harvard and M.I.T. in October of 1961.

politicians and others who have a strong stake in the maintenance of the city as they see it today. This proposition of Vernon's appears reasonable.

The arguments of the elite for urban renewal seem persuasive, but so far they have failed to convince the masses of the people in the market place whose acquiescence is necessary for the implementation of their plans. Until the market place adopts the same values as those held by these elite groups, it appears that the Federal Urban Renewal Program will not produce any significant results, measured in terms of the elite's objectives.

Of course, it can be argued that the Federal Urban Renewal Program helps solve some of the urban problems, and is therefore justified. This view, however, fails to take account of the economic and social costs which are necessary in order to achieve the economic and social benefits of federal urban renewal. If we add these costs into the picture, it is possible that the net result may be a negative one, i.e., federal urban renewal may actually tend to aggravate urban problems instead of alleviating them.

Problems That the Private Market Neglects

The Nation's extensive slums, the need for low- and moderate-income housing and the inability of local municipalities to provide public facilities represent some of the areas that have been a

persistent problem. Can the Federal Urban Renewal Program deal efficiently with these problems?

Slums

The idea that urban renewal can eliminate slums is one of the main premises that the present urban renewal program is based on. However, an examination of the past record of urban renewal does not substantiate this view. Urban renewal can physically eliminate a slum area, but at the same time it disperses the slum dwellers into similar rundown areas.[6] This may intensify or create a slum in the new area to which the displaced families move. The slum dweller is not personally aided by the urban renewal process. Typically, the family is notified that they must move and then they are given a token payment for moving expenses. If all urban renewal does is to shift the slum dweller from one slum to another, what is the solution? There are three possible reasons why people live in slums:

1. Economic. Most of the slum dwellers have low incomes and simply cannot afford to pay the rents demanded for really good housing in a desirable location.
2. Racial. The majority of the people living in slums are colored, and, even if the other factors did not exist, they would encounter the barrier of prejudice trying to move out of their environment.

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[6]Harry W. Reynolds, Jr., "What Do We Know About Our Experience With Relocation," The Journal of Intergroup Relations, Autumn 1961.

3. Social. The people living in slums probably have individual tastes that differ considerably from those of the middle or upper classes.

Assuming these premises are correct, the elimination of slums will require the three following conditions:

1. The slum dwellers must have more money or subsidized housing.
2. The slum dwellers must not be discriminated against.
3. The slum dwellers must acquire a different set of social values and attitudes.

This is the solution--the only difficulty remaining is how to effectuate it. Given our present social, economic and political system, the actions necessary to effect these changes appear to be impossible in the short run. Only in the long run does any sort of solution seem possible. If the economy expands, the general income level will increase, thereby alleviating the economic problem. Perhaps, after many decades, the social values of these people will be modified through education so that they will be more like the rest of the population. And, some day, most of the white 90 per cent of the population may not discriminate against the colored 10 per cent. The past record of federal urban renewal indicates that it is virtually powerless to effectuate any of these solutions. The hope that the Federal Urban Renewal Program can eliminate slums appears to be unfounded.

Low Income Housing

With our present level of technology, it appears to be impossible to build new private housing that can be afforded by low-income groups. The only feasible solution to this problem appears to be public housing. The contribution of the Federal Urban Renewal Program to public housing is negligible; less than 2 per cent of planned construction in urban renewal areas is devoted to public housing. Furthermore, within the Housing and Home Finance Agency there is a complete program, administered by the Public Housing Administration, set up to deal with this problem. It would seem that, if Congress felt that the country needed public housing, the Public Housing Administration would be able to implement the plans faster and more efficiently than the Urban Renewal Administration.

Moderate Income Housing

A common complaint today is that there is a large block of people who cannot afford good, new housing, yet their incomes are high enough to prevent them from being eligible for public housing. First, it must be clearly recognized that everyone cannot have a new home. A certain portion of the population must, by necessity, occupy used housing. This creates a problem because some of the used housing is in poor condition. A fairly large part of the population could

probably afford to move into used housing and rehabilitate it if they could secure adequate financing. In the past, many of these people who have desired to fix up their homes have been unable to secure financing from conventional financial institutions because of the risk involved. If the country feels that these people should be aided, a fairly simple route lies open. The solution lies in expanded mortgage insurance coverage by FHA. FHA could make it possible for many of these people to obtain financing if they loosened up their lending standards considerably. Of course, this would result in a higher overall loss rate for FHA, but the cost of underwriting this loss should be small compared to the cost of attempting to raise the housing standards by the use of other federal aids. Liberal FHA insurance is currently available through the Federal Urban Renewal Program, but, so far, little advantage has been taken of it. Perhaps the financing problem could be alleviated further if the insurance program operated independently, but not exclusively, of the Federal Urban Renewal Program.

Public Facilities

One of the most persistent complaints of the cities has been the one of insufficient tax revenues and increasing expenditures for public services. The urban renewal program alleviates this problem to some extent because it pays two-thirds of the cost of public facilities located within an urban renewal project. However, federal urban

renewal is not needed for this. There is already in existence a government agency whose prime function is to aid municipalities with long-term federal loans. This is the Community Facilities Administration located within HHFA. So far, about $1.2 billion in long-term loans have been given to municipalities throughout the country. At present the CFA does not grant federal money to municipalities, but there is no reason why it could not do so if Congress authorized it to. Transferring these municipal aid operations to the CFA would clarify the picture as to who was getting the money and what it was being used for. Under federal urban renewal, the amount of federal money being used for municipal facilities is difficult to estimate or pinpoint.

Summing up: Some of the main areas where the Federal Urban Renewal Program could effectively function are already adequately provided for in other agencies of the HHFA, and it appears that the problems would be clearer and easier to handle if they were delegated to the agencies specifically designed to cope with them.

Steps Necessary to Make Federal Urban Renewal More Effective

So far the results of the Federal Urban Renewal Program have been meagre. If the program is to accomplish more, it seems that drastic steps will be necessary. More powerful incentives will be needed to direct construction activity in urban renewal areas. The incentives of land write-down, large assembled tracts of urban land

and low-interest government-financed mortgages have not been sufficient in the past. Some of the incentives that might possibly be used are:

1. Increased real estate tax concessions
2. More federal long-term mortgages at below market interest rates
3. Increased federal share of net project cost
4. More emphasis on rehabilitation with substantial federal financial assistance
5. An extension of all the above to commercial and industrial construction.

In conclusion, the steps that have a reasonable chance of accelerating the program will all result in substantial increases in the amount of public subsidy.

Economic and Social Costs and Benefits

The evaluation of the social costs and benefits of the Federal Urban Renewal Program is difficult. Many of the actions and effects of the program are intangible, and any evaluation of them will vary directly with the values of the person or persons doing the evaluating. In an attempt to achieve a rough first approximation of the net results of the Federal Urban Renewal Program, a list of possible costs and benefits was compiled (see Table XXXIII). This list attempts to

TABLE XXXIII

LIST OF POSSIBLE COSTS AND BENEFITS OF THE

FEDERAL URBAN RENEWAL PROGRAM

Costs	Benefits or Results
(1) Large amounts of federal and local expenditures	(1) Substantial amounts of subsidized high-rent apartment construction
(2) Large amounts of federal financing through FNMA	(2) Substantial amounts of new public facilities--two-thirds paid for by federal government
(3) Aggravation of housing shortage for low-income groups--demolition exceeds new construction	(3) Small amounts of industrial and commercial construction
(4) Large numbers of people involuntarily displaced--loss of individual property rights	(4) Small amounts of public housing
(5) Slums spread out rather than eliminated--redistribution of social problems	(5) Acceleration of replacement of small amount of older structures
(6) Low-income groups forced to allocate higher percentage of their income to housing	(6) Attention focused on urban problems
(7) Housing problem for minority groups aggravated--high percentage of people affected are Negroes	(7) Parts of cities made more beautiful
(8) Public funds diverted from other public uses	(8) Tax base may increase for some cities at expense of other areas of the country

(Continued on following page)

TABLE XXXIII (Continued)

(9) Uses up large amounts of time of public officials	(9) Construction placed in "socially" desirable locations
	(10) Makes possible high potential gains for private redevelopers
	(11) Counter-cyclical effects--small and nebulous
	(12) Economy of the United States stimulated--negligible amount
	(13) Economy of cities stimulated--very small amount
	(14) Large amount of slum real estate assets liquified--may stimulate other investment in economy
	(15) Provides many jobs for city planners.

summarize the significant actions and effects of the program. The actions and effects were divided into two categories (1) Costs and (2) Benefits or Results. It is felt that the actions and effects listed under "Costs" will be accepted as costs by most people. The actions and effects listed under "Benefits or Results" are subject to a greater degree of interpretation. In the interpretation of this list people will differ both as to what items are considered costs or benefits, and as to the degree of importance that they attach to these items.

This list is by no means all-inclusive, but it does focus attention on many of the actions and effects of the Federal Urban Renewal Program. It is unlikely that it will ever be possible to state with certainty whether or not the net benefits are positive or negative. However, it is hoped that this study can clarify some of the main points of the program, and, by doing so, make it possible to more effectively judge the overall program from a national viewpoint. In the opinion of the author, the economic and social benefits of the Federal Urban Renewal Program have not clearly exceeded the economic and social costs. It is even possible to argue that the "costs" have clearly exceeded the "benefits." Of course, any evaluation of this type is highly dependent upon the values of the person doing the evaluation.

Summary

During the last decade there have been substantial increases in the housing quality of the United States, thus mitigating one of the primary needs that the Federal Urban Renewal Program attempts to fill. The rehabilitation concept of urban renewal is still relatively untried, and the many difficulties it will have to overcome to be effective make it appear doubtful that much will be achieved.

In terms of eliminating slums, providing low-cost housing and being an effective tool of counter-cyclical policy, the Federal Urban Renewal Program has not been effective in the past, and the prospects for the future do not appear much brighter. It is not yet clear that the economic and social benefits of the Federal Urban Renewal Program have exceeded the economic and social costs.

CHAPTER XI

CONCLUSIONS

> "Life is the art of drawing sufficient conclusions from insufficient premises."
>
> Samuel Butler

In 1949 Congress attempted to alleviate existing housing and urban problems by the creation of a Federal Urban Renewal Program. Implicit in this was the assumption that the private housing market could not do the job well enough or fast enough without substantial federal aid. Thus, two forces set forth to grapple with the problems of housing and cities. One of these forces was private enterprise, guided by the complex interplay of the market place. The other was the Federal Urban Renewal Program, guided by overall plans prepared by experts.

The experience of the decade from 1950 to 1960 indicates that private enterprise made substantial gains, while the federal program did not. The overall results of federal urban renewal indicate that it is a regressive program, rather than progressive. It benefits high-income groups and hurts low-income groups. Its results, when compared with the results of private forces, are negligible. Its costs, when compared with the results of the program, are high. The total impact of the program on the economy of the United States has been small. From 1950 to 1960 less than one-tenth of one per cent of all construction activity took place in urban renewal areas. Even its

impact on large cities was small; urban renewal construction constituted less than 1.5 per cent of all building construction in these cities from 1950 to 1960.

A typical urban renewal project takes a long time. The planning phase for an average project takes approximately three years. The overall length of time, from start of planning to completion of new construction, needed for an average project is about ten years. Because of the long amount of time necessary and the relatively insignificant amounts of construction involved, the Federal Urban Renewal Program cannot be considered as an effective tool of national counter-cyclical policy.

The composition of the construction started reveals the character of the program. Of the estimated $824 million of construction started by March of 1961, 56 per cent was private residential, 6 per cent public housing, 24 per cent public facilities, 10 per cent commercial and 4 per cent industrial. The average monthly rent of the private residential apartments, which replaced mainly low-income housing, is $158. Almost seven-tenths of the new private residential construction is financed by the federal government via FNMA.

The Federal Urban Renewal Program has actually aggravated the housing shortage for low-income groups. From 1950 to 1960, 126,000 dwelling units, most of them low rent ones, were destroyed. This study estimates that the number of new dwelling units constructed is less than one-fourth of the number demolished, and that most of the new units are high rent ones.

It is commonly believed that most of the total cost of the Federal Urban Renewal Program is borne by private enterprise. Somewhere between $3 to $5 of private investment is expected to result from every $1 of public investment. In light of developments in this study, these figures seem overly optimistic. It appears that the amount of private investment generated by each $1 of public investment is close to $0.50; and because a substantial part of urban renewal construction activity is shifted from other areas, the net gain is probably on the order of $0.25.

The social costs of the program are difficult to evaluate. Hundreds of thousands of people have been forcibly evicted from their homes in the past and it will not be long before the number passes the million mark. The indications are that these people have not been helped in any significant way. Their incomes remain the same, they are still discriminated against and their social characteristics remain essentially unchanged. It appears that the Federal Urban Renewal Program has not achieved its social objectives to any measurable extent in the past, and, if the program continues in the same pattern, it is unlikely that it will achieve them in the future.

The Federal Urban Renewal Program, on balance, has achieved little in the past, and it appears doubtful if it will achieve significant results in the future. This raises a serious question: On what basis can the federal government justify continuing and expanding the present Federal Urban Renewal Program?

APPENDIX

RESEARCH NOTE NUMBER 1

ESTIMATE OF DWELLING UNITS DESTROYED AND DWELLING UNITS BUILT

As of March 31, 1961, 126,054 dwelling units had been demolished in urban renewal areas.[1] Approximately 80 per cent of these were classified as substandard by the local renewal agencies. Most of the dwelling units demolished were low-rent units. As of the same date an estimated $462 million of private residential construction had been started in urban renewal areas. The median mortgage amount per dwelling unit (Section 220) was $14,484.[2] It was assumed that dividing the estimate of the total amount started by the median mortgage amount per dwelling unit would give a good estimate of the number of units started. Using this assumption it is estimated that 31,897 units had been started. The average monthly rent charged for these units was $158.[3] It was also estimated that $50 million of public housing had been started. Assuming an average cost per unit of $10,615, the approximate number of public housing units started in urban renewal areas is 4,710.[4]

Assuming that 85 per cent of the dwelling units that were started were finished, over four times as many homes were destroyed as

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[1] Quarterly Physical Progress Reports, Urban Renewal Administration (Washington 25, D.C., March 31, 1961).

[2] Annual Report of the Housing and Home Finance Agency (1960), Table III-67, p. 140.

[3] Ibid., Table III-69, p. 142.

[4] Ibid., (1955), p. 306.

were built. And because demolition leads construction by a considerable length of time, it appears that as long as the program continues to expand, more homes will be destroyed than are built. Only when the program stops growing will new construction catch up with demolition.

RESEARCH NOTE NUMBER 2

NUMBER OF PEOPLE AFFECTED BY THE FEDERAL URBAN RENEWAL PROGRAM

As of December 31, 1960, there were 216,333 families that had lived or were living in urban renewal areas. This figure is based on 522 projects reporting the total number of families in their project area.[5] As of the same date there were 348 other projects, mostly in the planning stage, for which no data was reported. Assuming that the same number of families would be affected per project for those in planning as for those which had reported data, the total number of families involved in the urban renewal process as of December 31, 1960 is 360,555.

In 1960 the number of people in the average United States family was 3.65.[6] Assuming that this average family size will approximate the average family size of families in urban renewal areas, it can be said that approximately 1.3 million people have been or will be directly affected by the present Federal Urban Renewal Program. Because most of the projects now in planning will probably be in execution by 1965, it is estimated that these people will be displaced from their homes sometime before 1965.

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[5] Urban Renewal Project Characteristics, Urban Renewal Administration (Washington 25, D.C., December 31, 1960), Table 3, p. 9.

[6] Statistical Abstract of the United States, U. S. Department of Commerce (Washington 25, D.C., 1961).

RESEARCH NOTE NUMBER 3

ESTIMATE OF MONEY ACTUALLY SPENT ON URBAN RENEWAL - 1950 TO 1960

The amount of money actually spent on urban renewal each year is not precisely known. To estimate it the following technique was used. It was assumed that the amount of federal advances and loans which have actually been disbursed were spent by the local renewal agency. The basis for this assumption is that the local renewal agency is not supposed to request an advance or a loan unless it has a definite need for the money. The following definitions of advances and loans were summarized from the official Urban Renewal Manual.

> Federal Advance for Planning. The federal government will advance funds to cover necessary expenditures for survey and planning activities in preparation of an urban renewal project, unless the project will be on a three-fourths capital grant basis. A planning advance must be repaid, with interest, out of the first funds, whether federal or local, which become available to the local renewal agency for the undertaking of the project.[7]
>
> Direct Federal Loan. The requisition period for the loan shall be limited to 3 months. The amount of the loan shall be based on the cash needs for project expenditures and relocation payments, less anticipated cash income, during that period. In addition, both cash on hand at the opening of the loan period and cash required as a working balance at the end of the loan period shall be considered in calculating the amount of the loan.[8]
>
> Federally-Secured Private Short-Term Loan. The local renewal agency shall borrow for a period of from 6 months to 12 months. The amount of the loan shall be computed

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[7] Urban Renewal Manual, Urban Renewal Administration (Washington 25, D.C., February 1, 1960--Section 17-6-3, p. 1; December 4, 1961--Section 17-2-1, p. 1).

[8] Ibid. (February 1, 1960--Section 17-6-3, p. 1).

by subtracting from the estimated gross cash needs for project expenditures and relocation payments during the requisition period, plus cash required as an opening working balance for the following period, the following:

1. Cash estimated to be available at the opening of requisition period, including invested funds.

2. Other cash expected to become available during the requisition period in time to be utilized for project costs, including:

   (a) federal grant payments
   (b) cash local grant-in-aid payments
   (c) proceeds from disposition of land
   (d) other income such as proceeds from interest on invested project funds.

If the calculation of the amount of the loan anticipates receipt of a capital grant payment or land proceeds, the local renewal agency shall file a request for consent to transfer funds from the Project Temporary Loan Repayment Fund in which they are initially deposited, to the Project Expenditure account.[9]

Timing of Cash local grant-in-aid. The entire cash local grant-in-aid shall be apid into the project accounts no later than the date on which the local renewal agency is expected to become eligible for the first project capital grant progress payment. An exception will be authorized only if it is demonstrated that funds cannot be made available on that date. The project financing plan shall provide for payment at the earliest dates possible.

The amount of advances and loans disbursed does not accurately reflect the amount spent because of the income derived from other sources such as federal grants, local cash payments, disposition proceeds and other income such as interest. When received, the federal grant

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[9] Ibid. (February 1, 1960--Section 17-6-4, p.1).

payment is deposited in the Project Temporary Loan Repayment Fund, and the government may apply any portion of the payment against outstanding direct temporary loans.[10] However, if the local renewal agency knows it will receive funds which must be deposited in this fund, HHFA will consent to transferring it to the Project Expenditure Account in order to pay project costs, when this will avoid unnecessary costs of borrowing loan funds. The amount of the transfer cannot exceed the unutilized borrowing authority.

Thus, the federal grant may sometimes take the place of a temporary loan. Local cash grants, disposition proceeds and other income may also take the place of a temporary loan. However, with the present sources of data it is impossible to determine when these payments occur. According to an official of the Urban Renewal Administration, 50 per cent of the amount of capital grants disbursed would be a rough estimate of the amount spent over and above the amount of advances and temporary loans.[11]

For purposes of analysis it will be assumed that the amount spent each year is equal to the sum of the following:

1. Advances disbursed
2. Temporary loans disbursed
3. 50 per cent of grants disbursed.

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[10] Ibid. (April 8, 1960--Section 17-5-2, p. 2).

[11] Interview, Mr. Max Lipowitz.

TABLE R.1

ESTIMATES OF CUMULATIVE EXPENDITURES

FOR URBAN RENEWAL

(Thousands of Dollars)

Year	Advances	Temporary Loans	Capital Grants (0.5)	TOTAL
1950	$ 889	$--	$--	$ 889
1951	3,470	--	--	3,470
1952	6,511	9,714	--	16,225
1953	8,465	41,690	4,337	54,492
1954	10,027	78,339	10,635	99,001
1955	12,433	130,583	29,415	172,431
1956	16,353	194,951	37,459	248,763
1957	21,524	300,480	52,569	374,573
1958	29,459	463,856	77,415	570,730
1959	37,679	795,318	116,647	949,644
1960	48,638	1,199,767	182,409	1,430,814

Source: Annual Report, Housing and Home Finance Agency.

The estimate of the cumulative annual amount spent is summarized in Table R-1. As of December 31, 1960, it is estimated that $1.43 billion had been spent.

RESEARCH NOTE NUMBER 4

USE OF IBM COMPUTER

A substantial part of the analysis work was done with the aid of an IBM 1620 computer. Data relating to individual projects was coded and punched on IBM cards. Because of time limitation the data was not explored completely, and additional research may develop further insights.

RESEARCH NOTE NUMBER 5

PRIVATE URBAN RENEWAL CONSTRUCTION PRIOR TO 1954

The private construction started in urban renewal areas before 1954 is summarized below:

TABLE R-2

State	Total Construction Started (Thousands of Dollars)	Residential	Commercial	Industrial
New York	$64,500	$64,000	$ 500	$ --
Illinois	22,915	22,000	2,915	--
Virginia	10,137	--	6,575	3,562
TOTAL	$97,552	$86,000	$9,990	$3,562

Source: Physical Progress Quarterly Report

RESEARCH NOTE NUMBER 6

ESTIMATE OF PROJECT MODEL PARAMETERS

Two of the parameters used in the model were estimated by averaging values of each parameter taken from two actual projects[12] and three case examples of projects.[13] These values are shown in Table R-3.

TABLE R-3

ESTIMATES OF PROJECT MODEL PARAMETERS

	Value of Parameters					
Parameter	Project No. 1	Project No. 2	Case Example No. 1	Case Example No. 2	Case Example No. 3	Average
p_M	14.62	13.47	14.35	14.02	15.31	14.35
p_E	40.07	42.53	43.40	42.56	37.61	41.23

[12]Project No. 1: Park West, Section 4, Southeast Corner of Columbus Avenue and West 100th Street, New York City; Project No. 2: Charles River Park, West End, Boston, Massachusetts.

[13]Case Example No. 1: Mr. Marvin S. Gilman, "Entrepreneurial Considerations in Residential Redevelopment," Guest lecture delivered at a graduate seminar in "Economics of Real Estate" conducted by Professor Charles Abrams, Department of City Planning, M.I.T., October 20, 1961; Case Example No. 2: Mr. Seymour Baskin, "Tax Considerations of Private Developers in Urban Renewal," A Report of the Proceedings of the Sixth Annual Nahro Conference on Urban Renewal, April 16-18, 1961; Case Example No. 3: "Housing Developers Vie for Jobs of Clearing Urban Slums," Business Week, February 22, 1958, p. 80.

RESEARCH NOTE NUMBER 7

LENGTH OF PLANNING PERIOD

As of March 31, 1961, 491 projects had completed planning; 467 others were in the planning stage. The average planning time for those projects which had completed the planning phase was 2.90 years. Because this average only includes projects which have completed planning, there is a downward bias in it. Projects with planning complete constitute a smaller percentage of total number of projects started during later years than for earlier years (see Table XXVII, Column 5). A truer estimate of the average would include only those years for which a high percentage of the projects had completed the planning phase. If all projects started from 1957 on are excluded, the average planning time increases to 3.41 years.

Planning efficiency is increasing. As experience has accumulated, projects have taken less time to plan. It is more difficult to determine the average planning time for projects started after than for those started prior to 1955, because so few have completed the planning stage. However, a fairly high percentage of the projects started from 1956 to 1958 have completed planning, and for these projects it is possible to derive a fairly accurate estimate of their planning time. For projects started after 1958, the percentage of completed projects is so low that any estimate would have been either a guess or a projection.

Thus the estimating procedure used below will be confined to the years 1956, 1957 and 1958. Projects not finished will have a longer planning period than those finished. For projects started in 1956, 10 per cent of the projects were not finished by 1960, and it was assumed that, when they are finished, they will have a longer planning time than those completed by 1960. When this 10 per cent is included in the average, the average planning time will increase.

To estimate how much the inclusion of these projects would increase the average, data from 1950 to 1955 were analyzed to determine what the percentage increase in average planning time was when the 10 per cent of the projects with the longest planning time was added to the remaining 90 per cent (see Table R-4). This percentage effect on the average planning time for each year was averaged for the six-year period from 1950 to 1955. The average increase for the six-year period was 9.7 per cent. It was assumed that when the remaining 10 per cent of the projects started in 1956 are finished they will raise the average planning time for projects started in 1956 by this percentage, i.e., 9.7 per cent.

For 1957 and 1958, the percentages of projects with completed planning are, respectively, 27.4 per cent and 31.2 per cent. The same estimating procedure used above was applied to these years (see Table R-4). It is estimated that the average planning time of projects starting planning in 1957 will be increased by 31.5 per cent when the unfinished projects are all completed. The comparable figure for 1958 is 41.5 per cent. The actual and estimated average planning times are summarized in Table R-4.

TABLE R-4

ESTIMATES OF AVERAGE PLANNING PERIOD
FOR PROJECTS STARTED PLANNING DURING
1956, 1957 AND 1958
(In Years)

Year Planning Started	(A) Actual and Estimated Average Planning Times	(B) Average Planning Time for Shortest 90% of Projects	$\frac{A-B}{B}$	(C) Average Planning Time for Shortest 73% of Projects		(D) Average Planning Time for Shortest 69% of Projects	$\frac{A-D}{D}$
1950	4.55	4.14	.099	3.46	.316	3.30	.379
1951	4.81	4.53	.061	3.98	.207	3.75	.282
1952	3.46	3.14	.101	2.43	.421	2.23	.549
1953	2.99	2.64	.132	2.08	.442	1.95	.534
1954	3.21	2.89	.110	2.46	.305	2.22	.447
1955	2.85	2.64	.079	2.38	.196	2.34	.217
Six-Year Average (1950-55)			.097		.315		.401
1956	3.13*	2.85					
1957	3.25*			2.47			
1958	2.90*					1.73	

*Estimated

Source: Urban Renewal Project Directory, Op.Cit.

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