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Finishing the Environmental Agenda

W. Paul O'Mara

On April 22, 1980, the United States celebrated Earth Day '80, which marked the tenth anniversary of the first Earth Day. Earth Day 1970 often has been cited as the popular beginning of the environmental movement and as the recognition of a new environmental awareness by the general public, even though the "first environmental decade"—the 1970s—officially began a few months earlier with the signing, on January 1, 1970, of the National Environmental Policy Act (NEPA).

Some 20 million people participated in the first Earth Day activities despite the charge from The Daughters of the American Revolution that it was subversive. Although Earth Day was a grassroots phenomenon, it was not a one-shot event. If anything, the Earth Day 1970 activities represented a turning point for this country. According to the tenth annual report (1979) of the President's Council on Environmental Quality (CEQ), "What has changed in an important way is the nation's method of going about its business. Embedded not just in law, but in the nation's consciousness is now a belief that no new project should be undertaken without first seriously considering its effects on the ecosystem of which we are all a part. Though people may disagree vehemently over how to act on such knowledge, there are few who feel that major actions should be taken without considering this question."

Public support for an improved environment and for the means to achieve it remains as strong as ever as we begin the 1980s. "The evidence of this is everywhere," reports the Washington-based Conservation Foundation. "It is substantiated by public opinion polls which consistently show a high level of concern for environmental quality. These values and goals have seeped into all the crevices of government. They have become so embedded in public thought that often they are taken for granted." A recent survey of public opinion on environmental and energy matters conducted by Resources for the Future confirmed this trend. The study indicated that although the respondents were deeply worried about inflation and taxes, their support for environmental protection still was strong and unwavering.

Anniversaries such as the one just passed provide a convenient benchmark for reflection. Looking back on the past decade, federal and state legislatures enacted a plethora of environmental programs in a relatively short time. Nonetheless, "the body of laws, Executive orders, and administrative measures developed during the 1970s to protect the environment [have] proved durable, largely workable and to a remarkable degree farsighted," says CEQ. "We have added to or tinkered with some of the basic laws but have weakened or discarded little."

Still, there is an unfinished environmental agenda. The decade of the 1970s started with virtually no comprehensive environmental controls. The idea was to develop methodologies, apply them, and hope they brought about some environmental improvement. Many if not most of them were single-purpose laws aimed at controlling pollution of specific elements of the environment. Others, such as the Coastal Zone Management Act of 1972, were more comprehensive in scope. The decade of the 1980s, however, will have to focus on the implementation and enforcement of those regulations already on the books.

In the 1970s the easy environmental victories were won. In macro terms, the nation's air quality has improved. There are indications that concentrations of sulfur dioxide and total suspended particulates have been reduced by about 20 percent nationally since 1970. And water quality, while not showing vast improvement since the early 1970s, is at least not getting any worse. Nevertheless, the overall record is mixed.

The problems of the 1980s will be more subtle. We have come to realize that in ecological terms all things are related. For example, in the next decade we must reconcile both environmental and energy goals. We need to find safe methods of disposal of society's wastes and to protect and ensure adequate supplies of drinking water while assuring future populations a place to live. We need to develop land use patterns which do not rely heavily on the automobile and imported fuel and to find housing types which are energy efficient and responsive to changing demographics. And we need to understand that even with high levels of control over point pollution sources, waterways probably will not get much cleaner because of the infinite number of nonpoint sources. The list goes on. In an age of scarcity and limited resources, we all have to recognize limits. And so the tenth anniversary of Earth Day was as much a celebration of how far we have come as a nation during the last decade in improving the environment and, hence, the quality of life as it was a rededication to the goals espoused at the first Earth Day.

Logically, the private sector has a stake in solving environmental problems. Development is a long-term business—economically and physically. What a developer builds will generally be around for some time. Unsound principles and practices applied to the land have long-term effects which cannot be easily written off. Consequently, a developer must continue to pay close attention to these long-term effects. In short, the private sector must address and foster a continued concern for the wise use of environmental resources—a conservation ethic.

Government decisions on housing, water resources, transportation, etc., have direct impacts on land use. Nevertheless, all the local, state, and federal activities related to the environment combined have less influence on national land use patterns than do the decisions of large and small private businesses. The 1970 ULI Task Force on Environmental Quality recognized this when it stated that the developer's role "should not only be that of a participant in improving environmental quality, but by virtue of his profession, that of a catalyst. The developer has significant impact on the face of our land and often carries the awesome responsibility of structuring the habitat of many people over a long period of time with great investments of capital. He must be drawn into an enlightened program of planning and regulation of our nation's land use."

America will have to make some crucial environmental and land use decisions in the years ahead, decisions which will test both our will and our optimism. Some of these have already been enumerated. Considering the impact of development activities on land use, it is time for the development community to reflect on its own environmental accomplishments and to dedicate itself during the "second environmental decade" to an even greater contribution toward environmental improvement in light of the conservation ethic. Though Earth Day '80 has passed, it's not too late to start.

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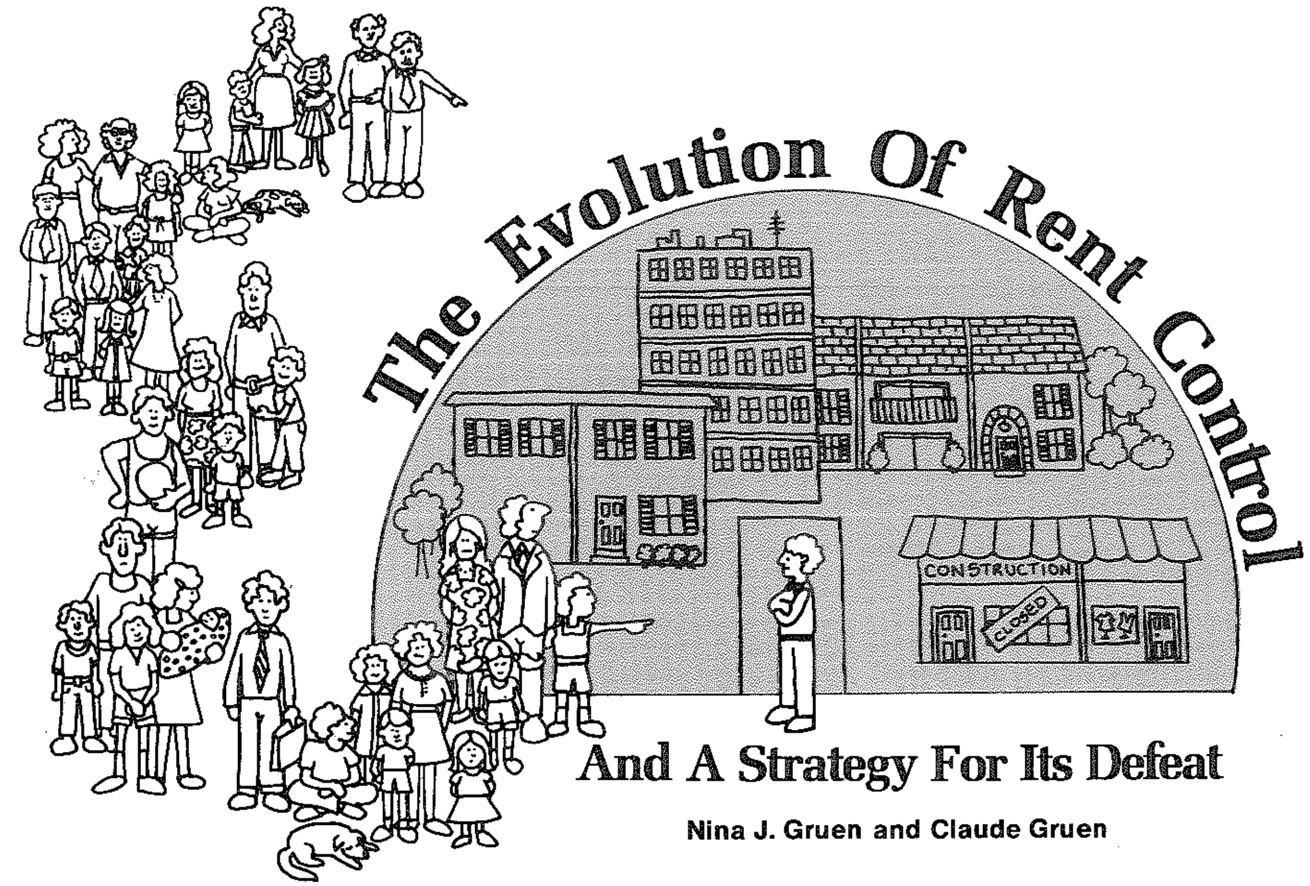


The Evolution Of Rent Control
And A Strategy For Its Defeat

Nina J. Gruen and Claude Gruen

Returns from rental housing investments have reportedly fallen off sharply since the early 1970s. Many experts feel that returns on rental housing will not climb high enough to stave off a diminution, or perhaps even a cessation, in private rental housing production. But if demand continues to be strong while production drops, the law of supply and demand ought to work to push up prices and raise investment returns. The key barrier to this type of market correction and to the expectation of a return to a healthy and much needed high volume rental housing production is the existence and threat of rent control.

The increasingly shrill cry for rent control regulation that will be heard in the '80s is a direct outgrowth of the local, state, and federal growth policies which severely reduced the building of highways and the opening of new developable land. Recent regional and local growth management and environmental policies have led to sharply rising land prices and the production of fewer, and therefore more expensive, units. Yet, the growth management techniques that have reduced the construction of new housing have not proved equally successful at retarding the demand for new housing. One direct result of this housing market imbalance has been that an increasing proportion of the population begins to feel that they are or will become priced out of the rental housing market.

It is a strange fact that while the number of true hardship cases tends to be less than 20 percent, a far larger proportion of renters feel vulnerable to being priced out of rental housing at some future point in time.* Standing in the wings is a political leadership who grabs at the opportunity to use the true hardship cases as symbols of the need for rent control and has learned to trade successfully on the fears of the general population to achieve their ideological goals, which may have little to do with rent control ordinances per se.

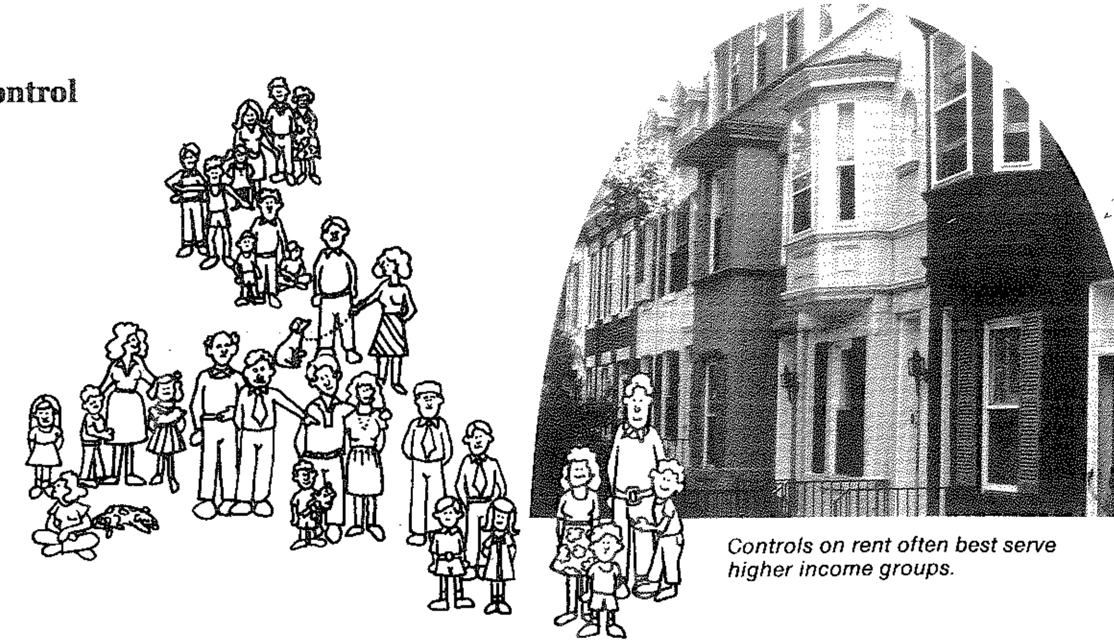
Government policies and regulations are not the only cause of housing market imbalance; inflationary pressures have also contributed to the increasing rental housing market shortage. In a time of rapidly increasing costs, returns from rent lag behind the investment returns on new market-priced rental housing and well below the returns that can be earned through converting rentals to condominium or cooperative units.

The Five Stages of Rent Control

Once established by a period of significant supply/demand imbalance, rent control goes through an almost inevitable progression of rent control ordinances—from mild palliative to final euthanasia.

*In 1979 Gruen Gruen + Associates conducted a survey with a randomly selected sample of households residing in the San Diego region. The results of this survey showed that 80 percent of all respondents felt their own rents to be fair and 90 percent reported that relationships with their landlords to be either "good" or "very good." Nonetheless, 60 percent of all those surveyed (both renters and homeowners) stated that they were in favor of some form of rent control ordinance.

Rent Control



Controls on rent often best serve higher income groups.

There is no *theoretical* reason why a rent control ordinance that would not affect investment decisions (in other words "investment neutral") could not be made to work if it were to be possible to set in place permanently a fair, wise, and all powerful administration to oversee the program. However, political realities inevitably intervene and alter what frequently begins as an investment neutral ordinance but ultimately escalates, resulting in the reduction of the investment worth of rental properties.

Stage One

Stage one is the initial short-run period or the gentle transfer stage from market determined rents to legislated controls on rent. Initial measures are almost always investment neutral or benign ordinances, permitting actual operating cost increases to be passed on to the tenants, based on CPI indexing or some other pass-through mechanism. An effect of this initial stage is the gentle transfer of potential income from landlords to tenants. The overall effects at this stage are limited as far as the private market and public treasury are concerned.

New construction in this initial stage is rarely affected. Studies which tie the rate of construction to the initiation of a rent control ordinance frequently show increases in construction. This apparent anomaly occurs for two reasons. First, the threat of rent control typically foreshadows the actual ordinance and therefore many initial market effects precede the legislated regulation. The most frequent private sector response is the substitution of condominium or co-op developments for multi-unit rental projects. Frequently, building permit data or other construction activity indicators do not distinguish between the development of the multifamily rental and the condominium project. The second reason why construction activities show an increase at the time of the passage of a rent control ordinance is that at this first stage many developers are apt to rush into completing projects that had been in the pipeline for some time. In this first stage, the local tax collector rarely notes any but negligible effects.

Stage Two

Stage two is the second short-run period in which the laws begin to get more restrictive, though it is possible that initial temporary laws will get repealed. Post-World War II controls were repealed everywhere but in New York City. More recently, Miami Beach repealed their short-lived ordinance. But far more frequently, they only become more restrictive. One of the most effective ways to guarantee renewal is to build in a 5 percent or some other vacancy requirement. The ordinance is written to remain in effect until the targeted vacancy rate is achieved. However, as long as the rent control ordinance is in effect and the same underlying demand and supply conditions prevail, vacancy rates must assuredly decrease. Even a first year economics student knows that when the price of a good or service is held below what would have been its market price, and the number of demanders are not decreased relative to the available supply, more, not less, of that good or service will be demanded.

Another major impetus to the toughening of the initial investment neutral rent control ordinance is that in periods of great inflationary pressures, such as we are going through today, the benign rent control ordinance does not provide the amount of relief that the tenants expect to receive. With investment neutral or first stage ordinances based on some type of CPI indexing and/or generous pass-through provisions, tenants continue to see their costs climb and call for more restrictive ordinances. In this second short-run stage, both a political and bureaucratic establishment is entrenched and becomes increasingly responsive to the tenant sector from whence comes its support. What happens is that economically realistic provisions for cost and inflationary pass-throughs to the tenant are repealed and tighter controls are put on allowable rent increases.

In the city of Fort Lee, New Jersey, for example, which began with an investment neutral CPI-based indexing formula at its inception in 1972, landlord increases were essentially limited to 2½ percent per annum within 2 years. Other communities in New Jersey, like Hackensack, reduced landlord compensation from a full CPI to 50 percent of the CPI.

To achieve stricter ordinances politically, landlords as a class must be made to look evil and entirely deserving of what they get. It is never difficult to find one or more major landlords who exploit their tenants, and the media is typically not adverse to publicizing those abuses. Abusive landlords are far more interesting to publicize than the numerous fair-minded, and less noteworthy, landlords. The fact that many of today's landlords are middle-income individuals like the general public who have accumulated smaller-sized properties as their primary form of investment is also not widely known by the general electorate.

In stage two, rent control ordinances begin to destroy the investment worth of rental properties. New investments begin to decline. Even the most naive lender begins to seek non-rent-control areas or sectors. Loan activity, therefore, switches from residential to commercial and industrial activities. Also, some effect on the tax base may be noted at this point if the property tax appraisal system reacts quickly to changes in value. Landlords begin to refinance their units and, to the extent possible, cash out. Such refinancing is still possible at this stage but financial institutions begin to decrease the percentage of value on which they are prepared to loan.

Stage Three

Stage three, the middle period, is identified by major market disruptions. Typically, rent control has been in existence for at least 5 or 6 years before the significant market disruptions of the third stage appear. One symptom is the encrustation of tenants–renters who would otherwise move to other quarters but stay put because of the rental bargains they have come to enjoy. The tenants are, for the most part, middle- and upper-income households and not the poor or true hardship cases that such programs supposedly are designed to mitigate. The reason for this rentership inequity over time is that the poor tend to be more transient and less knowledgeable on how to acquire a rent controlled unit while once the middle class family is entrenched, they tend to maintain control or pass control to either family members or friends.

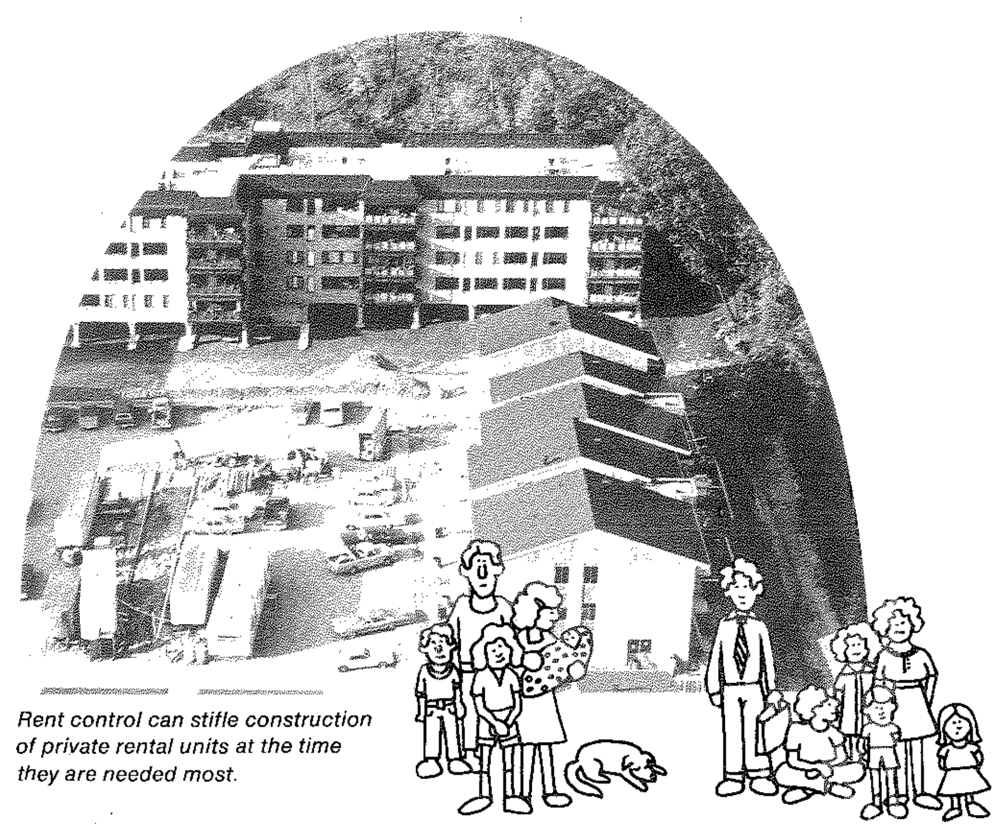
Stage Four

During the fourth stage of rent control, its pernicious effects on the housing market are quite evident. Construction of units declines precipitously. Government is forced to step in to become the primary provider of new rental housing.

Major redistribution of income from the landlord to the tenant has now occurred. Consequently, market values plummet. In poorer neighborhoods, where rentals fall short of amortization costs, landlords react by first milking the properties dry and then by outright abandonment. In middle- and upper-income neighborhoods, tenants are often willing to make their own repairs because of the rental bargains they are receiving.

By stage four, financial institutions begin to face unacceptable foreclosure levels and stop making all loans unless these loans are government backed. Redistribution of income is no longer solely between landlord and tenant but spreads to all taxpayers as properties begin to be reassessed at values closer to the greatly reduced market values.

While government is increasingly called upon to make up the loss in private rental units, to date, it must be noted that nowhere in the world has government been able to take up the slack. The result is increasingly severe housing shortages. Of course, the burden is heaviest upon those who can least afford it. It is these households who all too frequently are forced to pay for market-priced housing while the more stable middle and upper income, established households maintain their strangleholds on the rent con-



Rent control can stifle construction of private rental units at the time they are needed most.

trolled units. In Portugal, for example, where rent control has been in effect since 1940, controlled units that rented for $7 per month in 1979 were inhabited by long-time Portuguese residents, while new migrants from Angola were often required to pay $450 per month for an equivalently sized and located unit.

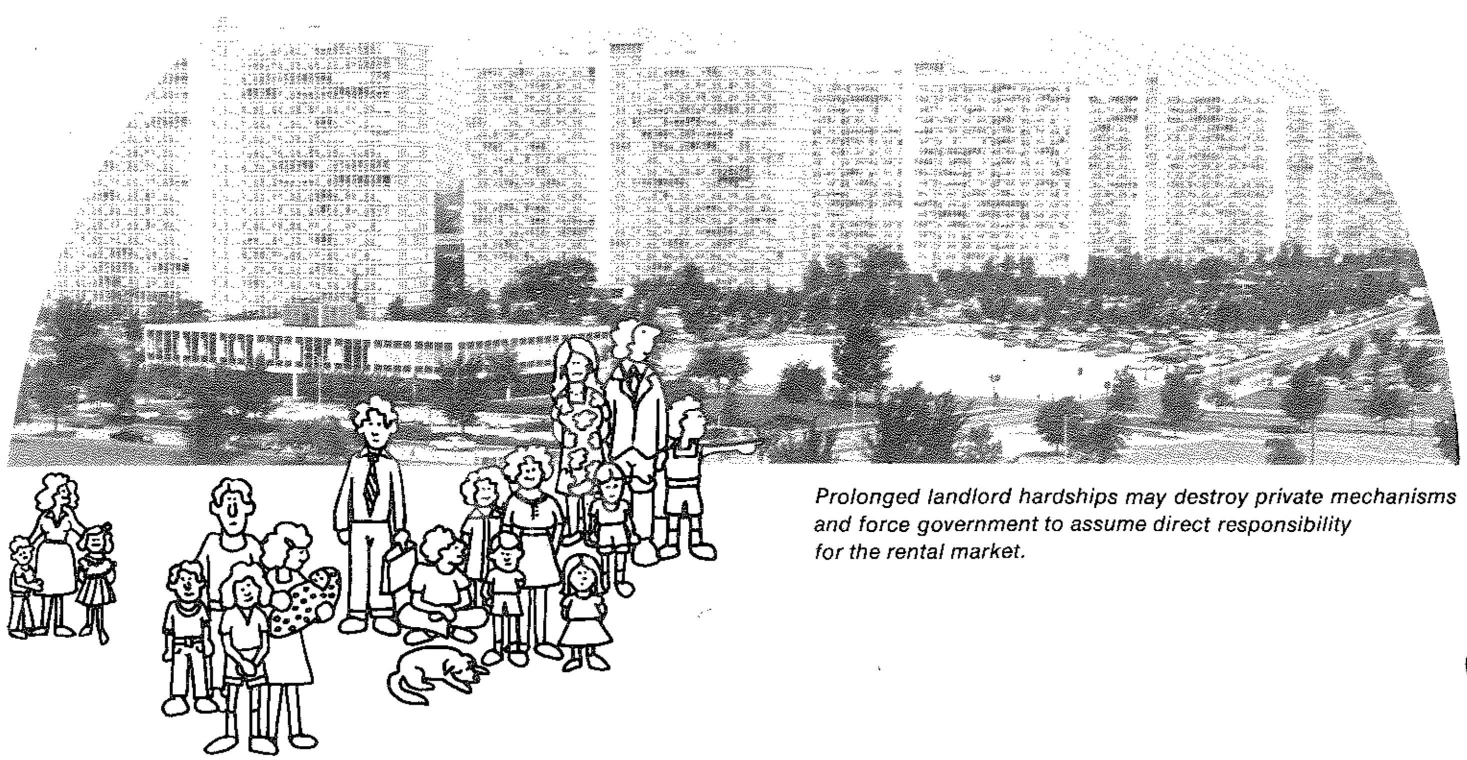
By the time stage four sets in, tension between landlords and tenants has escalated into full scale and explicit class warfare. Tenants begin to firmly believe that limited or no rent increases are their vested rights. Even limited profit companies have been affected by this mentality. There have been instances where cooperatives voted to refuse to pay for their own increased operating costs.

Stage Five

Stage five is the final phase of the evolutionary process that has affected virtually all the housing markets under rent control. Society now is faced with two equally unhappy choices: to accept the demise of the private rental housing sector or to face the equally painful alternative to begin the process of decontrol. Decontrol can never be achieved quickly or without major dislocations.

Typically, the process requires time-phasing through a series of vacancy decontrols packaged with incentives such as the provision of direct rental subsidies for hardship cases. This is the path that Sweden took, and it took them from 1958 to 1976, 18 years, to complete it. Great Britain, on the other hand, seems to have opted for the other choice—acceptance of the end of the private rental market. Great Britain suffered a decline in its private rental stock from 61 percent of all such dwelling units in 1947 to 14 percent in 1976.

A third alternative has been suggested by some, and that is to treat all rental property as if it were a public utility. However, the essence of public utility theory is that such regulations create public benefit only if applied to industries within which limiting the number of producers will cause the average costs of production to drop. This situation clearly does not apply to the housing industry. Given the structure of the private rental market with its numerous suppliers and relatively low entry costs, the consumer is far better off under a competitive market. Further, if such a regulatory system is to work, a tax should be applied equally to all land and not merely to those sites to be used for residential rental housing.



Prolonged landlord hardships may destroy private mechanisms and force government to assume direct responsibility for the rental market.

In reviewing the progression of where rent control ordinances lead, it would appear that the value to be derived from its primary benefit, that of preventing landlords from reaping unearned profits by taking advantage of major housing market imbalances, is far outweighed by the disadvantages of destroying private ownership of the rental housing stock. The bottom line is that the cure for rent control almost inevitably turns out to be more virulent than the original disease—no matter how safe the first dose appears to be.

The Counter Evolutionary Strategy

One scene in the movie "Patton" shows the American tank forces winning their first victory over Rommel's Afrika Korps with tactics that show the forces anticipated the German's battle plan. The sequence ends with George C. Scott, who plays the American commander Patton, calling out triumphantly, "Rommel, I read your book." Similarly, the description of rent control's evolution can be read in order to derive a counter evolutionary strategy whose tactical improvements anticipate each stage of the rent control evolution. Such a strategy would seek first to strengthen the housing market so that it can resist the initial onslaught of rent control. If that tactic fails, the strategy calls for a series of counter attacks that seek to oust rent control before it becomes strong enough to kill the rental housing market.

The strategy outlined below seeks to compare the reign of government housing allocators to the rule of the deposed housing market in an attempt to sustain the latter. It describes the objectives and actions to be taken by the members of a community who believe that the private rental housing market is preferable to government control and allocation of housing.

As described earlier, rent control ordinances are passed after a period during which the supply of new rental units and the housing market lag behind the demand for rental housing. The best way to avoid rent control is to avoid the lag, or if that's not possible, to correct the imbalance quickly. The friends of the private market should memorize what we believe is a law of public behavior: If a free market does not work to the benefit of the consumers it will be replaced by a politically controlled system. Therefore, only a strong *competitive* rental housing market can be resistant to rent control. Paradoxically, the only way to preserve a competitive private market is to influence the political system so that it provides the environment required for such preservation. For the most part, this requires local political action to:

- Increase rather than reduce allowable building densities so that more units can be carved out of a shrinking land base
- Expand the locations where rental housing can be built by making sites accessible through the expansion of roads and public transit
- Expand zoning for high-density, multiple unit residential construction
- Improve flexible parking and other site development standards so as to encourage the use of infill sites for rental housing construction
- Fight for vesting rules that give multi-unit builders regulatory predictability assurances they need to put up the front-end costs of environmentally sound developments.

In addition to such local action, nationwide efforts to encourage tax and financing rules that will boost rental construction are also useful. But the lifeline of a competitive housing market flows from local, not national or statewide, land use regulations. Capital budgeting restrictions, environmental concerns, and growth management that chokes off the availability of rental housing sites create a barrier to the removal of housing market imbalances. If these barriers are not removed, the owners of existing rental units will be able to enjoy profit windfalls as they find themselves without sufficient competition. The reaping of these profits by some landlords will be defined as exploitation by the community. The only way to head off rent control is to avoid the granting of the monopolies that make such actions possible.

During the period of imbalance the individual builder can profitably develop. But he should take all the actions required to maintain flexibility. For example, his multifamily rental units should have the large closets that can later be converted to the second bathroom preferred by condominium buyers. If possible, approval for condominium conversion should be obtained even though the units are rented during the period after construction.

Investment neutral rent control will be introduced if the production of rental units cannot be spurred fast enough to bring supply and demand back into balance before instances of exploitation solidify the ranks of pro-rent control forces. Because the initial rent control ordinances enable rent control to be compatible with the existence of a private rental market, the potential for correcting the supply and demand imbalance still exists. Therefore, at this initial stage of rent control, a redoubled attempt to increase housing products so as to cure the imbalance between supply and demand still has some chance of success. At this stage the objective of the counter evolutionary forces should be to repeal rent control by continuing to encourage housing production and therefore the competitiveness of the rental housing market.

At the same time rental mediation boards and housing relocation services should be established to mitigate the potential for tenant exploitation that will exist until competitive conditions are re-established. Whenever possible the rental mediation boards and other rent control related bureaucracies should be set up under sunset rules that automatically abolish these agencies at certain time periods in the future. Such organizational steps should be taken to avoid creating a bureaucratic constituency for rent control made up of job holders whose employment is tied to the continued existence of rent control in some form.

Hopefully the efforts of the mediation board and the relocation services will avoid the examples of tenant abuse that create a need for tougher rent control. If this is the case and local land use regulations and capital improvements permit the level of production required to start vacancy rates rising, then there is hope for the repeal of rent control.

During this stage the individual builder should continue to build, particularly if he feels the tactics outlined above could be successful in leading to a repeal of rent control. However, at this time builders should be careful not to overpay for building sites because tougher rent controls could make it impossible to recover through appreciation the investment base that cannot be recovered from initially anticipated rent flows. If the individual builder sees that stage two is coming, he should build out quickly, before being left with land that no one wants, and as soon as possible convert his rental units to condominium units.

If the attempts to repeal initial investment neutral rent control fail, chances are that the tougher rent control of stage two, which further damages investment value, will be even more difficult to repeal. A last ditch effort at repeal can be made, but since stage two rent control will itself cause supply and demand imbalances by discouraging production, the chances of winning a repeal of rent control are slight. In most cases the benefit of a campaign to repeal the second wave of rent control ordinances will be to clarify to the public that rent control throttles housing production. At this stage the pro-market forces should start a campaign that documents and tells the story of how rent control weakens the housing market, discourages production, encourages landlord undermaintenance, and threatens the tax base. Also at this stage, the individual builder can no longer survive by producing rental units.

As still tougher rent control laws cripple the market, there is little that can be done by pro-private market forces. At this point the constituency for rent control includes the many middle- and upper-income households who live in rental bargains. These beneficiaries of rent control can afford to maintain the units they enjoy; at this time the signs of undermaintenance in poorer rental neighborhoods are not yet clearly visible.

While chances of repealing rent control are very slim now, the documentation and communication of rent control's effect should continue. At stage three the research and public relations efforts of anti-rent control forces should concentrate on identifying and exposing the inequities of rent control. While no victory can be expected, the tactical objective is now to put rent control's supporters on the defensive.

During the fourth stage in rent control's evolution, rental housing production is clearly in the government's bailiwick. One tactic of the pro-market forces is to make it quite clear that there is no public confusion about the causes of the market's demise and its replacement by governmental agencies. In addition to continuing to document and communicate the inequities of rent control, comparisons should be made between the government production of housing in the rent controlled area and production in non-rent-controlled areas where the market still operates. To go back to the military analogy, at this point pro-market forces should wage a guerrilla war that sets the stage for a subsequent defeat of rent control and resurrection of the market.

By stage five of the process, the competitive rental housing market is only a memory. But if the pro-market strategy outlined above has been followed, it should be a nostalgic memory in the minds of the many voters who have been reminded of the housing availability, quality, and price equity benefits that the market once provided. When regions, such as New York today, are in stage five the pro-market forces should charge into the political fray to fight for a return to a competitive housing market through the gradual abolition of rent control with new laws that include vacancy decontrol.

Rental housing production and allocation under stage five rent control should be compared with the workings of competitive housing markets. Examples of allocative inequities will not be hard to find; the public should be told about the wealthy who live cheaply in rent control units and the poor who pay for units that no one can afford to maintain. The administrative costs of rent control will also have grown to the point where they can be forged into a political weapon against rent control.

The fight to rid the housing distribution system of rent control will not be quick or easy. But by stage five the harm that rent control does to the housing conditions will be evident to many. Therefore, during this stage there is a chance that pro-market forces can defeat rent control and re-establish a competitive housing market. Such a victory would bring future generations of the region the benefits of housing availability, quality, and equitable distribution that rent control cannot foster.

Should such a victory be won or be imminent, then and only then can the individual rental housing builders go back to work.

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Meeting Report

More than 1,100 nationally and internationally prominent developers, financiers, planners, and academicians attended the ULI–the Urban Land Institute's spring meeting at the Hilton Hawaiian Village in Honolulu, May 13-15.

The city of Honolulu was the subject and host of on-site tours for residential, commercial, industrial, and urban projects, and approximately 130 attendees inspected the recreational areas on the neighboring island of Maui.

Highlights from the program included an expert analysis of the future of rental housing, a look at the long-range impact of the energy supply, the conversion trends of condominiums, plus observations on the prospects for hotel development.

Other sessions included: the outlook for large-scale development, a discussion of self-contained on-site utility systems (MIUS), and future trends for land use and development. Brief reports on many of these sessions follow.

Tomorrow . . . Today

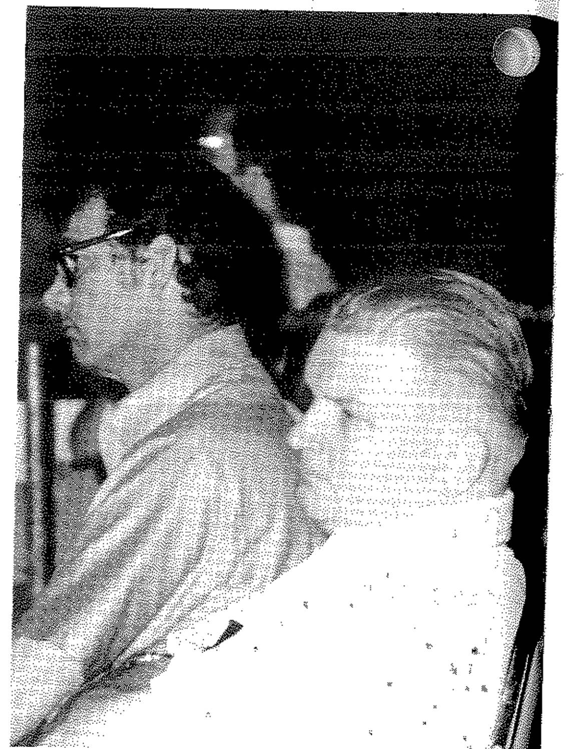
The state of the development industry was the topic of the combined 9-council opening session at ULI's spring meeting in Honolulu. Entitled "Tomorrow . . . Today," this session was an open forum involving over 20 members of ULI's nine councils.

Housing developers and potential buyers are caught in an affordability crisis with inflation as the key to the problem. Although some panelists remarked that the single-family detached house is a dinosaur, others defended it, saying that forms of attached housing offered a lower standard of living. Nevertheless, panelists felt consumers are becoming more energy conscious, and energy costs will become an even greater factor in the affordability puzzle.

Many financial institutions and life insurance companies are out of the development market. As a result, developers will have to remain adaptable and adjust to higher interest rates. Panelists agreed that while short-term rates may come down, long-term rates will stay high. Meanwhile, new mortgage instruments will be devised.

Hal Jensen stated that we have managed to structure inflation into our economy. While increased costs have been passed on to someone else, usually the consumer, it can't go on forever.

Shopping center developers will have to remain flexible in the future and look for specialized opportunities. In the industrial sector energy is a big concern. Corporations will locate where the energy supply is sufficient, where building permits are readily available, and where housing is sufficient.



Is Large-Scale Development Feasible?

In judging the future of large-scale development, a New Communities and Large-Scale Development Council workshop panel quickly agreed on its viability, but noted that its success is dependent upon both the economic and political circumstances.

The panelists also stressed the importance of assessing the long-term returns of the project. Short-term cash flow is difficult to realize. The panelists set a minimum return after taxes of 15 to 16.5 percent for a discounted cash flow analysis. While pro formas showing such returns will be realized, they can easily be jeopardized by larger expenditures up front and by a longer build-out period than initially anticipated. The profit is generally realized through long-term appreciation rather than cash flow on development activities.

Thus, inflation and tight regulation of competitors can favor the large-scale developer. One panelist emphasized that when using separate profit centers for land and housing activities, they show profits from both activities. The building arm takes down land at market prices.

All panelists emphasized that "patient money" is essential to large-scale development. Oil companies are often prime sources of such money because their traditional procedures are similar to those of large-scale developers. Both entities employ project-by-project analysis methods and look toward long-term returns.

Large-scale development must also succeed on the long-term political front. Without the assurance of future development rights, there is the risk that the gains from appreciation may not be forthcoming. The panelists feel that the outlook on the political front is improving because of the growing recognition of the high quality nature of large-scale development.

Recent legislation in California may lead to greater long-term security in that state. (See Legal Notes, p. 24.) The law provides for development agreements between local governments and developers to assure development rights in the future without jeopardy to unexpected approval processes. The agreements are usually defined in terms of numbers of units and/or square feet of space. Panelists familiar with these agreements cautioned against being "boxed in" by too much specificity. The panelists advised agreeing on general land use plans that leave final site plans and locations open until the development is going to be undertaken.

Tomorrow's Energy Supply

According to Hunter Chiles, director of Strategic Operations, Westinghouse Electric, total energy demand in the U.S.A. will grow at an annual rate of 1.8 percent through the year 2000; total demand will reach 96.8 quads in 1990 and 114 quads by the end of the century. Yet demand for electricity will grow twice as quickly during this period. Despite the recession, Westinghouse forecasts that kilowatt-hour sales will increase by 1.4 percent this year. Through 1985, kilowatt-hour sales are expected to climb at an annual rate of 4.8 percent, and thereafter, at a 3 percent rate through the year 2000.

In large measure, this growth will be caused by economics. While the cost of fossil fuels is expected to increase rapidly, the real price of electricity should increase only 2 percent per year. In fact, in real terms, the price of electricity actually dropped by 0.6 percent last year.

This forecast, however, assumes a federal energy policy that encourages domestic energy production. At least in theory, the U.S. has a policy that proposes to replace imported oil with coal, uranium, and renewable resources. Chiles, however, warned about the many "self-proclaimed experts" (anti-nukes, no-growth activists, "small is beautiful" advocates, the rabid conservationists) whose contradictory panaceas and conflicting advice may well postpone or even roll back the future that electric technology promises.

By the year 2000, conservation can make a dramatic curtailment in the growth of energy demand. But conservation cannot eliminate that growth. If conservation is overestimated and growth underestimated, mistakes made today will manifest themselves in energy gaps tomorrow. Interrupted power, brownouts, and blackouts—they could begin as early as 1990.

If power plants are not built in time to be on line in the early 1990s, there will not be enough energy to support the new jobs needed by a work force that will be one-third to one-half larger than it is today.

Based on advances like the microprocessor chip and robotics, Chiles' future is generally optimistic and has the largest advances being made in the 1980s in telecommunications. Electricity should be viewed as a clean, efficient, reliable fuel and the basis of this future. Compared to an oil end-use efficiency of 50 percent and a natural gas end-use efficiency of 65 percent, the electric heat pump delivers an amazing efficiency of 240 percent. The effort to build an energy future of moderately priced power must be a team effort of the energy and development industries.

Trilby Lundberg, publisher of The Lundberg Letter, gave another overview, but from the perspective of petroleum supplies. The news is good in the short term: stock levels of every type of fuel are high; therefore, some companies may lower prices. World oil production, however, will peak in the 1980s. This is also true in the U.S. where oil production has increased over the last 50 years by 5.3 percent per year.

Earl Worsham, president, South Shores Development Inc., explained how South Shore, a mixed-use redevelopment project in Miami Beach, is an opportunity to save energy. South Shore, as now planned, will be a 250-acre water- and park-oriented development on the southern tip of Miami Beach. The project will consist of a marina, hotels, residences, commercial and office structures, recreational and entertainment facilities, and it will capitalize on the site's natural features to save energy.

Buildings are mostly oriented with the long side to the southwest to catch the cooling breezes and the short side on a northwest/southeast axis for protection from hurricanes. Spacing between buildings, landscaping, and a canal system will further facilitate cooling. With the aid of computer analysis, a 1-foot increase in balcony depth on one hotel could save $600,000 in solar screens initially and be more effective in saving energy over the life of the building.

The project in terms of its energy aspects has been a cooperative effort by the developer, the energy and design consultants, and Westinghouse, who is using South Shore as a testing ground for energy research. Part of the increased capital costs related to this research will be supported by ticket sales to a water world recreation facility, a natural marine exhibition center, and environmental world education center (similar to Toronto's Science Center), all of which will attract at full operation an estimated 10 million tourists per year.

In summary, tomorrow's energy supply, except for a few potential problems, is optimistic. If anything, future energy supply problems should make Americans more united in finding solutions to those problems.

Growth in Houston

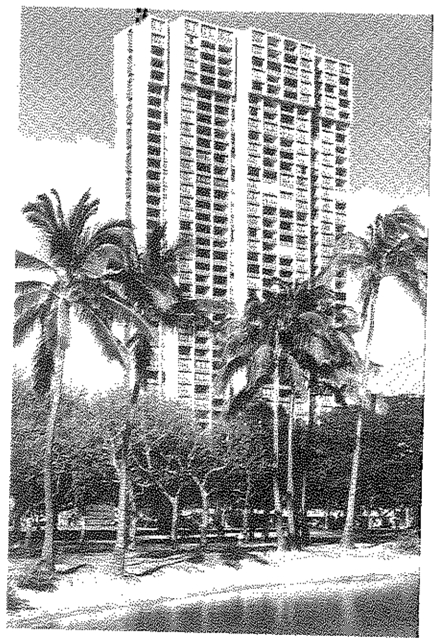
Forecasts of future growth in the Houston/Galveston region, according to Donald Williams, president of the Rice Center, portray a rapidly developing urban area stimulated by a vigorous economy, where the location of future growth will be determined more by private market forces than by public policies. In a detailed study using a computer-assisted growth model, the Rice Center concluded that the strength of the on-going development process will preclude radical changes in the direction or character of growth in the next two decades.

The powerful economy of the Houston area, which has consistently outperformed the U.S. economy, will attract 30,000 to 40,000 jobs per year and a 15 percent share of national population growth, according to Williams. Where these jobs and people will locate within the region was forecasted based on information supplied by a number of local advisors from both public and private sectors. Five forecasts of growth patterns were made showing future population, households, housing costs, housing units, employment, and land use for each of 13 subareas in a region of over 2,000 square miles. The growth options included a trend forecast based on the existing dynamics of growth in the region, and four variants which assumed the introduction of public policies responding to energy shortages or desires to direct growth to the inner city, to multiple-activity centers, or within specified corridors.

Several interesting conclusions were drawn from the analysis. The most significant finding was that in a region as large and as complex as Houston, public policies will have a relatively small impact on the location of growth despite the fact that the city has jurisdiction over almost all of the developing area. Policies geared to developing the inner city, for example, would shift only about 14 percent of the prospective growth to the inner city. Major changes in transportation facilities would produce only a small change in the pattern of development.

One explanation of these findings lies in the movement of employment centers closer to employee's residences, perhaps the most significant land use trend in Houston. Rice Center has identified 18 multiple-activity centers, and several others in the early stages of development in the Houston area. This trend reduces commuting distances and has not prevented downtown from growing; the forecasts show a continuation of development and redevelopment in the inner city even under existing trends.

In response to panel questions, Williams indicated that the study's findings are intended to provide local government decision makers with the range of growth options and their implications for future development. The model does not forecast the consequences of long-range shifts in social attitudes or expectations, except as such factors were identified and quantified by the study advisors. Of course it is possible that resident's desires and demands will react to the future pattern of development, thus producing changes in public policies and private market forces, and ultimately altering the pattern and character of development.



Industrial Lease Strategy for the '80s.

John McMahon, a San Francisco-based consultant, opened the Industrial and Office Park Development Council workshop on asset management by stating optimistically that the industrial and office sector could be the most dynamic and exciting real estate area in the 1980s. He predicted that in the next 10 years:

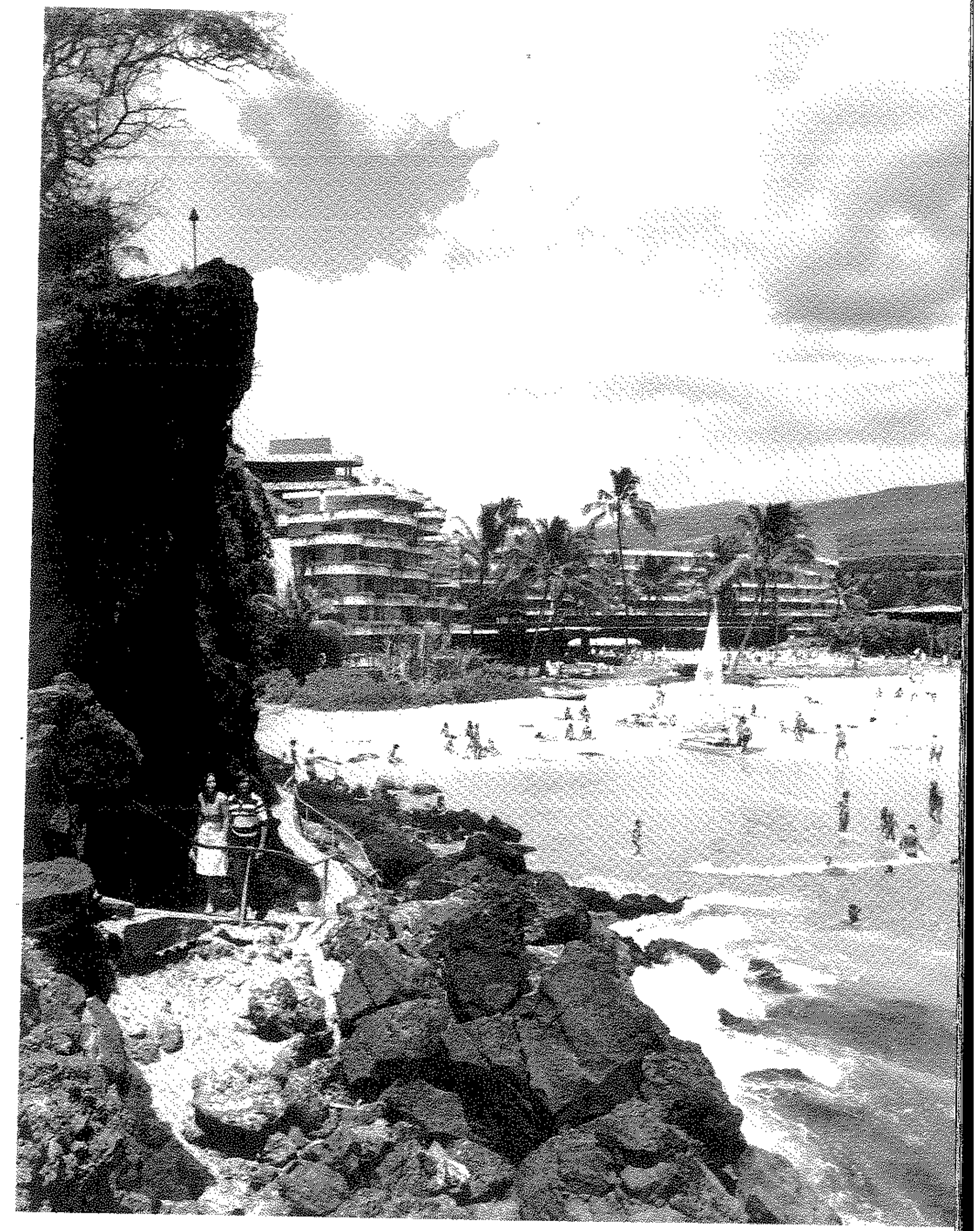
- a higher percentage of office space will be located in office parks;
- design will become more important;
- projects will include recreational elements;
- users will take a larger role in the design of their buildings;
- industrial condos will become more commonplace;
- the flat industrial lease will fade;
- the roles of brokers and intermediaries will diminish as developers sharpen their marketing skills.

Peter Stiel of Brooks Harvey and Company of New York offered four observations for the capital market:

- uncertainty is a fact of life;
- inflation is here to stay;
- real estate ownership will become institutionalized;
- capital can be a scarce resource.

Panelists agreed that developers cannot just pass along operating expenses to tenants but also must pass along the total cost of occupancy.

Industrial Development Bonds (IDBs) for Commercial/Industrial Development



Industrial development bonds have been used for years to support industrial and seaport development. Recently, interest has been growing in using these bonds to finance downtown redevelopment projects such as shopping centers. Thirty states now allow the use of IDBs for downtown revitalization.

The bonds are issued by a local government office with the proceeds going to the private user. The interest income from the bonds is exempt from federal income taxes (and state taxes in the state of issue). The tax-free status usually results in an interest rate differential of between 1.5 and 3.0 points. The IDB market has grown from $17 billion in 1968 to $40 billion in 1978, due mainly to the more liberal state laws on the use of the funds.

The participants other than the local government issuer include the bond counsel, the underwriter, and the underwriter's counsel. The bond counsel fulfills the critical and complex role of judging that the bond interest qualifies for tax-free status based upon the use to which the proceeds will be devoted. Quite often the bonds are privately placed rather than offered publicly.

Developers see both advantages and disadvantages to using IDBs for commercial development. The bonds provide a lower interest rate and are often available when the conventional long-term market is closed. In theory, a developer could obtain 100 percent financing through IDBs. The bonds can also provide both construction and long-term financing.

The disadvantages of IDBs are not inconsequential. First, there are sometimes expensive fees in preparing the bonds for the market. The bonds can provide a maximum of $10 million unless the project includes a UDAG component which allows the ceiling to rise to $20 million. Bond buyers often demand a higher coverage ratio for the project than a conventional lender would, thus requiring a greater cash flow during early years. In cases of shopping centers, bond buyers will want to gain security by demanding that lease terms with retailers be longer than the maturity of the bonds. This condition forces the developer to either shorten the maturity of the bond or devise complex long-term leases with percentages, escalators, etc. for long-term protection. Finally, in attempting to satisfy the insecurity of bond buyers, developers often must divulge more information than they would for mortgage financing.

The Future of Rental Housing

The Secretary of HUD, Moon Landrieu, has predicted that by the year 2000 most of the rental housing in the U.S. will be government owned or subsidized. The view that there seems to be nothing that can be done to reverse this was expressed at a ULI workshop on rental housing.

Causes of the rental problems include: the shortage of and therefore high cost of land coupled with increasing cost of regulations; inflation and poverty—the double squeeze of rents rising faster than income but costs of debt service and operating costs rising even faster, with home ownership an attractive tax alternative causing conversion of units; and the fear or actuality of rent control and tenants-rights ordinances.

One of the workshop speakers, Nina Gruen, posed the question that if demand continues while production drops, shouldn't the law of supply and demand push up prices and raise the investment returns? Since 1973, however, returns from rental housing investments have fallen sharply. Governmental policies have led to sharply rising costs and fewer and therefore more expensive units have been produced. At the same time there has been a dramatic increase in the formation of new households of smaller size. The political impact of this new market, Gruen says, is to replace the role of the market with a system of governmental controls over the total allocation of housing and not just the rental market. There follows an inevitable progression of rental control ordinances which gradually kill off investment incentive.

Claude Gruen spoke in favor of the private rental market and described a strategy to counter rental control. (A fuller discussion of this phenomena can be found in the feature article in this issue of *Urban Land,* entitled "The Evolution of Rent Control and A Strategy for Its Defeat.")

George Sternlieb discussed the role of apartment rentals as a specialized problem in the cycle of housing requirements. It is the starting place for newly formed households prior to transition to ownership.

In the U.S., 1 percent of all dwelling units are scrapped each year. The average lifespan of a house is 100 years; a rental unit is 50 to 55 years. Thus the scrap rate is concentrated in rental housing and 2 percent of all units are scrapped each year. Additionally, old basic concepts of property rights are being changed—tenants now have statutory property rights within the building, particularly if they are elderly, poor, or disabled. Exemption from restrictive tenants' rights for new units is often offered to developers as a palliative, though this exemption can be withdrawn later.

David Booher, a housing consultant from California, described the California rental housing situation of the early 1970s. A substantial inmigration along with natural growth occurred simultaneously with a tightening of local controls over the housing industry in general and local hostility to rental housing. A 1972 Berkeley rent control ordinance was eventually struck down as unconstitutional and there were other defeats of ordinances in 1977 and 1978. Associated with control problems were a lot of rapid rent increases due to the declining supply of rental housing.

Booher said the passage of Proposition 13 in California aggravated the rental problem by limiting taxes and the increase in taxes, precluding the possibility of shifting the tax base from rental housing to single-family housing. Proposition 13 gave benefits to ownership but not to rentals, which continued to escalate in price. Attempts to provide industry-wide self-policing ran against the Sherman Antitrust Act. Rapidly rising rents contributed to a tremendous proliferation in rent control ordinances, indicating the vast majority of the population support rent control. There has also been a tremendous increase in condoversions which has resulted in new attempts to control this activity. Inclusionary zoning, which requires the inclusion of low- and moderate-priced housing in development projects, has also increased.

Modular Integrated Utility Systems

Modular Integrated Utility Systems (MIUS) were the subject of a Development Systems and Services Council workshop at ULI's spring meeting. A MIUS is a self-contained, on-site utility system that can be comprised of many combinations of components and subsystems, depending on the site conditions and project development program. The concept was formerly referred to as total energy; more recently it has been called cogeneration.

HUD has conducted a multiphased MIUS program since 1972 which involved other government agencies as well. The final phase of the HUD MIUS program of information dissemination is now concluding.

In 1979, the U.S. had approximately 2,000 examples of on-site utility systems. Some are 50 years old. In the last 15 years, 500 of these systems have been built. Although some are residential, the examples are mostly hotels and shopping centers. Noted examples include Disney World, Florida (1972); Enfield Mall, Connecticut (1969); Indian Creek, Kansas (1972); and Jersey City, New Jersey (1974).

Europe has been moving increasingly toward the combined production of heat and power with district heating. West Germany, France, Italy, and England have large-scale applications, as do the Scandinavian countries. The Soviet block countries are the most committed. Russia builds and hooks up as many as 300,000 high-rise units or space for one million people to a district heating system every 3 years. Almost every Russian city has an application of district heating system. The Russians claim that they use 15 to 25 percent less fuel on a per square foot basis than the U.S.

U.S. studies show that a minimum of 300 dwelling units are needed to make a MIUS feasible in terms of flexibility and efficiency. Given a 70 percent internal rate of return, analysis shows a payback on a MIUS in 3 years. Total costs of a MIUS for 500 dwelling units could be $2 million, assuming 1 to 1.1 kilowatts per unit. This cost is competitive with a central utility plant.

The advantages of a MIUS for a developer are:

- one component of the system feeds off the other for a total savings of approximately 42 percent over conventional utility systems (Source: NASA and Oak Ridge National Laboratory);
- components can be introduced over time;
- power can be sold to a utility;
- the system is no burden on a municipality because it is user-supported;
- the tax base of the town is increased by the construction of a system;
- a utility or city can take over the operation of a MIUS;
- where expansion of public services is limited, growth still can occur.

Disadvantages of a MIUS to a developer are:

- back-up generators and equipment are needed;
- public utility back-up is further needed;
- large capital costs are incurred;
- institutional problems relating to local politics, regulations inhibiting innovation, operations, and consumer relations must be overcome.

Just as public policy has dedicated provision of roads, water, and sewers, trends are such that the developer may be required in the future to provide energy for his projects. Buildings use 37 percent of U.S. energy each year and residences use two-thirds of that. The costs of expansion for utilities are becoming greater than the revenues that a new facility can generate.

Although a MIUS can help solve these problems, developers do not want another level of regulation and responsibility related to their projects. To overcome some of these risks, government must be involved. MIUSs will be built if joint ventures between a developer and a utility and/or a developer and a municipality can be found. HUD will consider applications for energy projects under its Urban Development Action Grant (UDAG) Program.

The most important questions about MIUS are not technical but relate to the institutional aspects of the concept. If these institutional questions can be answered, MIUS will be providing utility services and energy to tomorrow's development projects.

Prospects for Hotel Development

There are both positive and negative influences affecting the hotel business in the U.S. These include:

- a more affluent population worldwide with greater disposable income;
- increased leisure time coupled with the growing popularity as well as the increase in major resort areas;
- the increasing sophistication of the travel industry;
- increased reliance on travel by business people;
- the continuing strength of the convention and meeting market;
- the sharp increase in people flying;
- more visitors from abroad, including a rise in foreign tours in the major cities of the country.

Each of these external economic and social factors helps to set the stage for an expansion of travel and further growth in the hospitality industry in the United States and throughout the world.

Negative influences which have either impacted the lodging and hospitality industries or could adversely affect them are runaway inflation, higher taxes, energy shortages, and of course tight money, soaring interest rates, and recessions. Today hotel development and the necessary financing required is in somewhat of a confused state because of tax law and other governmental activities. The continuing prevalence of high rates for long-term money and the shortage thereof, environmental impact requirements, politics, energy problems, social unrest, and the fear of double digit inflation in the near future are factors which will decide the effect of future development and their financing and operation. A complete and thorough evaluation of each project must be made therefore in order to make certain that it is viable. That is one side of the coin; the other side is that hotels as an investment opportunity are under certain circumstances possibly the most viable in the real estate field. Most hotels have one advantage over most types of real estate investments and that is the flexibility of rapidly adjusting rates and prices to cope with increased cost.

In summary, hotel properties which are properly located, well designed, conservatively financed, economically yet soundly constructed, appropriately identified and, finally, marketed aggressively and operated expertly will continue to be attractive investments.

Economic Trends and Trepidations

At a combined 9-council breakfast, Woodland Kingman, executive vice president, Crocker National Bank, noted that even while home building activity is plunging toward a two-decade low, the elements of a long-range recovery may already be falling into place. Interest rates have fallen more than six full percentage points from the record highs of 16 percent during the last week of March. While the drop in rates may not be sufficient to stave off losses at some savings institutions during the second quarter, the prospect of an unbroken ribbon of red ink for mortgage lenders through the remainder of 1980 now seems somewhat less likely than was the case just a few short weeks ago. Major lenders in California and elsewhere are cutting mortgage rates dramatically. While no one is out beating the bush for new business, there is growing talk of a return to more normal lending conditions by later this year or at the very least the beginning of 1981.

The recent rapid decline in money supply was both a result of the new federal monetary policies and of the inflation which caused these problems and which caused the consumer, on his own volition, to finally stop buying because he simply could not keep up that pace any longer.

Productivity has also been on the decline during the '70s, but in the '80s it may begin to improve, partly because we will have a more mature labor force. Because of improvements in productivity, perhaps encouraged by the trend toward less deficits, we can hope for some tax cuts to encourage investment in order to get the rate of inflation as well as interest rates under control.

All of this gives some hope for a recovery of housing in the '80s. On a 5-year average we can see some strength returning in the first half and still more in the second half of the '80s. This should put the total volume of housing starts in the '80s at almost the same level achieved during the all-time high of the '70s.

While the recovery from the past will be difficult, the '80s should be a slight improvement, possibly even better than the '70s. Unfortunately, a number of problems remain with us. The real solution, of course, to the problem of housing finance is to solve the inflation problem itself. Recent indications that government officials are beginning to get the message are encouraging, but all officials at all levels of the government are going to have to work together in order to stop government deficits, reduce spending, and reduce regulatory restraints on housing.

Condomania

Condominium conversions was the focus of a Residential Council workshop at ULI's spring meeting in which Lewis Goodkin, president of Goodkin Research in Florida, noted that condominium conversions have proved that you can do a lot of things that you didn't think you could do. For example, bachelor units and one-bedroom units typically thought to be inappropriate for condominiums are selling very well and not to investors but to new residents. In university towns, a new market has emerged in the form of students buying condominium units with the assistance of their parents in order to minimize housing costs. Also, condominium conversion opportunities are no longer limited only to the major cities and their suburbs.

Condominium conversion experience in the Los Angeles area was discussed by Josef Noble of Josef Noble and Associates in Los Angeles. Since 1968 his firm has been converting 800 to 1,100 dwelling units a year. His feeling is that the ultimate amenity in condominium conversions is price.

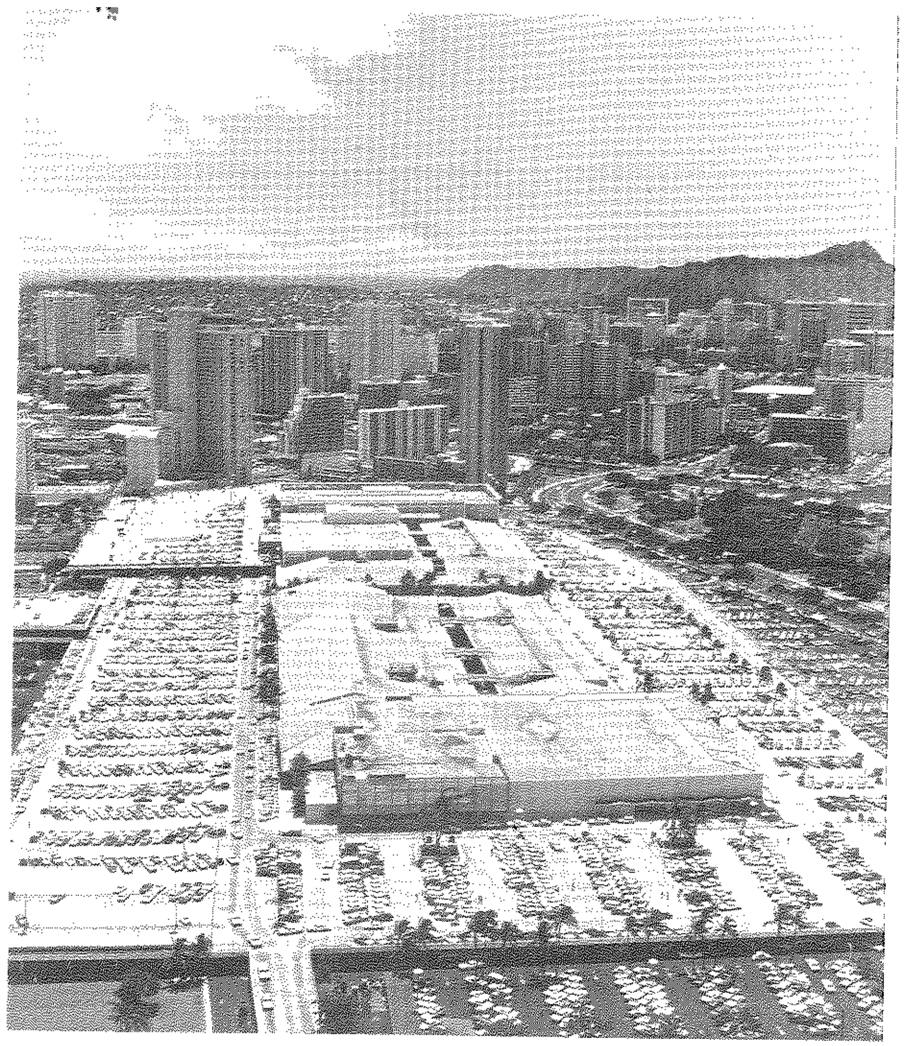
He noted that in Los Angeles, condominium conversion activity has brought units to the market that should never have been converted from rental to condominium. Much of the conversion was of lower quality apartment units and little was done to upgrade them as they were shifted from rental to condominium ownership. The net result was that, after sales, defects began to appear—noise problems, the lack of individual metering, and the high cost of maintenance and replacements of basic building elements because the project had intrinsic design characteristics that resulted in high maintenance costs and a short life for major equipment.

William Caldwell, chairman of the Residential Development Council, described the process of converting his own units from rental to condominium. He reinforced Noble's comments by stating that there were 11,000 converted units in the state of Michigan and that 50 percent of them, 15 percent and 35 percent respectively, are located in Oakland County and the city of Southfield. He said that he has found that the three "S's"—sexy, security, sophistication—which typically apply in his area to new housing construction of all types are also the watchwords for condominium conversions. This means that the units must have the right kind of visual appeal, security must be a very important issue, and the market has become sophisticated; therefore, the product has to be well thought out as it is brought to market.

The Commercial Lease and Rampant Inflation

Donald R. Riehl, chairman of the Commercial and Retail Development Council, kicked off a workshop on commercial leases by noting that there have been important changes taking place in commercial leasing practices. In the past we had a traditional fixed term, fixed rent lease, then we had percentage rent clauses with escalations, and finally stepped rents and expenses. More recently we have seen the inclusion of indexing rent through the Consumer Price Index. It is important to understand the relationship between the lease and the protection of the interest of the lender, the landlord, owner/developer, or the tenant, particularly in highly inflationary times.

Bruce D. Alexander, senior vice president, The Rouse Company, pointed out that the regional shopping center lease already provides effective protection against inflation when it contains, as most of them do, three mechanisms. First of these is a so-called net-lease, the second, percentage rents, and the third and most basic of all, turnover of space. All of these mechanisms are now being further refined by developers in an effort to cope with this period of accelerating inflation that we are in. With net leases or so called pass throughs, most operating expenses of the regional shopping center—expenses which escalate with inflation and which therefore seriously erode an owner's cash flow—are passed through to tenants. Real estate taxes as well as the cost of maintaining the public areas of the center including utilities and repairs are charged to tenants based on their respective amounts of leasable area.



The second mechanism and major protection against inflation in the industry is the percentage rent clause which requires a tenant to pay either a minimum rent or rent based on a percentage of gross sales, whichever is greater. Percentage rents provide a landlord with a way of keeping up with inflation as long as the growth of sales volumes of tenants is at least as great as inflation. However, because there are times when tenants' sales volumes do not keep pace with inflation, some landlords are attempting to tie rents to the Consumer Price Index. This is accomplished through a lease clause which requires a tenant to achieve a certain minimal sales volume over time which guarantees the landlord a certain amount of percentage rent.

The third way regional shopping center leases have been adapted to respond to inflation is through a process of reducing the length of the term of the lease. Although, because of the lender tradition of requiring long-term credit tenants, many developers still negotiate leases with 15- or 20-year terms. However, leases for 10 years or less are increasing. With shorter lease terms, tenant space is turned over more frequently and minimum rent can be adjusted accordingly to keep pace with inflation, even if a particular tenant's sales, and therefore the percentage rent he pays, is not doing so.

Lenders historically offered long-term fixed rate mortgages in return for long-term leases for credit tenants, generally for terms of 30 to 35 years. Council workshop participant William S. Bahrenburg, Jr., president, Brooks Harvey & Company, Inc., New York, stated that as inflation has increased, lenders found that they were "subsidizing developers' returns." When lenders sought equity participation in the late 1960s, money was plentiful and developers had a position of strength but by the mid '70s a recessionary environment coupled with an excess supply resulted in a tenants market. In the late 1970s, the over supply of real estate was finally absorbed. Then the tables began to turn. Not only was there no longer any excess real estate product, but also money became extremely tight and inflation continued to push interest rates up. As in prior periods of inflation and tight money, doomsdayers today are once again pronouncing the end to fixed-rate long-term mortgage debt. This market has slumped dramatically, but it has not disappeared. It is more likely that maturities in the near term will be 15 to 20 years rather than the 25 or 35 years that we have been used to in the recent past. In addition another likely reaction that will stay with us is possibly the reopening of interest rates at specified intervals. But the borrower will require the right to move down as well as up to reflect future market conditions.

A number of trends indicate greater institutional participation in the development process with the individual, perhaps, having a less dominant role. This is so in part because institutions want to share in the build up of equity values and also because the combinations of greatly escalating costs and more conservative mortgage underwriting has created a substantial equity gap in many projects beyond the capacity of most individuals to finance. The developer's role is leaning towards that of a manufacturer and manager. Developers' returns are being eroded by inflation and the increasing participation of finance partners, and, as a result, considerable discussion of base or minimum rent escalation is taking place. In office markets where vacancies are less than 2 percent, tenants are agreeing to indexing rent. But over time these will be the exceptions. Lenders will not have the upper hand forever. The sophisticated ones are already working to structure and place deals which will work for the owner and the tenant, as well as for the lender.

"Future Shock" Insurance

Charles F. Kettering once remarked that we should all be concerned about the future because we will have to spend the rest of our lives there. At the ULI spring meeting in Honolulu, John Naisbitt, chairman of the board, Center for Policy Progress, Washington, D.C., offered a glimpse of the future which was exciting to many but distressing to others.

Naisbitt asserted that there are four basic phenomena which are restructuring the United States. First, we are moving from an industrial society to one in which information processing and distribution will be the bedrock of the U.S. economy. Second, the U.S. is becoming more decentralized. Third, we are living in a global village, aided by the satellite and the jet plane. And fourth, as society becomes more sophisticated technologically, humans react very personally to it. Naisbitt calls it "high tech, high touch."

In moving from an industrial society to an information society, society's strategic resources and its time orientation have changed. Knowledge is now the strategic resource rather than capital. Whereas in an agricultural society we learned from the past and in an industrial society we worried about getting things accomplished in the present, in an information society we learn from the future.

Local concerns are of paramount importance as society decentralizes. Associations are decentralizing; the media is becoming more specialized. There is no *national* urban policy because the concept is outdated. Naisbitt remarked that any urban policy should be responsive to local needs.

The next decide will become a decade of entrepreneurs with the computer as liberator. It will free us from either/or situations and reveal multiple options. Organizational structure will become more horizontal rather than vertical. Unions will decline in importance (only 19 percent of the working population was unionized in 1979) because the union's mission is to treat everyone equally. An outmoded idea in the computer age, says Naisbitt.

Despite the apparent certainty of Naisbitt's predictions, the only thing that will be certain is that the decade of the 1980s will be uncertain.

Private and Public Entrepreneurship

A city that is interested in improving its downtown area can work with the private sector to the benefit of both parties. The Capital South Redevelopment Project in Columbus, Ohio, featured at a May workship of ULI's Urban Development/Mixed Use Council, is a clear example of how the public and private sectors can contribute to rejuvenating a downtown area through mutual cooperation. (A feature article on Capital South appeared in *Urban Land,* February 1980.)

The Capital South area is a 3-square-block section of Columbus in which 56 property owners held 76 parcels of land. Even though 80 percent of the area was improved, the area was so rundown that 70 percent of its property value was in the land, and that valuation was declining. In 1972 the mayor of Columbus formed a task force of businessmen to recommend a method to resolve the problem. The Capital South Corporation (CS) was chartered as a nonprofit, private organization with support from the public and private sectors. Business interests provided $100,000 seed money, an executive director was obtained, and detailed plans for redevelopment were initiated.

CS has normal corporation powers, i.e., the authority to buy, sell, etc., but also has access to eminent domain through city commitment. Use of that authority has not been required to date because the 12 threatened actions were resolved out of court, and the city now controls 98 percent of the land. To encourage development a tax abatement is offered developers, who must pay pre-improvement rates after a 20-year abatement.

The city assembled the land and leased it to CS for the interest on funds expended for acquisition. Title passes to CS after 30 years, but the city assures minimum tax rates in the interim. The city also replaced the aging public facilities, which are usually the responsibility of the developer, and allowed CS 20 years to reimburse the city for that improvement.

The commencement of the project did not provide a mechanism for short-term operating capital. Accordingly, CS leased out existing parking lots and buildings and then used the profits to take care of some of the operating expenses.

Under an arrangement with CS, John Galbreath and Co. will construct a 26-story, 600,000-square-foot office building and a 20-story, 434-room hotel in the redevelopment site. The office market is sufficiently encouraging in Columbus to allow the company to commence construction without signing a key tenant to a lease. The role of CS, after the land is obtained and master-planned, is to obtain the tax abatement for the company and to coordinate the project with the city and also with other developments. When completed the initial project will provide employment for 400 residents and increase the city revenue and the state income tax.

If the project is successful, the city will not only recover the money it contributed to the start-up CS operations, but also will have a thriving, flourishing downtown area to replace a previous blight. In the private sector, the developers will realize investment expectations with a smaller amount of risk.

The Palm Springs Development Story

Desert life, accessibility, and, to some extent, celebrities are identified as primary factors behind the growth of the 25-square-mile Palm Springs area in southern California. Palm Springs' 140,000 residents and one million yearly visitors enjoy a vast number of swimming pools, tennis courts, golf courses, dry sunny days, cool nights, and mountain views. The majority of the development market is composed of preretirement, high-income southern Californians seeking a second home. Heated demand has contributed to a tripling of annual increases in dwelling units from 1,100 in 1975 to 3,000 in 1979, accompanied by average annual rates of appreciation since 1975 of 35 percent. In this market, real estate merchandizing, employing methods similar to those used in retail sales, is common practice. Developers with established local reputations are especially popular.

Primary development problems revolve around regional transportation and storm drainage, with remedies limited by fragmented local government interests. Special design considerations unique to this desert setting are required. Density questions are seen as a political issue, potentially aggravated by a shift away from the predominant single-family units to a mix of unit types. The common resort problem of housing for service employees is being experienced. On the plus side there is reported to be a strong untapped aquifer, and interstate access with Los Angeles is good.

Palm Springs is evolving from a recreational destination to a full primary residential community. The population is projected to double by the year 2000. The Palm Springs development is characterized as a sunbelt prototype of an "in town resort." Nonetheless, the exuberance of developers and investors has not spared Palm Springs the consequence of economic downturns or scarce money. An estimated 1980 supply of upwards of 2,000 unsold units is testament to the development risks. There is also suspicion that the large number of units purchased purely for investment purposes may represent a time bomb for Palm Springs.

Development Expertise in Snowmass, Colorado

The story of the 14-year-old Snowmass ski resort is one of new master developers, limited partners, and community planning. James Light and James Chaffin, the general partners of the Snowmass Company, found Snowmass attractive because the existing owner wanted out, there was an extensive community infrastructure already in place with a depreciated value, a market was well established, and the reputable Aspen Ski Corporation was owner and operator of the ski facilities.

In stewarding their 2,800 acres of a total 3,600 acres comprising the town of Snowmass Village, Light and Chaffin adopted a conservative financial posture with a low debt to equity ratio and a low overhead. The limited partnership was syndicated through the personal efforts of the general partners, securing private equity investors to ensure a cushion for passing through uncertain times and to absorb any initial losses.

Supporting the low overhead approach is a small strategic staff supplemented by consultants and subdevelopers as required.

A major component in the short history of the Snowmass Company was the negotiated annexation of the company property into the town of Snowmass Village. A unique relationship has developed through a "joint planning" process which characterizes a psychological contract between the town and the developer. Major negotiated elements of this arrangement cover transportation and employee housing, as well as guiding land use and the expansion of community facilities. The personal involvement and sincere commitment of the developers in the public planning process is felt to have been key to the success of working in the local political setting.

The Snowmass Company has approval to build 2,500 additional units from the existing 1,800 units. The development strategy has been to start small to gain experience with subdevelopers, contractors, pricing, and so on. Financing is arranged on a project-by-project basis. The limited partners have the right of first refusal in participating in the proposed project.

The long-range Snowmass development plan is to strengthen the community with a year-long residential and resort population mix, housed in largely horizontal density structures, with a de-emphasized auto orientation. Specific amenity improvements are being targeted and resort operations are being streamlined for profitability.

ULI staff contributors include:

Robert M. Byrne, associate director of Research; Jerry S. Church, director, Membership Services Division; Denise Darling, director, Marketing and Public Affairs; W. Paul O'Mara, associate director of Publications; Douglas R. Porter, associate director of Research; Eric Smart, associate, Publications Division; Frank H. Spink, Jr., director of Publications; Joseph D. Steller, Jr., senior associate for Education; and W. David Watts, Research counsel.

A California Variant in the Approval Process Dilemma

W. David Watts

An important and recurring issue in the Legal Notes column is that of the implications of public regulation on the development process. Primary elements of this subject which have been identified as major stumbling blocks in coordinating public and private interest are vested rights and uncertainty in the development process.

The December 1979 Legal Notes discussed options for curbing some of these dilemmas. Included in that discussion was the California statute enacted January 1, 1980, which was designed to protect development projects through the use of binding agreements between local governments and prospective developers. Because there are no known similar statutes in effect or proposed in other states, the uniqueness of this legislation requires a closer look at its contents and implications.

The California act authorizes local governments to enter into binding development agreements with any person having a legal or equitable interest in property for development in order to prevent uncertainty in the development process. The impetus for the legislation was the harsh results of *Avco Community Developers v. South Coast Regional Commission,* 17 Cal. 3d. 785 (1976), in which it was determined that a developer did not have vested rights to complete a project even though $2.75 million had been expended in fulfilling initially approved commitments. Designed to prevent a recurrence of the *Avco* situation, the act details the obligation of the developer and the rules, regulations, and official policies applicable to development of a project at the time the agreement is executed. An application for an agreement must be considered at a duly advertised public hearing by the local advisory agency and the legislative body. Provisions of an agreement must be consistent with the general plan for the area and any applicable specific plan.

While "development agreement" is not defined in the statute, the statute does mandate that an agreement "shall specify the duration of the agreement, the permitted uses of the property, the density or intensity of use, the maximum height and size of proposed buildings, and provisions for reservation or dedication of land for public purposes."

A development agreement is to be approved as an ordinance and subject to referendum.

Local governments are required by the California statute to promulgate procedures for the application and periodic review of development agreements. A review must be held at least every year and, on the basis of substantial evidence, the local agency may terminate or modify the agreement if the applicant has not complied in good faith with the terms and conditions of the agreement. Termination or modification is arbitrary since the elements of good faith compliance are not identified. There are no legislative constraints as to when construction should commence after execution of the agreement or on the duration of the agreement.

By legislative fiat a development agreement is held to be a legislative act, to be approved as an ordinance and subject to referendum. An agreement may be amended or cancelled by mutual consent of the parties after appropriate notice and review. The statute also acknowledges that the agreement can be modified to accommodate subsequently enacted state or federal laws or regulations which require or preclude compliance with provision(s) of the agreement.

Since to date no local authority has implemented regulations concerning development agreements, the credibility of the act and its value in preventing vested rights disputes are unconfirmed. However, even before a test case, the act raises serious concerns over the role of the legislature and that of the courts.

In California, as in most states, the vested right doctrine is judicially created and imposed. The state legislature has the authority to enact statutory solutions to the vested right dilemma. However, not only is it unclear whether this act is the legislative alternative to the judicial rule, but it also is at least arguable that the labeling of the development agreement process as legislative is suspect. Were the execution of an agreement a legislative action, judicial review would be curtailed by the presumption of validity accorded such acts by the courts, and consideration would be limited to evaluations of reasonableness. But the language of the act will not constrain judicial review of the process. Courts presumably will remain comfortable in determining for themselves the "true" nature of the action.

Critics of the act believe that development agreements could contract away the legislative police power in violation of the California Constitution. In the *Avco* case an agreement between the developer and the county that was approved by the state required specific concessions and public improvements. In its review of the developer's allegations of vested rights under the agreement terms, the court held:

> Land use regulations, such as the [California Costal Zone] Act, involve the exercise of the state's police powers, and it is settled that the government may not contract away its rights to exercise the police power in the future. Thus, even upon the dubious assumption that the . . . [a]greement constituted a promise by the government that zoning laws, thereafter enacted, would not be applicable to tract 7479, the agreement would be invalid and unenforceable as contrary to public policy. at page 800. (citation omitted)

Presumably the courts will decide whether the agreements satisfactorily preserve police power. The act should discourage any replay of the agreement in *Avco* by requiring compliance with state coastal controls and subsequently enacted state and federal laws. Advocates of the act, who apparently are the majority, feel the act as written satisfies constitutional constraints but caution that implementing regulations must be responsive to the terms of the act.

Implementation of the act may be difficult because of the uncertainty in enforcing it and because of the impact of public participation. Although the act declares the agreements to be enforceable by the participants, no guidance is provided for remedying conflicts. A significant difference from the traditional vested rights doctrine is the opportunity for development agreements to be subject to referendum. Interestingly, there is no mention of the power of initiative, though it is unlikely the public would consider such action. While it is too early to determine the extent to which active, public review would influence legislative action to accommodate a development agreement, one benefit of working towards agreements is that the approval process would become more public and could be enhanced by the exchange of data needed to defend mutual benefits. A substantial public gain should be a reduction in nonconforming uses and structures as decisions on land uses and building types are guaranteed by the development agreement and structured to be consistent with the general plan and zoning.

The requirements associated with negotiated agreements might seriously limit flexibility in phased development.

The agreements could prove ineffective for anything other than large-scale, multi-phase development with long-term commitments. The project design that will most likely succeed will require longer initial review periods and more public hearings. Therefore, the harsh results of *Avco,* i.e., large expenditures without vesting of rights, are still possible because of the need of the local government and the public to be given sufficient data to accurately analyze the development offer. As one observer has noted, the anticipated implementation of development agreements would give the developer a vested right "to certain standards" and not the traditional vested right "to complete a project."

Finally, it must be considered that this act could serve to enhance the potential for government to increase requirements for public facilities in exchange for the privilege of entering into a development agreement. In addition, the developer must absorb the cost of meeting further public expenses, and will be forced to pass the increased costs on to the consumer. The specificity requirements for a large-scale development associated with negotiated agreements might seriously limit flexibility in phased development.

The California statute illustrates that the commendable attempts to assure certainty in the development process while retaining local government's flexibility may result in unresolved concerns and discretionary administration approval while further exposing the approval process to public decree.

W. David Watts is ULI's Research counsel.

LAND USE ABSTRACTS...

Berry, Brian J. L. and Lester P. Silverman (editors)
POPULATION REDISTRIBUTION AND PUBLIC POLICY
National Academy of Sciences, 2101 Constitution Ave. NW, Washington, DC 20418
1980. 351 pp. Tables, bibliographical references. $13.00

Within the context of fundamental trends in the composition of the population (rate of increase, age structure, and size and characteristics of households), the papers in this volume focus on two major trends in the spatial distribution of U.S. population in the 1970s: the movement to the sunbelt region and the movement out of metropolitan areas. The volume is introduced with a paper by Berry and Donald C. Dahmann detailing the significant population trends of the '70s. The remaining papers examine both the effects of population redistribution on public services, institutions, and policy and the effects of potential policy changes on population redistribution. Four major effects of recent population trends are documented:

- *Changes in the demand for goods and services, especially those that are provided by the public sector.* A paper by Martin T. Katzman addresses the implications of population redistribution for education; another, by Gary R. Fauth and Jose A. Gomez-Ibanez, argues that population shifts contribute to a sustained and continuing shift from public transportation to private automobile use; and Edwin Mills notes that recent population shifts have led to greater per capita land use.
- *The costs of providing public goods and services.* Robert Perlman describes a tendency toward equalization of welfare and related benefits across regions; and Calvin Loftin documents increases in per capita law enforcement expenditures in areas with shrinking populations.
- *Pressures placed on local governments.* A paper by George E. Peterson and Thomas Muller discusses the economic and fiscal accompaniments of population change; and Michael J. Greenwood describes the different employment pressures exerted on localities by movers and stayers.
- *Redistribution of the nation's resources.* Dale L. Keys writes that although regional shifts are not likely to have much effect on national air and water quality, they do offer the potential for significant fossil fuel savings; William A. Sampson explores possible implications of population redistribution for minority and low-income groups.

HOUSING CHOICE. A HANDBOOK FOR SUBURBAN OFFICIALS, NON-PROFIT ORGANIZATIONS, COMMUNITY GROUPS, AND CONSUMERS
Suburban Action Institute, 257 Park Avenue South, New York, NY 10010
1980. 275 pp. $1.50.

This handbook describes efforts of local communities, mostly suburban, to expand housing choice for lower income and minority people. "The programs described in this book all suggest that ameliorative steps are now being developed to counter . . . insular tendencies" that have resulted in patterns of class and race separation in metropolitan growth in the past 30 years. The authors express a belief that "these cases reveal a new degree of suburban responsibility for sharing fairly with the cities of their region the provision of decent housing for all."

Nine categories of "housing choice" programs are described in separate chapters. The first section of each of these chapters provides a summary of the activity, a detailed look at how the program works, and a discussion of its pros and cons. There follows a summary chart of programs making use of the technique under discussion and a series of short case studies of successful programs. Also included are names and addresses of contact people for each of the programs. The nine approaches covered are:

- acquisition and disposition
- land banking and land acquisition programs
- cost write-down programs
- financing assistance
- inclusionary land use regulations
- interjurisdictional use of the Section 8 existing program
- housing information referral and counseling
- programs to combat and reduce discrimination
- maintaining availability of units to lower-income households.

Two final chapters deal with non-profit sponsoring organizations and with U.S. Department of Housing and Urban Development initiatives to expand lower income and minority housing choices.

Suburban Action Institute's review reveals at least six factors that repeatedly appear as characteristics of a successful program:

- commitment and technical competence
- comprehensiveness
- use of assisted housing programs—local, state, and/or federal
- cooperation from governmental agencies
- resourcefulness
- recipient demand and ability to work with the consumer.

All of the techniques described "have been successfully implemented, albeit on a small scale. The housing produced under these programs has been successfully integrated into suburban communities. The programs have been chosen because they are manageable and [can be done]. Most are the result of local initiatives and, while federal funds are often involved, these activities have been conceived, implemented, and controlled by local citizens and officials."

Kaminsky, Jacob
HOW TO EVALUATE A DEVELOPMENT PROPOSAL IN YOUR COMMUNITY
Environmental Design Press, P.O. Box 2187, Reston, VA 22090
1979. 174 pp. Illustrated, bibliography. $19.50.

Community objections to development proposals are likely to be based on people's concepts of what the typical character of the proposed use—say a warehouse or a convenience neighborhood store—is. Rather than objecting to the use itself, argues Kaminsky, "citizens should object to the standards which guide the development of non-residential and high-density residential uses. They can demand revision of the standards to make them more compatible with the surrounding residential areas. There is no justification for one type of use, such as commercial, to be developed with characteristics or quality standards different from and of poorer quality than its adjoining use." The book offers a means of evaluating the characteristics of proposed developments in order to assure that they are compatible with their surroundings.

A development proposal can be classified into six components. In general, the two most important characteristics to consider are structure intensity and movement intensity. Next in order of importance is the project's surface and space relationships. Third is the consideration of the development's street level visual and environmental characteristics. A chapter is devoted to ways of evaluating these three sets of development characteristics.

The factors comprising structure and movement components include building bulk, measured by its floor-area-ratio, and car trip intensity. In downtown proposals, people intensity would also be considered. To assist readers in relating intensity standards to a practical application, ten development intensity levels are described and standards for floor area, building coverage, street and parking coverage, and landscaping coverage for different building use types within each intensity category are provided.

In defining surfaces and spaces, two factors are critical: the ratio of manmade to natural surfaces and the building height-distance relationship between the site and adjoining properties. Kaminsky states that the percentage of landscaped area is the third most critical standard—after floor area ratio and trip intensity—for defining the character of development. He gives standards describing the percentage of landscaping that should be applied to different development intensity types, as well as standards for defining buildings height-distance relationships.

The third level of review deals with the pedestrian scale (townscape and environment) as perceived and appreciated by walking through or around the site. "In reviewing what is proposed for this level of design, it is possible to understand more fully the character, quality, and humaneness of the project as viewed and expressed by users. . . . The 'personal' scale is quite often the one most overlooked by developers and evaluators of new developments."

This book suggests that a development characteristics planning approach is a better alternative to the conventional use method of planning and regulating development. The development characteristics approach "assigns an appropriate development characteristics type to each district in the planning area. Diversified development [and] innovative combination and arrangement of uses and structures would be possible in each district as long as the character of the proposed development is in accordance with that specified for the district. For each development characteristics type, development intensity levels and landscaped areas are prescribed. Also prescribed to special districts, as appropriate, are townscape and environmental standards." An economic analysis of development costs under development characteristics planning is included, and a checklist for evaluating a development proposal according to the procedures outlined in the book is provided.

Mendelson, Robert E. and others
COMMUNITY HARMONY: THE REUSE OF ORDINARY STRUCTURES
Center for Urban and Environmental Research and Services, Southern Illinois University, Campus Box 32, Edwardsville, IL 62025
1980. 126 pp. Illustrated. $7.50.

Most of the examples of recycling and adaptive use that have appeared in recent publications on the building reuse trend are large, prominently located buildings that have a unique function in their communities, an outstanding history, or an especially fine design. But other types of structures, as well, are being saved through reuse. "Many are common types, useful to their neighborhoods but of little interest to the larger urban areas, and they command little historical or architectural attention. For these reasons, they have not received media coverage. But such buildings cannot be written off as worthless. They may provide needed commercial services or make available moderately-priced living space, or, simply by their continued presence on the street, prevent the kind of emptiness and visual disharmony so evident on suburban highways lined with fast-food franchises. These are the buildings with which the present study is concerned."

Community Harmony provides case studies of the adaptation of 23 "commonplace structures" in the Saint Louis metropolitan area. The guidelines used to select the examples were that:

- they were likely to be abandoned if new uses had not been found;
- they functioned at a neighborhood rather than a regional level, and were important to the physical cohesiveness of the area;
- they were "quality reuses";
- they were privately owned.

The case studies include information on the history of the structure, the factors making up the decision to rehabilitate or adapt it, the physical elements of the rehabilitation, and the costs involved. There are ample photographs illustrating each case. Among the buildings are a private residence/medical clinic converted to apartments, a factory to retail speciality shops, an elementary school to apartments, a livestock barn to offices and apartments, a service station to a dental office and another to a pharmacy, a school to a restaurant, a movie theater to a raquetball club, a police station to offices, and a fire station to offices.

The authors of *Community Harmony* emphasize that the adapters of ordinary old buildings tend to be persons with community ties and a long-term interest in their communities. They note that most of these projects involved little change in the exterior appearance of the structures and that most of them were less expensive per square foot than new construction costs. In most cases, the financing for their projects tended to be "informal." Many of the developers interviewed noted that the rehabilitation process had been hindered by local policies and codes.

Moriarty, Barry M.
INDUSTRIAL LOCATION AND COMMUNITY DEVELOPMENT
University of North Carolina Press, Box 2288, Chapel Hill, NC 27514
1980. 381 pp. Tables, bibliography, index. $20.00 (cloth); $10.95 (paper)

The purpose of this book is "to describe and explain the concepts, materials, and methods" of industrial development that can make community economic development programs effective. It views effective industrial development as a process of bringing together three types of decision makers in a community: the industrialist seeking a location for his plant, the landowner or industrial developer, and community planners and other local officials. The book is an outcome of the American Industrial Development Council's Basic Industrial Development Course which has been conducted at the University of North Carolina since 1971.

Part I focuses on community development and planning principles: how planning and policy programs can be used to influence the development process, land use planning for industry, and government programs (federal, state, and local) for economic development. Part II concentrates on industrial firms' location practices, locational trends in manufacturing, and the industrial site selection process using case examples. Part III contains separate chapters on five factors affecting industrial development: transportation, labor, utilities and energy, environmental policies, and taxation. Two chapters in Part IV address financial matters: private sector sources and methods of financing industrial development and public sector sources and methods of industrial development financing. The final part of the book discusses strategies for community and regional development. The final chapter focuses on ways to identify target industries—those that the community may be most likely to attract—while at the same time meeting the community's development goals. Community marketing strategies also are reviewed.

Roudebush, Janice and Leslie J. Wells
LOW- AND MODERATE-INCOME HOUSING. PART I. INCREASING THE SUPPLY AND ACCESSIBILITY
American Planning Association, 1313 East 60th Street, Chicago, IL 60637 (Planning Advisory Service Report No. 350)
1980. 26 pp. $10.00 ($5.00 to PAS subscribers)

"Increasing the supply of decent housing for persons with low and moderate incomes has concerned federal, state, and local policy makers and planners for four decades. Although a plethora of housing production assistance programs does exist at the federal level and more recently at the state level, barriers remain that prevent widespread development of new low- and moderate-priced units. Furthermore, individuals with restricted incomes typically lack accessibility to the range of housing units that are available in the marketplaces. More often than not, solutions to these problems must be generated at the local level, where the issues, problems, constraints, and opportunities are best understood. This report explores a number of approaches that local communities across the nation have taken to address problems of constructing new housing for low- and moderate-income persons and to increase their access to a larger selection of units. The examples discussed should provide suggestions and guidance to other communities dealing with similar housing issues."

The case studies presented here are organized by the type of technique used: land assembly and write-down techniques, development corporations, recycling of existing facilities, reduction in costs of home ownership, financing techniques, increased accessibility of rental housing to low- and moderate-income households, and planning/management approaches. Following is a selection of the cases described in this report:

- In King County, Washington, land write-downs were made available to developers participating in the federal Section 8 new construction program.
- The city of Tulsa, Oklahoma, acquires FHA-repossessed houses and houses located on floodplains, relocates them, and resells them to low-income households.
- In Santa Maria, California, the city wrote down land for a 144-unit subdivision in exchange for second deeds of trust on 33 units, with qualifying low- and moderate-income purchasers obtaining private financing for the amount of the first mortgage.
- The city of Fremont, California, uses long-term leasing of improved sites to contain the cost of new housing by reducing the developer's land costs.
- In Kirksville, Missouri, the sale of investment shares at the local level has been used to raise start-up capital for the construction of low- and moderate-income rental units under Farmers Home Administration's Section 515 program.
- The state of Minnesota uses revenue bonds to provide construction financing to developers who agree to provide some number of units designated for below market rate rents.
- Fremont, California, provides counseling to both tenants and landlords on participation in the Section 8 existing rental housing program.
- In Davis, California, all development proposals compete for a limited number of building permits. The city includes in its evaluation criteria for permits the economic mix of the subdivision, the provision of low- and moderate-income housing, and a fair share allocation of assisted housing.
- In King County, Washington, the FHA approval of a private rental project (Section 221(d)(4)) was made conditional upon the developer including Section 8 units, as recommended by the county under the A-95 project review.

Wolman, Harold and George Reigeluth
FINANCING URBAN PUBLIC TRANSPORTATION: THE U.S. AND EUROPE
Transaction Books, Box 978, Edison, NJ 08817
1980. 43 pp. $5.95

This brief book examines "how other countries approach the public transportation financing dilemma in order to determine if there are useful lessons for the U.S." Twenty-three public transport systems in Organization for Economic Cooperation and Development (OECD) countries responded to the authors' mail survey and the transit financing systems of six cities (London, Vienna, Munich, Paris, Stockholm, and Hamburg) were studied and are described here in some detail. "The dynamics affecting transit financing in nearly all of the cities we examined appear to be much the same. Increasing automobile ownership and usage, combined with suburbanization, have resulted in decreased transit ridership. Transit operating costs—labor costs in particular—are rising rapidly. There is public opposition to fare increases which, except in rare cases, are lagging far behind operating costs. Transit operating deficits are large and, in most cases increasing."

Financing Urban Public Transportation suggests that U.S. transit systems might benefit from further study of selected European systems as to:

- fare structures
- rationalization, or programs to provide the same level and quality of service at reduced cost
- reductions in service
- local level subsidies
- regional administrative and financing mechanisms
- earmarked taxes
- cross-subsidies from municipal utilities to transit companies.

It "is clear that further work has the potential of generating important policy lessons on several topics of concern to the financing of urban mass transit systems First, many of the cities visited have been able to reduce the rate of increase of operating deficits through successful efforts to increase productivity and to rationalize service delivery. Second, further study of the institutional organizations and political systems used by European countries and cities to deliver urban transit service might also provide useful policy lessons for U.S. cities. Finally, additional study of the effects of the specific innovative financing mechanisms described in this paper would indicate the costs and benefits of transferring such mechanisms to a U.S. setting and what some of the obstacles to successful transfer would be. However, we would caution that the transit financing problem in the United States results in part from the low value the public places on the role and importance of public transportation. It is, therefore, a political problem as well as a technical one. . . . The response to the energy crisis suggests that the level of public support for transit is on the rise in the U.S. and that the political environment may now be more propitious for adopting innovative urban public transportation financing mechanisms."

LETTERS...

Editor:

This letter is in regard to your March 1980 *Urban Land* article on "Infill Development—Opportunity or Mirage" by Richard E. Starr. We are extremely interested in this article since Polk County has had some experience with a similar trend toward infill within the center city area. However, Polk County used an existing incentive which is only briefly touched upon by Starr's article.

Under Iowa law after 3 years of default on taxes, a tax certificate, and ultimately a tax deed, is issued to Polk County as a method of recovering back taxes. Over the years we have assembled between 350 and 400 parcels of property which are developable, including essential services of sewer, water, electricity, and paved roadways. Polk County placed these parcels of property in an Urban Land Bank program and has prepared, with the cooperation of the private sector and the city of Des Moines, a program whereby developers and the city of Des Moines may ask for specific parcels to be removed from the Land Bank and brought to public auction. The county at this auction will subrogate its interest in these existing lots if the developers agree to build units in accordance with the city's density and on a specified time schedule.

The end result is anticipated to be construction of housing units which will be sold to individual buyers well below the existing market rate in this area since no land cost would be involved. The city and county would achieve a stabilized tax base and a revitalization of declining neighborhoods.

The purpose of this letter is to point out that in all probability other states, counties, and cities may possess a similar legal mechanism for the acquiring of properties and, in fact, may be the custodian of lots which could be put on the market in a very short period of time. This would avoid one of the major difficulties of the private sector—assembling enough property in a short enough time span to make the development profitable.

We look forward to reading more about other areas' progress with infill in developed communities.

Gary L. Pryor
Director
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Des Moines, Iowa