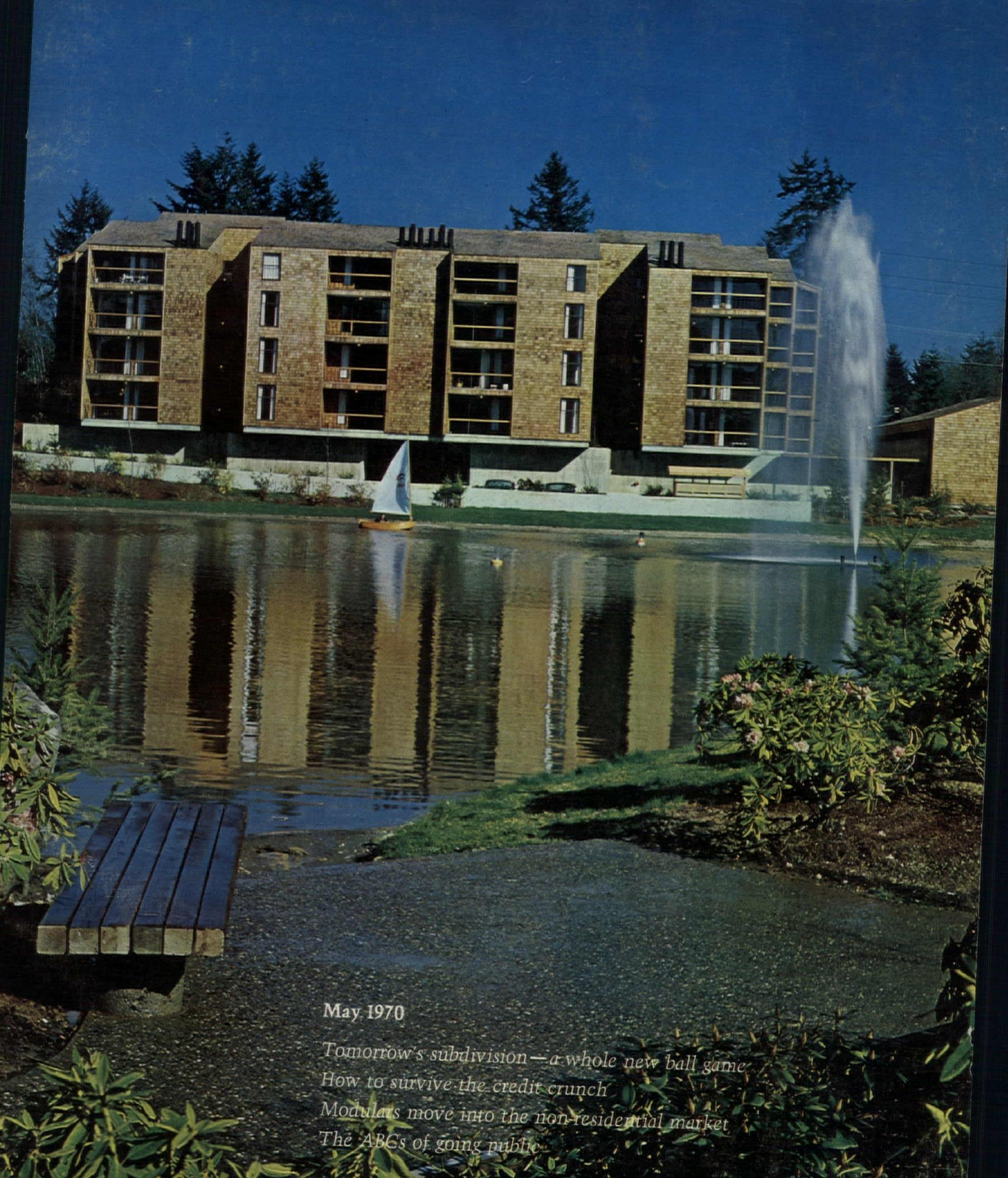
McGraw-Hill's marketing and management publication of housing and light construction

House & Home



May 1970

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CIRCLE 63 ON READER SERVICE CARD

House&Home

McGraw-Hill's marketing and management publication of housing and light construction

Volume 37 Number 5 / May 1970

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Cover Medium-rise apartment building in Sixty-01, an all-rental project near Seattle. *Developer:* W/O Company. *Architect:* Riley & Bissell. *Landscape architect:* John Lantzius & Assoc. *Photo:* Richards Studio. *For story, see page 84.*

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Omer Otte, Owner-Builder of Bennett Valley Knolls, Santa Rosa, Calif.

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Now President Nixon says it: Mobile homes are much of the answer

Mobile homes, long the stepchild of the housing market, look like Cinderella after all—and no less a light than President Nixon has taken the role of Prince Charming.

After years of being shunted aside by national administrations, the mobile home industry is being recognized as a true housing source. According to President Nixon, unless mobile homes are counted, the 10-year housing goal of 26 million new and rehabbed units will not be met.

"Nearly half of all American families probably cannot afford to pay much more than $15,000 for a home," the President says in his annual housing report to Congress. "Yet today the only significant amounts of new housing available in that price range are mobile homes."

New starts count. Noting that "mobile homes can no longer be ignored" as a housing force, the President states that they "constitute a major, if not the largest, single source of acceptable new housing at prices which moderate-income families can afford."

With that endorsement, the President says he is going to include mobile home shipments in the total starts counted toward meeting the 10-year housing goals.

When Congress, in 1968, set the goal of 26 million units for the next decade, it did not figure mobiles in that total. At the time there was no indication that mobile homes would become a significant part of total housing production.

President Nixon says the belief was that "many of the units would be used only for second-home purposes." But, he adds, "recent experience throws quite a different light on this element of the housing industry. According to current estimates for 1970, mobile home shipments will have more than doubled since 1967. Thus, they are clearly making a significant contribution to the general housing supply."

More and more. While the President estimates mobile home shipments in the last fiscal year at 363,000, and at 450,000 in fiscal 1970, he makes no guess as to how many of these are now being used as second homes. All shipments will count toward the housing goals under the Administration's new method of tabulating.

NATION'S NEW HOUSING GOALS

(In thousands. "Previous" are 1969 estimates.)

	Total starts & subsidized rehab			Unsubsidized new units			Subsidized new & rehab	
Fiscal	Revised	Previous	Change	Revised	Prev.	Mobile Homes (included in "Revised")	Revised	Prev.
'69	2001	1675	+326	1803	1450	363	198	225
'70	1850	2000	−150	1540	1500	450	310	500
'71	2040	2225	−185	1535	1600	475	505	625
'72	2330	2375	− 45	1680	1750	450	650	625
'73	2650	2575	+ 75	1955	1950	450	695	625
'74	2930	2650	+280	2200	2000	400	730	650
'75	3085	2950	+135	2355	2300	400	730	650
'76	3060	3200	−140	2330	2500	350	730	700
'77	3060	3250	−190	2330	2550	350	730	700
'78	2994	3300	−306	2272	2600	312	722	700
	26000	26200	−200	20000	20200	4000	6000	6000

TEN-YEAR GOAL is revised from 25 million units back to 26 million, but 4 million mobiles are included. Subsidized units are still estimated at 6 million, but rehabbed portion of that is cut from 2 million to 1 million. So the White House expects a 20% decline in production of conventional private housing.

Even with the mobile homes, however, total housing production for fiscal 1970 will be only 1.85 million units, down 8 per cent from fiscal 1969.

With mobile home shipments expected to climb to the record level of 450,000, the totals will fail to reflect this improvement because of an expected dip of 15 per cent in conventionally built or rehabilitated units.

Price difference. In revising the method of computing starts, the President's report notes that while some production of mobile homes "is still only providing for second homes... the bulk of the output is filling a very real need in the overall housing market.

"In 1969, less than 6 per cent of all new, conventionally built, single-family homes sold for less than $15,000. In many areas across the country, new housing is not available at a price of less than $25,000. Many mobile homes, in contrast sell for about $6,000.

"Even after adding the rental payments of a moderately priced site, the total monthly payments for mobile homes are still well below payments on most conventional homes. For many moderate-income American families, the mobile home is the only kind of housing they can reasonably afford."

Romney's influence. President Nixon's unqualified support for the mobile home industry clearly shows the mark of Secretary George Romney of HUD. Romney is the nation's leading advocate of fast-production, low-cost housing—as evidenced by Operation Breakthrough proposals.

In fact, the housing goals report suggests that many mobile home manufacturers will shift their emphasis in coming years to take advantage of Breakthrough opportunities.

Noting that mobile home starts will peak out at 475,000 units in fiscal 1971, the report says conventionally built units won't always be so scarce. This would relieve "some of the current extreme pressure for mobile home production." Also, HUD's Operation Breakthrough "will be promoting broad-scale expansion of modular housing production in general.

"This should lessen the present domination of the low-cost housing market by the mobile home as it is now known, and may lead some present mobile home producers to shift their focus more toward generalized modular housing."

The report says, too, that still another factor likely to slow mobile home growth is the increasing difficulty in obtaining suitable sites for mobile home parks.

Mortgage reforms. The 92-page housing goals report,* while placing mobile homes on the first team for housing, doesn't stop there. The report is a wide-ranging study of why housing production is lagging, and what steps the Administration has taken, or is planning, to boost starts.

Among the actions already taken, and which the Administration says it will continue, is the heavy support of the home mortgage market by the Federal National Mortgage Assn. and the Home Loan Bank Board. The Government's National Mortgage Association's tandem plan—worked up under FNMA's direction early last year—is also praised as a major boost to low and moderate income project programs at HUD. Mortgage-backed securities are also moving ahead now, after having been stalled for more than a year. Other actions cited in the report include the increase in minimum denominations for obligations of Treasury and federal agency securities, and the increases in interest rates on deposits at banks and savings and loans.

Financing relief. The Administration's goal for the current calendar year is to secure at least $20.5 billion of net new residential mortgage lending. The report explains:

"This should be sufficient to spark a turn-around in housing production by the summer so that the coming fiscal year's production target (more than 2 million starts) can be met."

—A.M.

*The report will be available soon as a Senate housing subcommittee print.

TO PAGE 9

Chrysler sells Levitt 1,100 acres near Detroit

Confirming what had been an open secret in Detroit real estate circles for months, Chrysler Realty Corp. announced the sale of 1,100 acres of residential land to Levitt & Sons. City-approved plans call for 1,532 single-family houses and 2,291 townhouses on the site.

The land is just north of the Motor City, in Troy, Mich., abutting Interstate 75, a direct expressway to downtown. Terms were not announced, but local guesses put the value at $4,000 per acre, or a $4.4 million total sales price.

The auto maker subsidiary is retaining—and will develop—the remaining 600 acres, which are zoned for commercial development.

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Housing bills—Senate tells mortgage men: We'll help you, like it or not...

Although housing legislation has inundated Capitol Hill this year, the Senate has managed to pull together its own omnibus housing bill to provide "emergency" relief to the mortgage market.

Dubbed the Emergency Home Finance Act of 1970, the legislation emerged from an unusually abbreviated two-hour session of the Senate Banking and Currency Committee. It is a potpourri of a half dozen separate legislative offerings.

Despite the seeming haste of the Senate, industry groups have not rallied behind the bill. Parts of the legislation appear to many mortgage lenders to be downright unworkable.

Provisions. The bill has six major sections. It would:

- Authorize a $250-million interest subsidy for advances to savings and loan associations from the Home Loan Bank System.
- Set up secondary markets for conventional mortgages in both the Bank Board and the Federal National Mortgage Assn.
- Experiment with a dual system for FHA rate ceilings, as suggested by the President's Commission on Mortgage Interest Rates.
- Provide $60 million the first year and increase that by $60 million in each of the next two years to subsidize interest on mortgages for low- and mid-income homebuyers.
- Transfer $1.5 billion of authorized funds from one housing program to the Government National Mortgage Assn. to expand the special-assistance tandem plan.
- Set up a special advisory commission on housing, to help Congress and the Administration set realistic housing goals.

Objections. Details don't sit well in some mortgage circles.

While the dual system for FHA and VA loans would permit a free rate as well as an administered rate, lenders could not levy a discount under the free rate. This plan is opposed by the Mortgage Bankers Assn. as unworkable. Even the MBA's executive vice president, Oliver H. Jones, who was a member of the Presidential commission that made the recommendation, says it cannot work.

"Mortgage bankers won't use it," Jones insists. "We [the commission] made the recommendation only as a last ditch compromise to get something on the table."

Nor are plans for the secondary market for conventionals in FNMA being greeted with wholehearted approval by mortgage bankers—the group that is most concerned with Fanny May operations.

Under the legislation, FNMA would be able to buy, service, sell, lend on the security of, or otherwise deal in conventional mortgages. There are several strings, however.

No loan can exceed 75% of value unless the seller retains a participation of at least 10% in the mortgage, or the seller agrees to repurchase or replace the mortgage at any time within three years in the event of default, or a loan carries private mortgage insurance.

Mortgage banking companies, which originate loans and sell them to investors, cannot afford to carry 10% participations. Nor do they want to worry about buying back a loan that goes sour.

Support. Savings and loan associations, on the other hand, appear delighted with the shape of most of the legislation. The free rate system appeals to them, as loans made by S&Ls are usually for their own portfolio. Discounts are not as much a factor for savings and loans as they are for mortgage bankers.

And the participation setup in the conventional loan secondary market is not bothersome to S&Ls. They have worked for several years in participation loan programs with other lenders.

The secondary market facility for conventional loans in FNMA would be set up in about the same way as that contemplated for the bank board.

Under the HLBB section, however, there would be a new Federal Home Loan Mortgage Corp. within the Bank Board. The Bank Board members would be the directors of the new concern, which would be capitalized at not more than $100 million. Funds would come from non-voting subscription of stock in the corporation from the 12 regional Home Loan Banks.

The mortgage corporation could issue obligations to fund its secondary market operations. The rules of purchases and sales of loans would be identical to those under which Fanny May would operate.

Proxmire plan. Senator William Proxmire (D., Wis.) compromised at the last minute on his controversial proposal to require the Federal Reserve to buy $3 billion worth of Home Loan Bank Board credit.

The Administration had warned that it might veto the entire omnibus bill if Proxmire's Title 5 survived.

So the Senator offered an amendment when the bill reached the floor. His substitute eliminates Fed financing but provides for a Congressional appropriation of $60 million to subsidize the interest on mortgages for low- and middle-income homebuyers.

The subsidy would provide for 150,000 mortgages at 7% during the first year, and the appropriation would increase by $60 million a year in each of the next two years.

Private lenders would make 7% loans on homes costing $20,000 or less in low-cost areas or $30,000 in high-cost areas.

The loans would be sold to government mortgage agencies, and the $60 million would reimburse them for the difference between the 7% and their borrowing costs.

—ANDREW R. MANDALA

...while Nixon and Romney try to streamline HUD's multiplicity of programs

As the Senate Banking Committee met to report its omnibus housing bill, the Nixon administration finally cleared its own version of the 1970 Housing Act—a bill designed to unravel much of the red tape and confusion over HUD programs.

The legislation, which carries no less than 16 major substantive changes, has four goals:

- Streamline and consolidate operations in low-, moderate- and middle-income programs.
- Get rid of "unnecessary bureaucratic requirements" and set up uniform criteria for subsidized programs.
- Make HUD assistance programs more responsive to community needs by basing eligibility limits and construction requirements on incomes and costs prevailing in the community.
- Increase the maximum subsidy available from HUD on some units to bring more low-income families into the rental and home-ownership programs.

Consolidation. Secretary George Romney's department is trying to eliminate the various authorities now scattered through existing law. In their place would come a number of broad, flexible programs.

The most striking example is the proposed reduction of FHA programs from about 50 to eight. Instead of more than 40 authorities dealing with home and rental housing, HUD has asked Congress to legislate one new program to cover all unassisted home mortgages; one new program to cover all subsidized home mortgages; and one program each for the unsubsidized and subsidized rental projects.

End of ceilings. The Administration has also asked Congress to abolish the dollar limits on maximum mortgage amounts. Instead, HUD wants a flexible formula applicable to all home and multifamily mortgages.

And the Administration wants permanent authority for the HUD secretary to set interest rates on FHA mortgages. The secretary would set up the so-called dual system for FHA, permitting a free rate provided no discounts are charged.

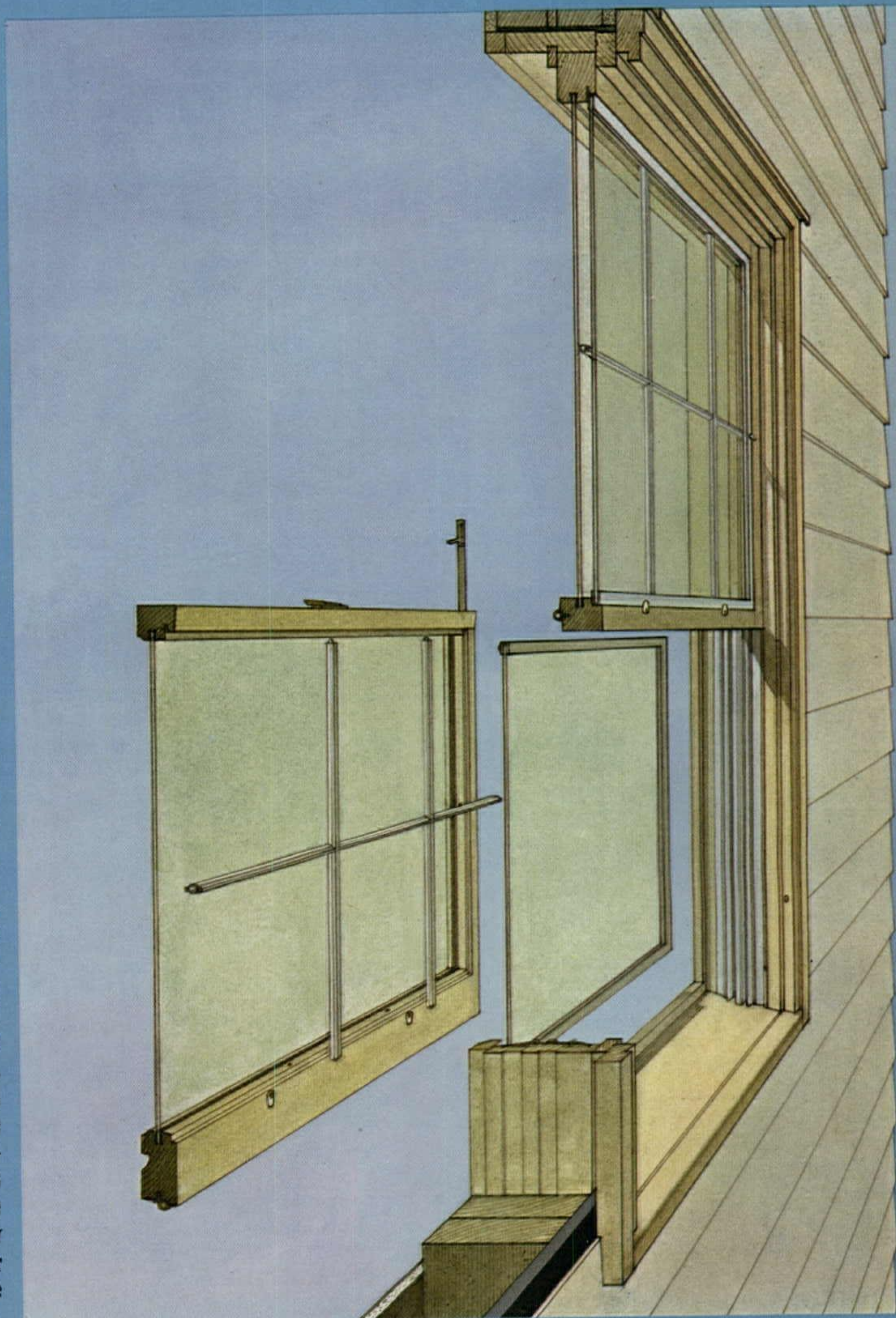
What is involved for Congress is a wholesale rewrite of the National Housing Act. With Congress still controlled by the Democrats, that is not likely

—A. M.

TO PAGE 12

CIRCLE 66 ON READER SERVICE CARD

New choice of profit-maker window systems-- only from Caradco.



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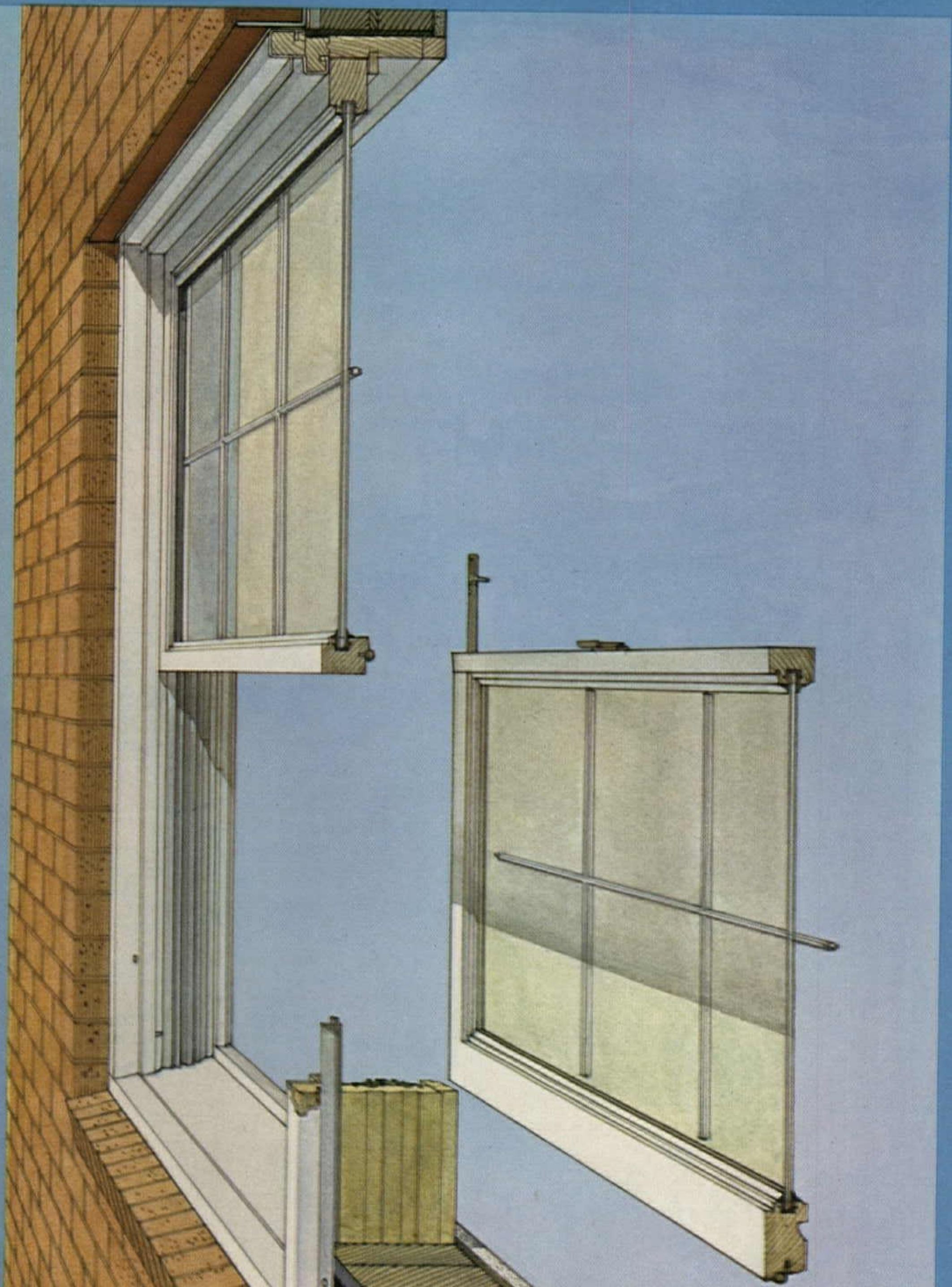

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CIRCLE 67 ON READER SERVICE CARD

The apartment boys conduct a joyous wake for the single-family house

The National Apartment Council came to Chicago in March and declared the single family dwelling dead.

A solid euphoria settled over the two-day meeting and its associated social functions, for builders and managers seemed to sense that they were part of the wave of the future. One Chicago builder summed up the feeling of the attendees as he hoisted a martini at an after-session cocktail party:

"Single family dwellings are obsolete; from now on, no more houses for me, just apartment buildings."

He said that rising labor costs plus the difficulties of getting financing had combined finally to push him into building apartments exclusively.

Some bold predictions. The gilded atmosphere of the meeting was scarcely tarnished by three nagging problems that held everyone's attention: zooming labor costs, lack of financing, and the difficulty of management. The latter problem breaks into such sub-classifications as "holding tenants' hands" and a fear that truculent tenants are flocking to join tenants' unions all over the country.

President Don Scholz of Scholz Homes in Toledo told the conference that, by 1975, apartment houses will account for 70 per cent of new building and 33 per cent of the country's housing units. Jimmy Becknell, director of special services for the NAC's parent organization, the National Apartment Association, agreed with Scholz's estimate and looked beyond:

"I'm being conservative when I say that by 1980, 90 per cent of the new units built will be apartments."

Many speakers predicted new forms of financing. Scholz said: "We have seen the breakdown of our mortgage financing system twice now, and it is failing in more frequent cycles." He suggested that traditional mortgages would be supplanted by trust funds, financing pools, or by bonds. Much of the money, he said, might come directly or indirectly through newly created quasi-government institutions.

And harsh facts. The importance of money to apartment developers was illustrated when Charles Robertson, vice president of Indiana National Bank of Indianapolis, faced an almost totally hostile audience after he spoke on "Can Money Lending Change Too?"

BUILDER SCHOLZ
Sees big apartment gain

CALE & WHITE

BANKER ROBERTSON
Fields some rough jibes

"You will soon see a variable interest-rate mortgage," Robertson warned. He said such a loan could be written in all but 16 states right now, and could contain a clause tying the interest rate to another interest rate or to a formula derived from several economic indicators.

Robertson also told his listeners they could expect that banks would continue to demand kickers and shares of the action when asked to lend money for building. He predicted that interest rates would remain virtually unchanged, but he softened this harsh assessment by saying there probably would be a "slight easing of funds for apartments" because bankers recognized their responsibility for helping to build new housing.

"The priorities will be where housing shortages exist," he said.

And fireworks. Robertson was challenged repeatedly by the audience. One builder insisted that "banks were demanding pieces of the action, but taking no risks while accepting all the rewards."

Another said that banks were making too much money while builders were scraping by. Robertson shot back:

"Our profits are not made on real estate mortgages."

Tenant unions were another major worry. The meeting room was festooned with blow-ups of newspaper clips, from all over the country, telling of rent strikes staged by angry tenants. Folders passed out at the meeting contained reprints of manager-oriented articles on tenant unions. Mention of the words to a manager virtually guaranteed an apoplectic reaction.

But for all of the hoopla over the issue, some managers and council officials confided privately that "tenant unions may ultimately turn out to be the best thing that ever happened to the apartment industry." Their reasoning was that the tenants' demands would force a needed change in management techniques.

These observers also cited one or two cases in which building managers and tenants were able to bargain to a settlement.

And changes in wind. At the very least, the observers said, the tenants' unions would reinforce a growing trend: the disappearance of on-site management to be replaced by management companies. This was also true, the experts said, because of "the growing awareness on the part of owners of how important proper management is." One NAC official estimated that management and maintenance combined account for 73 per cent of expenses each year, and he said that many apartment complexes required nearly one maintenance or service worker for each tenant.

The new key to apartment management, this official said, is in providing services and amenities:

"The smart operator is going back to service. The swingle concept has almost gone and tight money has brought in the family."

He predicted that apartment complexes would be centered around special interest activities such as water sports and horses, and he added:

"The 1970s will be a decade of service and management. Where the key word was location, it is now management."

—MIKE SHELDRICK
McGraw-Hill World News,
Chicago

TO PAGE 16

THE NEW YORK TIMES

Helping hand is provided by Somerset & Morris County HBA in New Jersey. Volunteers spent two days erecting addition for family enlarged by quintuplets.

Builders finish a job the stork delayed

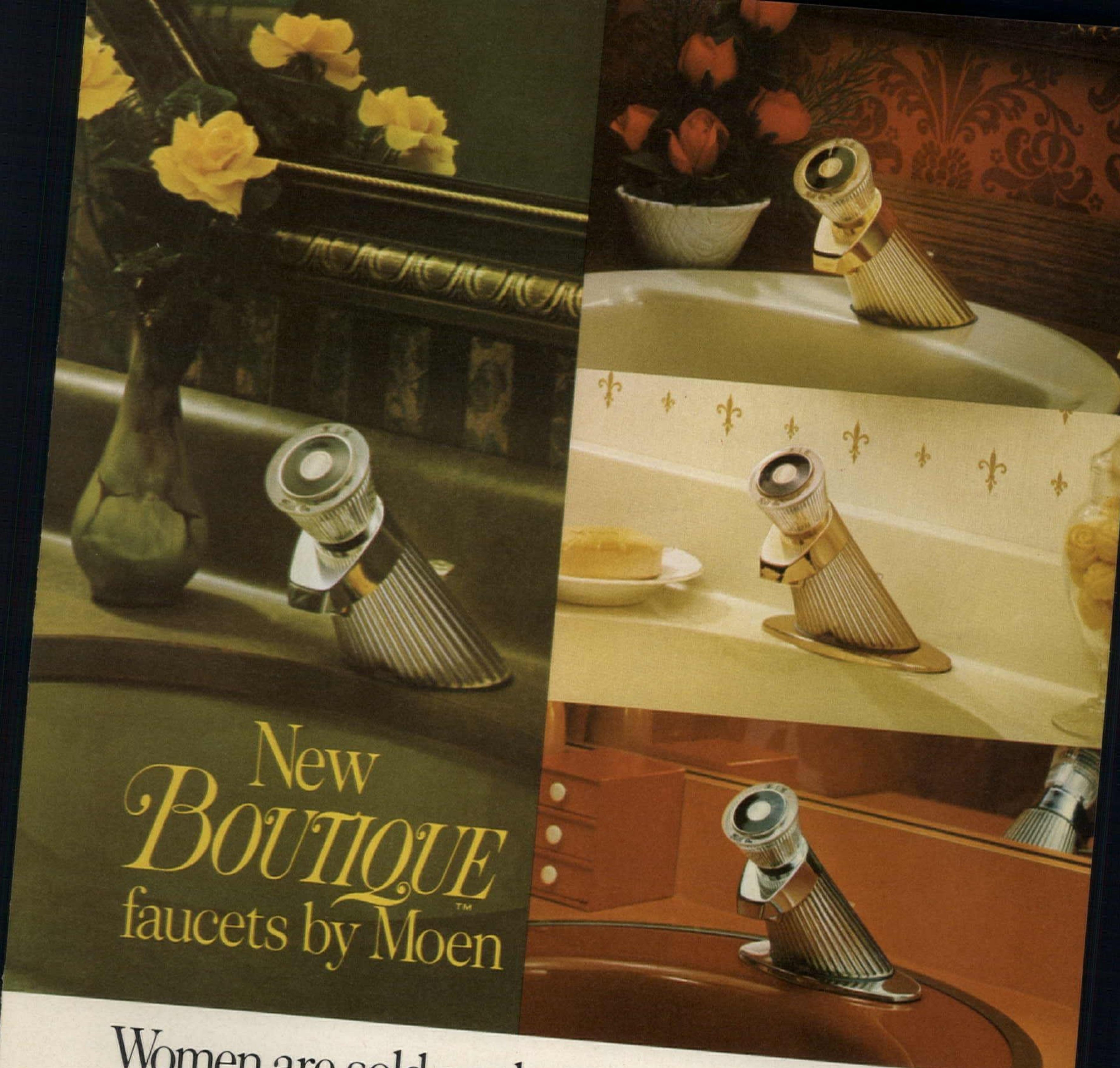
He was a do-it-yourselfer who bought a 90-year-old, five-room house in Liberty Corner, a rural section of New Jersey.

He was going to put on an addition, but became the father of quintuplets and the project was delayed.

Then Somerset and Morris HBA decided to lend a hand.

The builders spent two active days at the trades they normally hire other men to practice—and produced a 2,000-sq.-ft. seven-room addition.

Mrs. Kienast, watching the community effort, said at one point she couldn't remember her own name, much less Amy, Abigail, Sara, Edward, and Gordon, who will soon move from the hospital to the new home.



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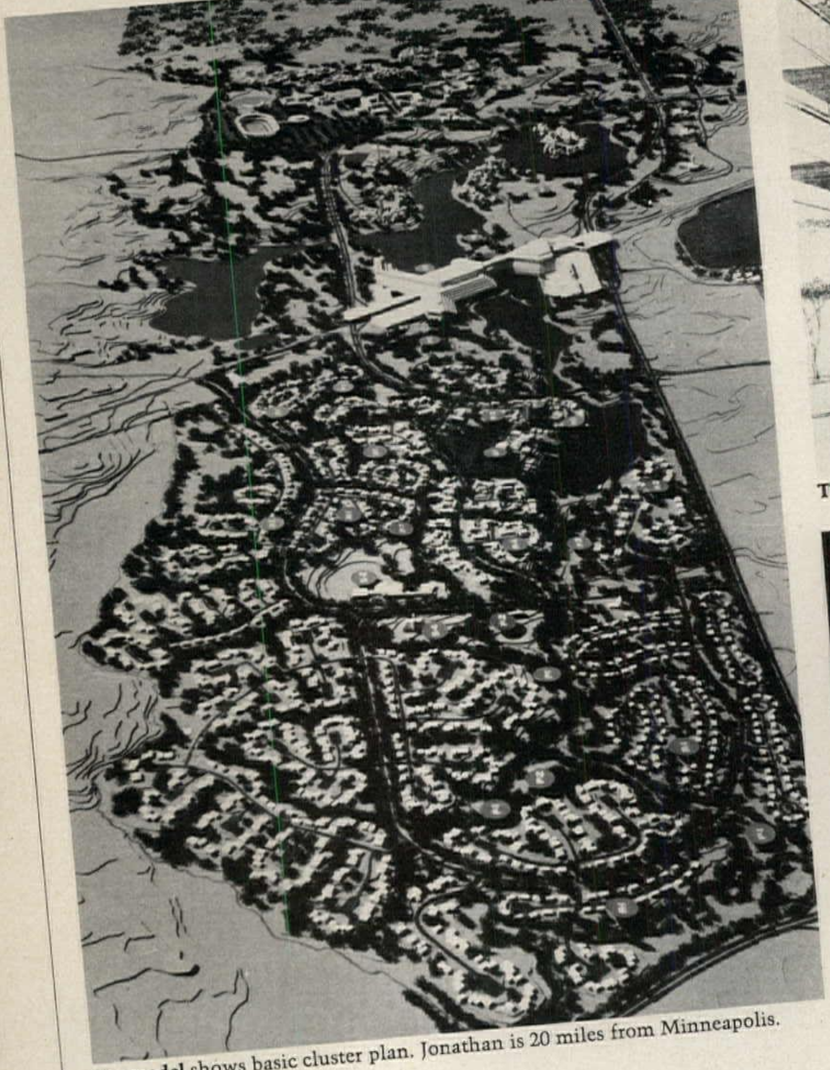
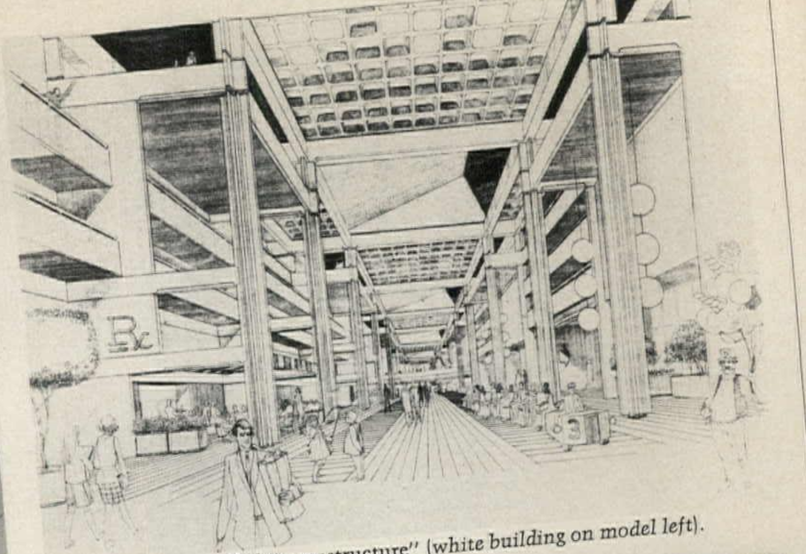
CIRCLE 81 ON READER SERVICE CARD



Site model shows basic cluster plan. Jonathan is 20 miles from Minneapolis.



Town center is so-called "megastructure" (*white building on model left*).

Stacked-up housing will use modules in unconventional arrangement.

Jonathan, Minn.: first private new town backed by a HUD-guaranteed loan

The "New Communities Act of 1968" authorized HUD to guarantee loans up to $50 million for land acquisition and development. Now, the first guarantee, for up to $21 million, has been issued to Jonathan.

So the 5,800-acre community, 20 miles from Minneapolis, will be able to proceed with its original plans. Until HUD acted, there had been some question.

State Sen. Henry T. McKnight, president of Jonathan Development Corp., and several Minneapolis-area businessmen had already invested $4.5 million in Jonathan. But the project had begun to sag, thanks to tight money and spiraling construction costs. What was needed was a money partner. But this would have meant the owners' giving up a big piece of their equity.

Now that they have a federal guarantee, the owners have been able to bring in $7 million—all they need for the moment—through a bond issue (subject to HUD approval). The town can continue at its original projected pace, and McKnight and his associates have had to give up no equity.

Says McKnight: "Now there is no question about our credit."

The bonds are being bought by a syndicate made up of First Boston Corp.; Merrill Lynch, Pierce, Fenner & Smith; Morgan Guaranty Trust; Salomon Brothers & Hutzler; Wertheim & Co.; and two Minneapolis firms, Dain, Kalman & Quail, and Piper, Jaffray & Hopwood.

Jonathan's overall plans are impressive. Upon completion (in 20 years) the town will have 50,000 residents. About 2,000 acres will be for industrial use (several firms are already there). The land-use program calls for 45 per cent residential and 18 per cent open space.

The general concept of the town calls for five small villages of 7,000 residents each. Shopping areas and other facilities will be located in each village. The remaining 15,000 residents will live in high-density housing near the town center, and at a proposed 300-acre learning center that will include a university branch.

There will be a wide variety of housing types. Of the more than 5,600 units to be built during the first 10 years, 545 will be financed under FHA sections 235 and 236, and more than 2,200 will receive some form of HUD or FHA assistance.

The planners have included what they consider to be four major innovations.

1. *Stacked-up housing.* Pemtom, a Bloomington, Minn., manufacturer of modular housing and an Operation Breakthrough finalist (H&H, April '70) is expected to be involved in building the 12'x48' modules (*photo above*) which will sell for between $6,000 and $10,000. The same firm is scheduled to build another 80-acre modular project at Jonathan this summer.

2. *A flexible house.* Made up of modules, it can be expanded or contracted as the owner's needs dictate. He will have the opportunity to exchange modules for those that better suit his family's size. About 30 prototypes will be built by the Jonathan Housing Corp., a joint venture of Jonathan Development Corp., Northern Natural Gas, Olin Mathieson, and the Stanford Research Institute. They are expected to sell from $17,000 to $35,000.

3. *A one-building town center.* A so-called megastructure (the white building in the upper half of the model above), the half-mile long center will cover railroad tracks and the main highway to Minneapolis. It will contain office space, shops, apartments, and a motel on the top level.

4. *A co-axial cable communications system.* This will include telephone, television, FM, educational programs, computers, and other forms of information, all on one cable.

BUILT-IN SUCCESS STORY

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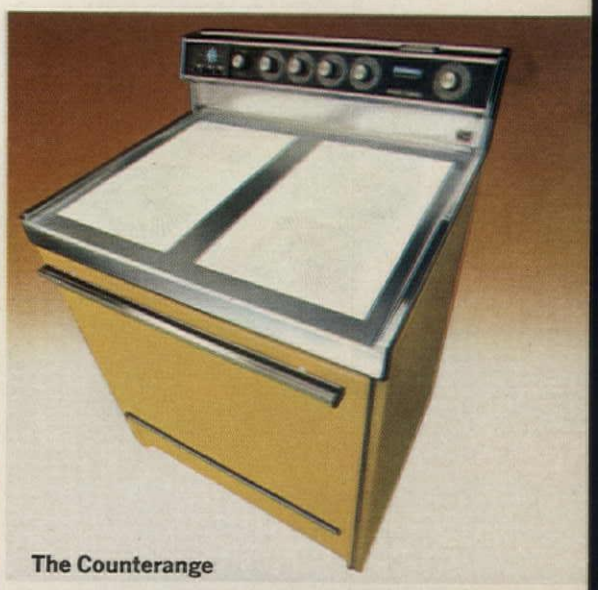
For information about Corning's Counterspace Cooking appliances, write Department 209, Corning Glass Works, Major Appliances, Corning, New York 14830.

The Counter That Cooks cooktop. *Revolutionary new built-in. Available in four-unit model (as shown), or two-unit version ideal for vacation homes and family rooms.*

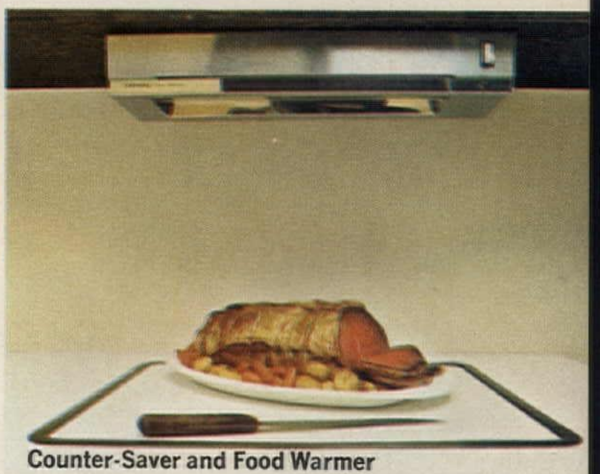
The Counterange unit. *All the features of Counterspace Cooking plus a large self-cleaning oven. One model in four colors.*

Counter-Saver. *The Pyroceram® brand glass-ceramic work surface so tough it's ideal for sizzling pots and pans, for slicing and cutting.* Food Warmer. *The infrared unit that keeps meals hot.*

The Counter That Cooks

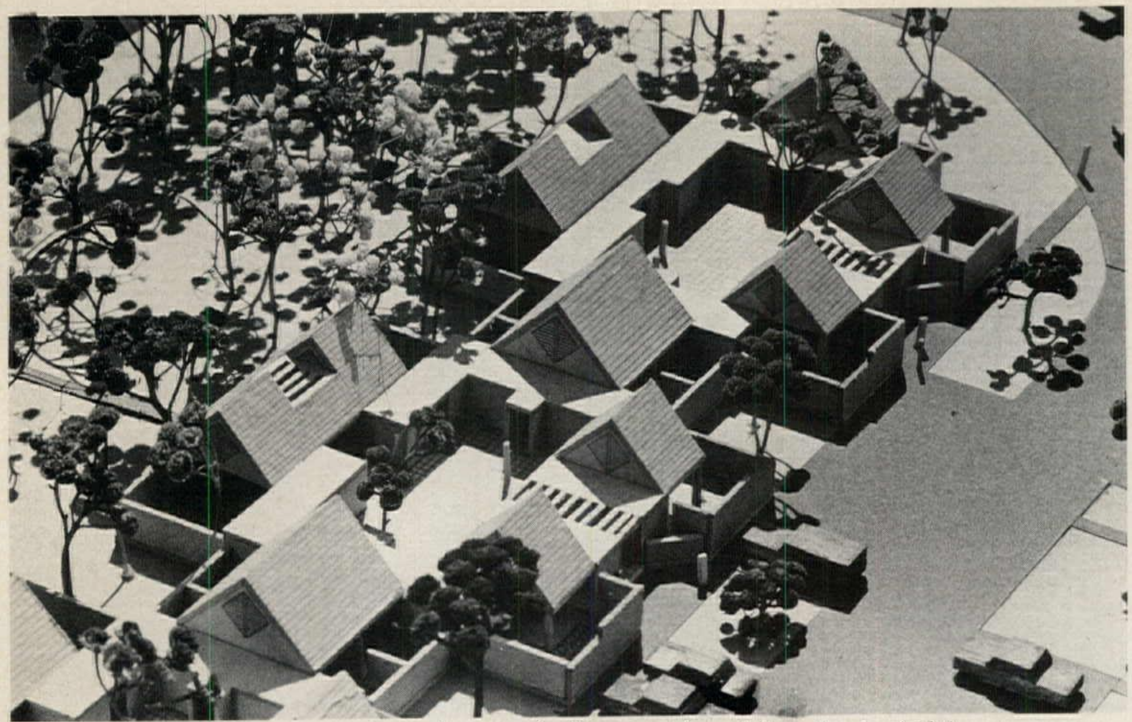


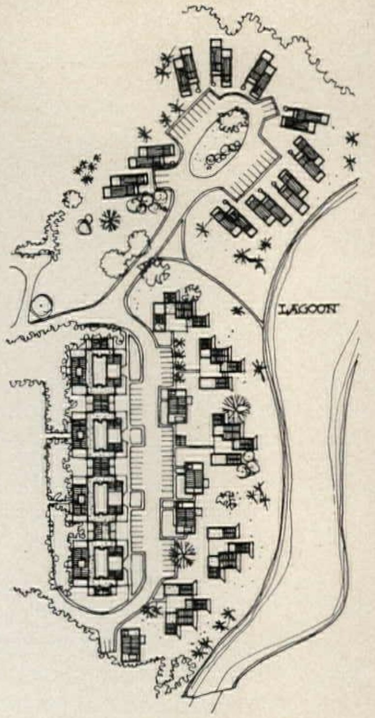
The Counterange



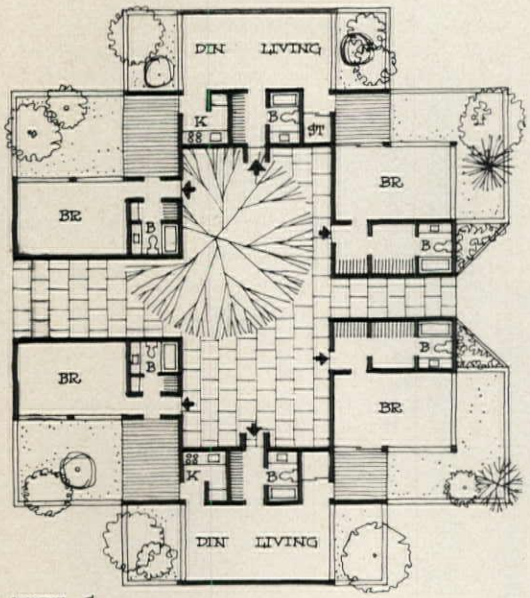
Counter-Saver and Food Warmer

CORNING

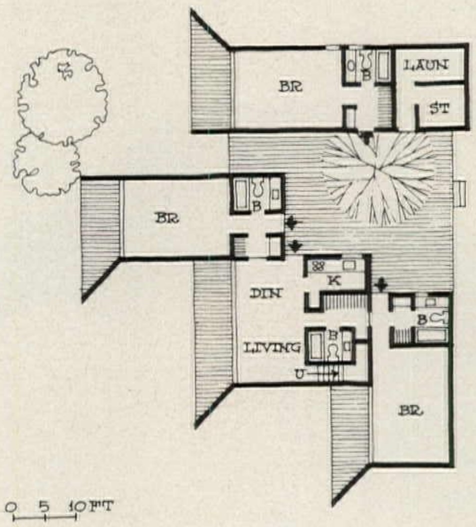




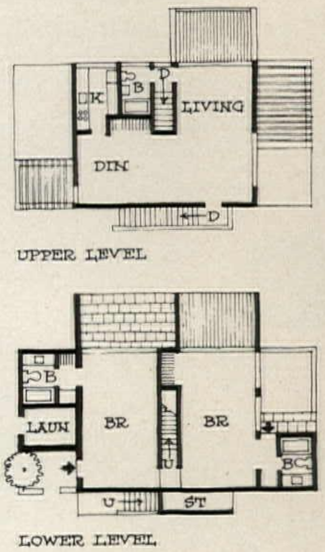
Villas, shown in model form, surround central courtyards. They are at lower left on site plan *(right)*.



UNIT C



UNIT A



UNIT B

Patio villas are first part of a new resort community at Hilton Head Island

The villas *(above)*, to be completed next month, are the opening phase of Palmetto Dunes, a 2,000-acre community on the South Carolina resort island. When completed, the project will have more than 1,500 homes, almost 400 condominiums, a 265-room condominium inn, and several recreation areas, including three golf courses.

Architects Copelin and Lee of New York have designed three villa models. The room layouts are planned to accommodate an unusual marketing situation. The villas will be completed before the inn, so at first, guests will be able to rent just a bedroom, a bedroom with living/kitchen area, or an entire villa. There are 61 bedrooms in all 17 villas, and rents will be about $40 per day. Later, when the inn is completed, the villas will be sold as condominiums.

Type A units, close to a lagoon, are designed to take advantage of the view. Thus, each room has a porch and all are angled to the water. The living/kitchen section has a balcony-level sleeping area. Three of the four sections can be entered from both outside and inside.

Type B units have two stories, with the kitchen/living area above for the view. There are two bedrooms below, each with a separate entrance. The upper level can be entered by both outside and inside stairs.

Type C units *(shown in photo above)* open from a central patio, and the individual rooms look out on enclosed courtyards. There are two sections with up to six rentable rooms per unit.

Completing the first phase of the resort is a golf clubhouse *(left)*. It will have a restaurant, pro shop, and locker rooms.

Golf clubhouse has wood truss structure and glass walls.

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Wide random planks with wire-brushed grain, dark prefinish, and wrought-head nails.

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CIRCLE 87 ON READER SERVICE CARD

"It's about time to start treating your resident managers like professionals"

Why is it that after a multi-million-dollar apartment complex is nurtured through financing, engineering, design, and construction by a team of licensed professionals, the whole package is then turned over to be run by a part-time housewife recruited at the last minute by a newspaper ad?

A developer/manager must have a lot of confidence in his planning to be so casual about hiring the person who is supposed to make the deal pay off. Or maybe his confidence lies in organizational controls that he thinks are tight enough to prevent resident managers from making critical mistakes.

Well, there are no such controls. Unless you're operating just one project and are actually residing on the premises, you can't afford to deal with resident managers as if they were some kind of transient help. In fact, if you're basing any significant share of your future success on owning and/or managing apartment complexes, you ought to start handling resident managers as specialists and professionals.

Resident managers are a special breed. They're on duty 24 hours a day, but you can't afford to pay them for more than eight. In small projects they can't make a living on what you pay, so they have to be married women with husbands who have jobs or pensions. In large projects the pay is better, but no one can get fat on it because the money has to be divided among more people.

So unlike other occupations, the chief inducement for a career resident manager is not money. The typical $7-per-unit management budget can be stretched by occupancy bonuses and extra pay for cleaning apartments, but not enough to hold a good manager when the job becomes intolerable.

Keep him happy. The best way to hold onto a good manager is not to let his job become intolerable. Organize the job so the manager can handle it, and organize the manager's career with your company.

A professional needs a clear-cut job definition. But for most resident managers the job is unlimited. They're asked to be a combination janitor-salesman-psychologist who rents apartments, cleans apartments, collects rents, arbitrates tenant disputes, enforces company policy, and handles hourly maintenance chores ranging from sweeping out garages to unjamming garbage grinders.

The jack-of-all-trades manager may get along fine in small projects with minimal tenant turnover. But what about larger projects where the manager has to re-rent five or six apartments every 30 days? Does the jack-of-all-trades have enough time to handle inquiries and show apartments?

We don't want our managers up on the roof fixing leaks when prospective tenants are knocking at the door. So we back them up with a full-time crew of roving maintenance men and a group of subcontractors who take care of all the painting, carpet shampooing, pool cleaning, and gardening.

In addition to that, we take pains to size the management to the projects. For example, one woman can run up to 50 of our units, but for projects of 50 to 100 units we hire two people—the manager plus a fulltime assistant.

The assistant's function is not just to help out with the cleaning work so the manager can rent apartments, but also to serve as a stand-in so the manager can take time off just like any other employee. This goes against the tradition of just abandoning the resident manager in her project without relief arrangements, but you'll find that not working seven days a week year in and year out makes a lot of difference in your manager's morale—and sanity.

Even if you have a string of small buildings not large enough to support full-time assistants, you can still provide a roving relief manager. Find a mature single person who likes moving from one project to the next for week-ends and overnight stays, and headquarter her in one of the projects as an assistant manager on call.

In projects of 100 to 200 units, we put three people on the payroll: a husband-wife-team as co-managers, and a full-time assistant. This provides enough manpower for the daily cleaning chores and frees one of the managers almost exclusively for renting apartments. In 200- to 300-unit projects we hire four people—either two couples, or one couple plus a separate man and woman as assistants.

Not all the same. In tailoring manager teams to different projects, don't overlook special needs caused by building design and project layout. Two projects with exactly the same number of units don't necessarily require the same number of managers.

For example, three-story buildings with double-loaded corridors create upkeep problems that don't exist in two-story buildings with outside apartment entrances. Just a weekly vacuuming of the carpeted hallways in some of our double-loaded corridor projects—up to five man-hours per building, five or six buildings per project—can turn into a full-time job.

Unusual project layout, as well as location, may call for heavier-than-normal surveillance. A long, narrow complex may need nightly supervision at both ends for adequate security, as opposed to a compact biulding in a high-density metropolitan area that needs minimal watching because there are no recreation or parking areas.

Besides giving the resident manager a well-defined job, you can also offer him or her a well-defined career.

We maintain a group of managers who specialize in renting up and establishing new projects. They move frequently, which opens up positions for other managers, so we tend to coordinate managers' promotions and transfers with anticipated new-project openings.

We don't put new projects in the hands of managers who have not already proven themselves within our organization. The complexities of renting up new projects during construction are so great that we prefer to handle them through managers with whom we already have a good working relationship. Also, we want the prospective tenants to be screened by someone already familiar with company policy. We don't use leasing agents to rent up new units, because they tend to screen prospects with less care than a manager who will be responsible for the tenants later on.

We also maintain a supply of seasoned managers who can replace our new-project specialists when they move from established complexes to new ones. You can do this in two ways. One approach is to promote strong managers to larger and larger projects. The other approach is to develop promising assistants to replace specific managers, having them serve an apprenticeship in the project that will eventually be turned over to them.

Each approach has its problems. Shifting managers in and out of established projects is unsettling to tenants and must be timed to occur between rent-collection periods. An assistant-in-training is usually ready for the manager's job within six months. So if construction delays foul up your timing in moving the manager to a new project, you may lose the assistant to a competitor.

That's the one danger in having professional resident managers. Your less fortunate competitors try to pirate them.

H. CLARKE WELLS, MARKETING MANAGER, L.B. NELSON CORP., PALO ALTO, CALIF.

Now the Southern Pine Association is the...

Southern Forest Products Association

Times have changed. And so have we. Just take a look at our expanded service program.

We've changed our name. And with the change will come sweeping changes in organization and services that will greatly benefit the building community. For example, the Southern Pine producing areas will now be divided into districts, with each district represented by a Director so that local problems will get the special handling they require.

Also, in order to make us more responsive as an organization to housing needs, we'll have a broader membership base that will include machinery manufacturers, wholesalers, treaters, laminators and others.

Our field personnel will now be working on an environmental improvement program. And they'll be in contact with builders to provide them with help on sales and technical problems.

Even more importantly, our SFPA trademark will be stamped on member mill products. Specify grademarked lumber carrying the SFPA trademark as your assurance of quality.

All in all, the complete restructuring of our Association will improve and expand services to the building community and will find more effective solutions to your problems.

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CIRCLE 98 ON READER SERVICE CARD

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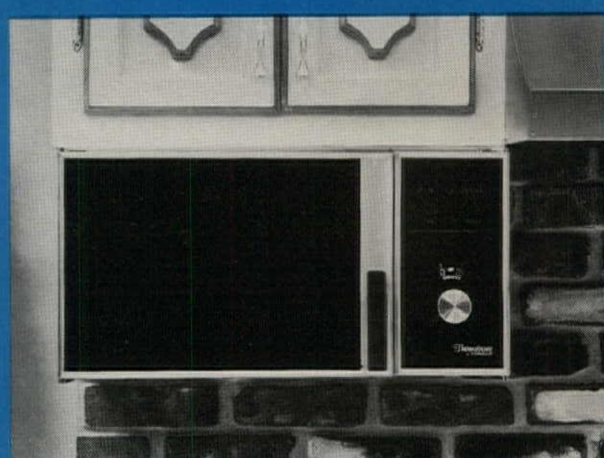
MTR11 & 12



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Heating up the fire

Zoning to insure lower-density residential land use may be unconstitutional and so ruled within this decade

This year the Pennsylvania Supreme Court has ruled unconstitutional a zoning ordinance that bans apartment construction from a Philadelphia suburb. And the U.S. Ninth Circuit Court of Appeals in San Francisco, although upholding a referendum that blocked a low- and middle-income housing project, commented in its decision: "If . . . the result of this zoning by referendum is discriminatory . . . in our view a substantial constitutional question is presented." By now the list of such rulings and legal opinions numbers dozens.

Zoning was not widespread in the U.S. until the Supreme Court ruled in 1926 that zoning could be used to control land use. It was the Court's first and last zoning case; the reason it has not touched a zoning case since then might just be that certain aspects of zoning hardly represent a body of law.

Let us explain.

Zoning is one of the police powers delegated to the states under the Constitution which allows states to legislate for the health, safety, morals, and general welfare of each state's citizens. And as with building codes (also a police power), the states delegate enforcement, administration, and regulation of zoning ordinances to the municipalities. Most municipalities use that power to beef up the tax base (they think and hope) and keep out undesirable land uses and/or people.

This country's first zoning was introduced in New York State in 1916 with the express purpose of keeping private property private while insuring that its use would be in the interest of the common weal. Or, put another way, that the constituency needed public protection (from outsiders, let's face it) while each constituent remained king of his own turf in fee simple.

In the judgement of many, this was a contradiction in terms from the start. Author and attorney Richard Babcock said it best in his book "The Zoning Game" (University of Wisconsin Press, 1966): "These [zoning's] objectives are protection of the single-family home and protection of the free marketplace. The first requires that government take positive action, and the second demands that the government refuse to take positive action."

As each local zoning ordinance was adopted, it simply codified the land uses existing in the community at the time. In other words, it gave a legalistic blessing to whatever private realty owners were already doing with their property. Pretty neat, right?

Now, what does it all mean? Zoning starts off in a community by being a codification of what's already there. What's "there" has a real economic rationale (if a particular private land use sector does not have an economic rationale, it won't last long). So a basic *raison d'etre* of zoning is an economic imperative. And anything that derives, if only in part, from an economic imperative has a price. The price need not be money; it can be political tradeoffs, good will, influence in certain quarters, and the like.

That's rather strong talk, but the fact of the matter is that *zoning is the only body of law in this country that permits, under certain circumstances, "rape and murder."* In almost any city or town you can find a particular land use that "rapes" or "murders" the land. And in many cases where the land use did not begin until after World War II, you will find it is sanctioned by a variance or an exception—the two legalistic devices used to permit "rape and murder" under zoning law.

Zoning also has other faults. In a metropolitan area, for instance, scores of different zoning ordinances prevent anything like orderly growth—in transport, land use, waste collection and treatment, low-income housing, education, air and water pollution, etc.

Or take the fiscal zoning that many communities rely on to "keep up their tax base." Actually, this is a very expensive luxury. Numerous studies have by now made it clear that higher-density residential land use generates far more municipal tax revenue, in the aggregate, and much lower per-unit municipal expenses for roads, sewers, police, and fire protection. Tax revenues per school child are higher, sometimes much higher, in an apartment area than in a single-family-house community.

Almost no one would deny that housing's single biggest cost booster is now zoning. In most major metropolitan areas, land prices are still climbing faster than any other component of housing costs. With fewer and fewer new households able to buy $30,000-plus houses, the need for higher-density land use is greater than ever, and it will increase throughout most of the 1970s.

All this is not to say that we should throw out all zoning. Certain aspects of zoning provide our only real tools for orderly growth. But other aspects now so readily used to prevent new housing for anybody but the upper middle class and the rich, should be changed. And the U.S. Supreme Court can change them without recourse to legislation or a plebiscite.

RICHARD W. O'NEILL

The combined pressure of rising land costs and demand for better environment is finally beginning to show results.

The old-fashioned subdivision is getting a brand-new look

The change is much more than just skin deep.

It encompasses the physical aspects of the subdivision—buildings, land plan, recreation facilities.

It affects the way the developer operates—his financing, his relationship with the community he's building in, and how he markets his product.

Most important, it can produce a quality of housing and environment immeasurably better than the sprawling subdivisions that have characterized the past two decades.

In one sense, there's not much that's really new about this new subdivision look. Its basic elements have been getting increasing attention in recent months, both in the industry and in these pages: higher densities (H&H, June '69), clustered housing (Aug., '69), and the principle of planned units development (Sept., '69).

But what is new is the way these elements are being used together. The new subdivisions are not platted by an engineer, then covered with a random assortment of standardized houses designed by an architect who has never set foot on the site. They are designed as complete entities whose elements all work together.

Says Desmond Muirhead, the planner responsible for the adult community shown further on: The difference is that we're now planning in three dimensions—fitting the housing to the land. The old two-dimensional way, laying out lines on a drawing board, isn't land planning, it's land butchery."

Done well, this new kind of subdivision planning produces a double blessing: it makes possible much higher densities, and at the same time creates communities far more attractive, far better balanced ecologically, and—according to early indications—far more marketable.

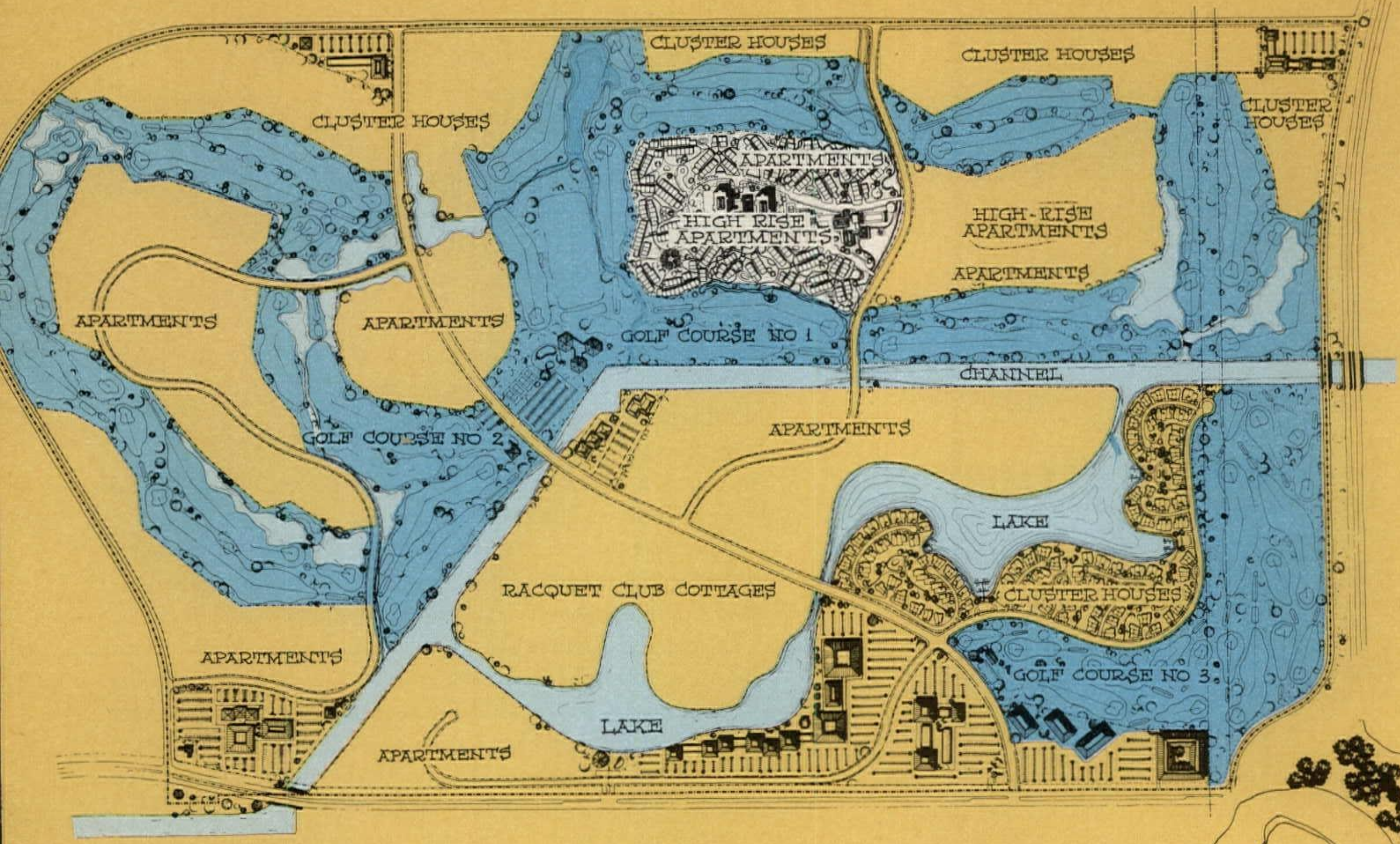
The term "early indications" is necessary because despite the obvious advantages of this new kind of subdivision planning, and despite the fact that its principles have been known for years, very few examples actually exist. Heritage Village on the east coast (H&H, April, '67) and The Bluffs on the west coast (April, '65 and May, '69), are the only major projects extant that can really be said to fit the new-look category.

But all this is about to change. Several new projects are off the drawing board and into the land-work stage, and a number of them are due to open during the next few months.

Two of these projects, including the one pictured as a model at left, are shown in the twelve pages that follow. Also shown are two other projects—one a small rental community and the other a section of a new town—which are finished to the point where their environments can be seen and appreciated.

TO NEXT PAGE

1,000-acre PUD, shown here as a model, is being built in Ft. Lauderdale, Fla., by Haft-Gaines Co.



For a large recreation project, islands of high density separated by fairways

There could hardly be a better example of what the new-look subdivision can accomplish than this 1,000-acre project, now being built in Ft. Lauderdale by Haft-Gaines Co. It steers a middle course between the two common ways of using astronomically priced prime Florida land—high-rise condominiums with little or no open space around them, and high-priced single-family houses jammed onto small lots.

Instead, as the site plan above shows, the architects, Richard Leitch, Sam Kyotoki & Assoc., have alternated groups of condominium apartments and townhouses with open areas of either lakes and canals (there are 75 acres of water) or golf fairways (there are three courses). When the project is finished, eight to ten years from now, the average density will be ten units per acre.

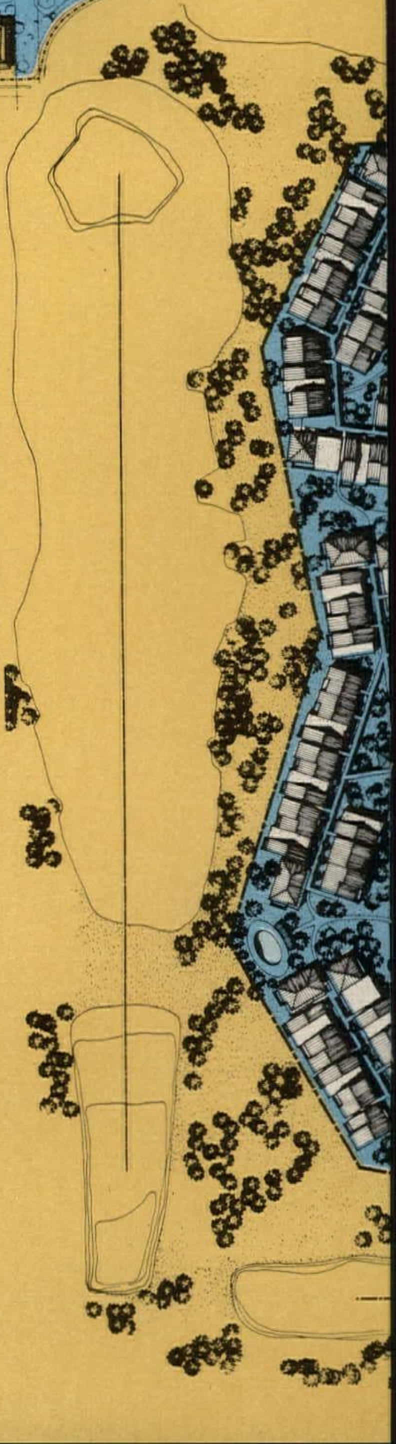
But this is a deceptive figure. Open areas eat up fully half of the project's acreage, and the density in townhouse sections is only six per acre. Result: the apartments, which account for the bulk of the planned housing, average 27 to 30 per acre.

The land plan at right, of the project's first apartment section, shows how the architects, working with Linesch & Reynolds, landscape architects, reached this density without crowding the land. Apartments are in three- and four-story buildings sited in very compact groups. And most of the parking areas are underneath the buildings.

The site presented two interdependent problems: it was as flat as a board, and the water table lay just about a foot below grade, making excavations impossible. So fill from lake dredging was used to contour the whole site. In particular, raised grades were put around the apartments to hide what are actually on-grade parking areas.

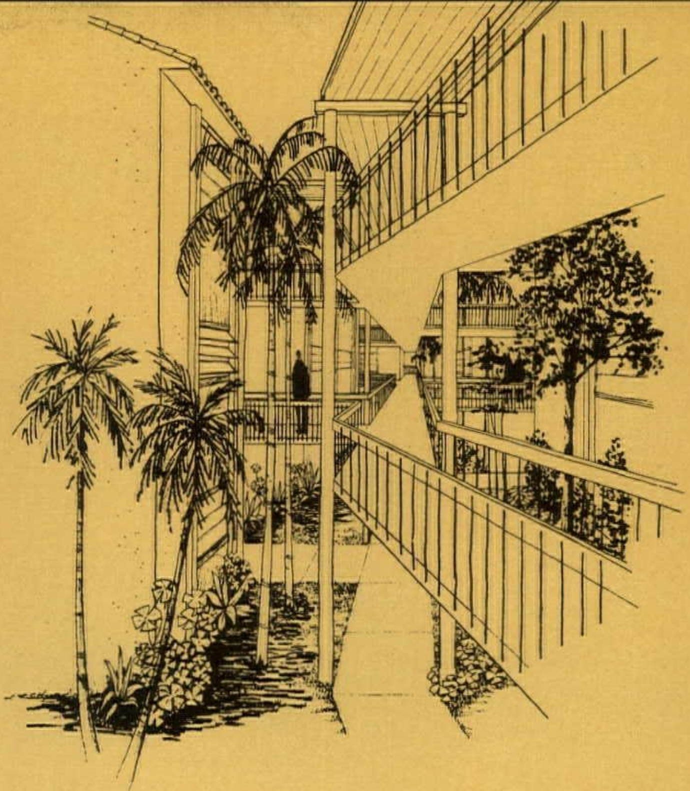
Total bill for the roughly 4 million yards of earth moved: $3 million.

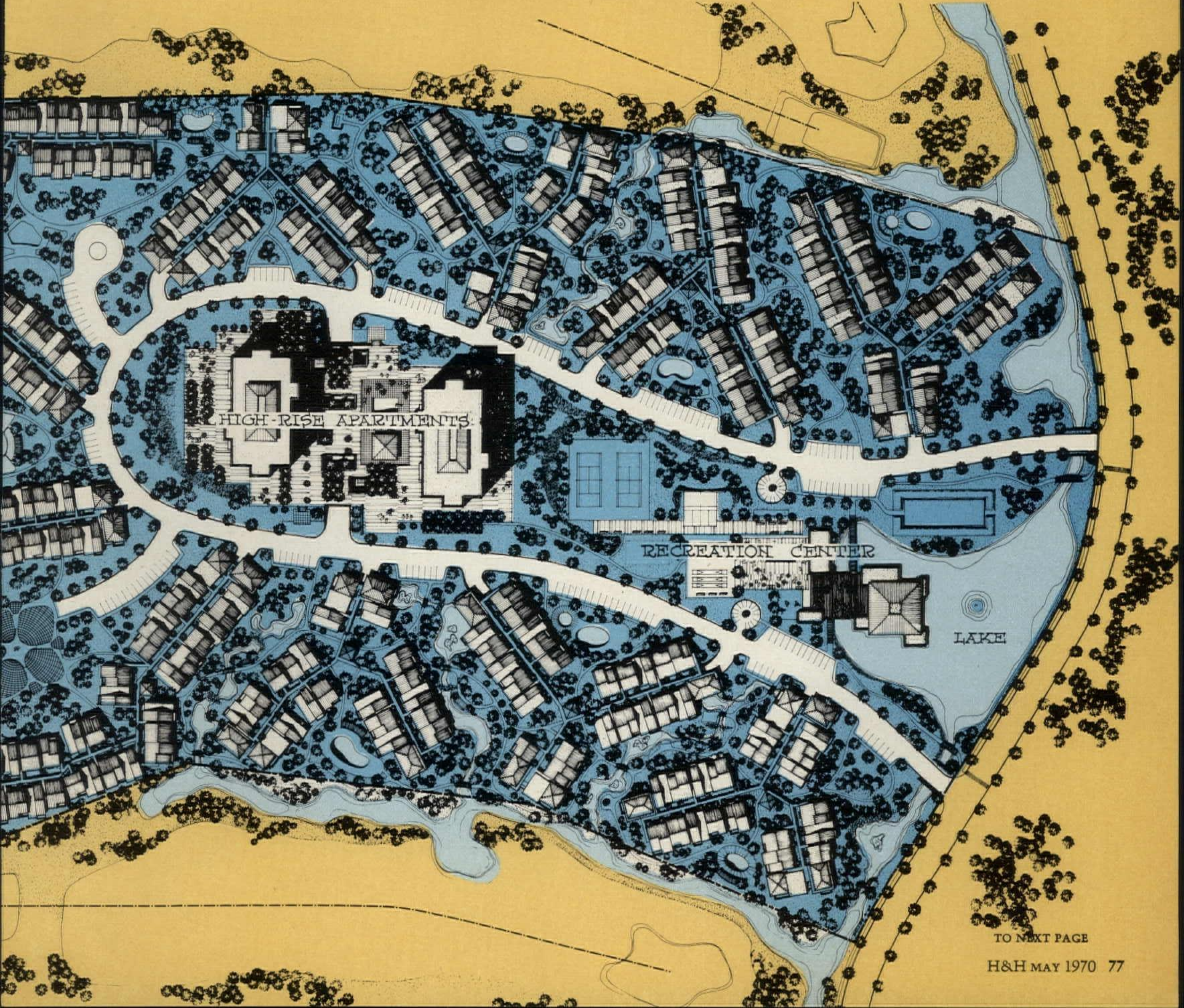
Details of the first apartments and townhouses, which will open in December, are on the next three pages.



First apartment group will include 900 units, ranging in size from one to three bedrooms and in price from about $30,000 to over $50,000. The buildings are pulled into tight clusters, and this, combined with the fact that 75% of parking is under the buildings, leaves a remarkable proportion of open areas, considering the density of almost 30 per acre. (The high rises, shown in the center of the plan below, are only proposed, and this density does not include them.)

The sketch at right shows an ingenious answer to the problem of single- vs. double-loaded corridors. Double loading would have kept the buildings more compact and offered better security. But single loading means no corridors to air-condition, plus cross-circulation of air in each apartment. Solution: build single-load buildings, but give them access via elevator-served catwalks between the buildings.





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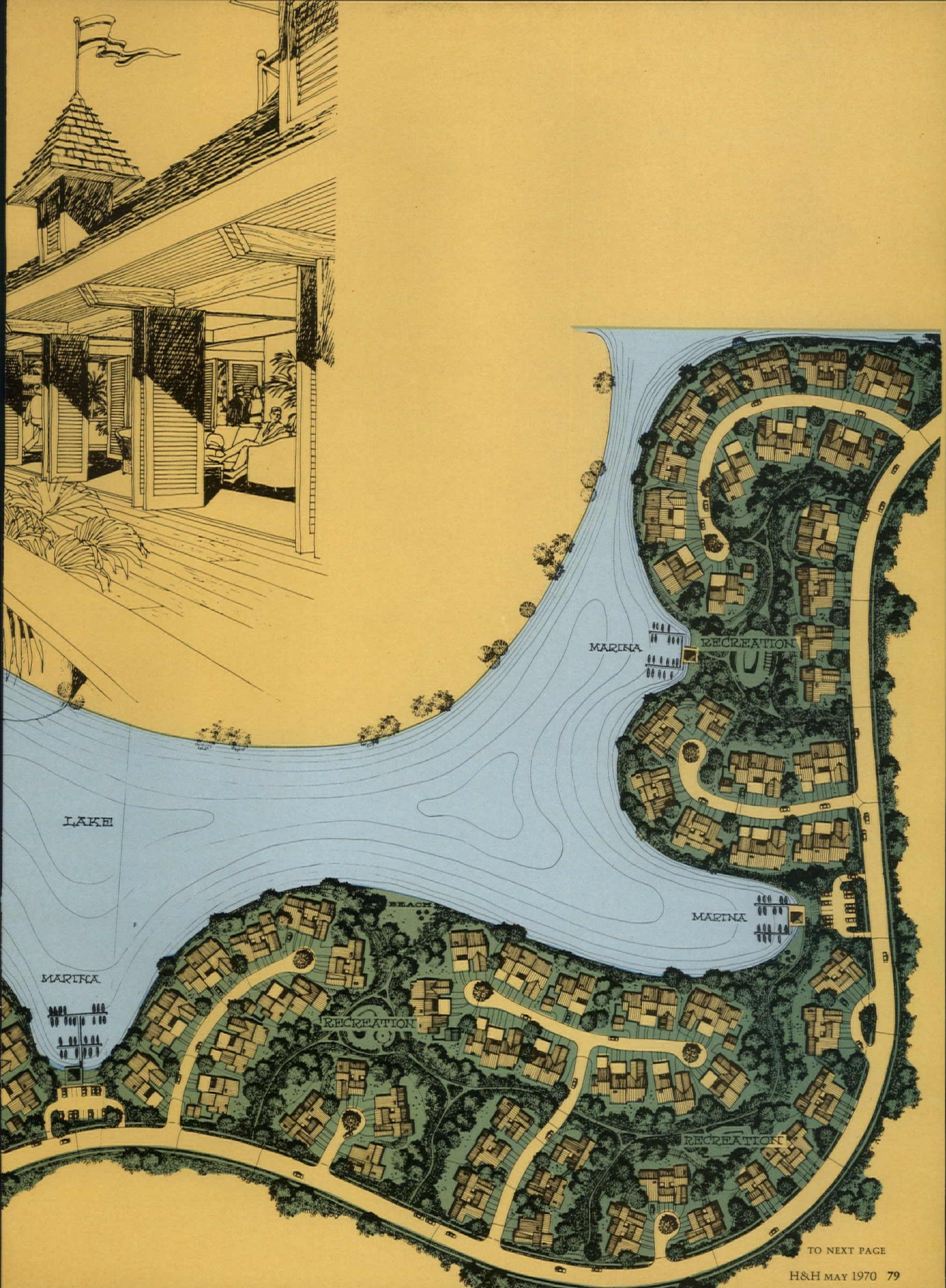
First townhouse group *(plan, right)* is the lowest-density area in the project: about six units per acre. It is built on the edge of a man-made lake configurated so that more than half the section's units are on the waterfront. The 233 townhouses, will include models with two, three, and four bedrooms, or three bedrooms and a den. All models have two-car garages. Living areas range from 1,300 sq. ft. to 2,000 sq. ft. and prices from about $40,000 to nearly $60,000.

The sketch above was made from a preliminary plan of the project. It shows the view from the marina *(in the center of the land plan at right)* towards a group of apartments across the lake.

Also due to open in December are a group of townhouses called Racquet Club cottages *(see overall land plan on the previous page)*. These will center on a 21-court tennis club, and the units will include two, three, and four bedrooms. The price range will be from $30,000 to about $50,000.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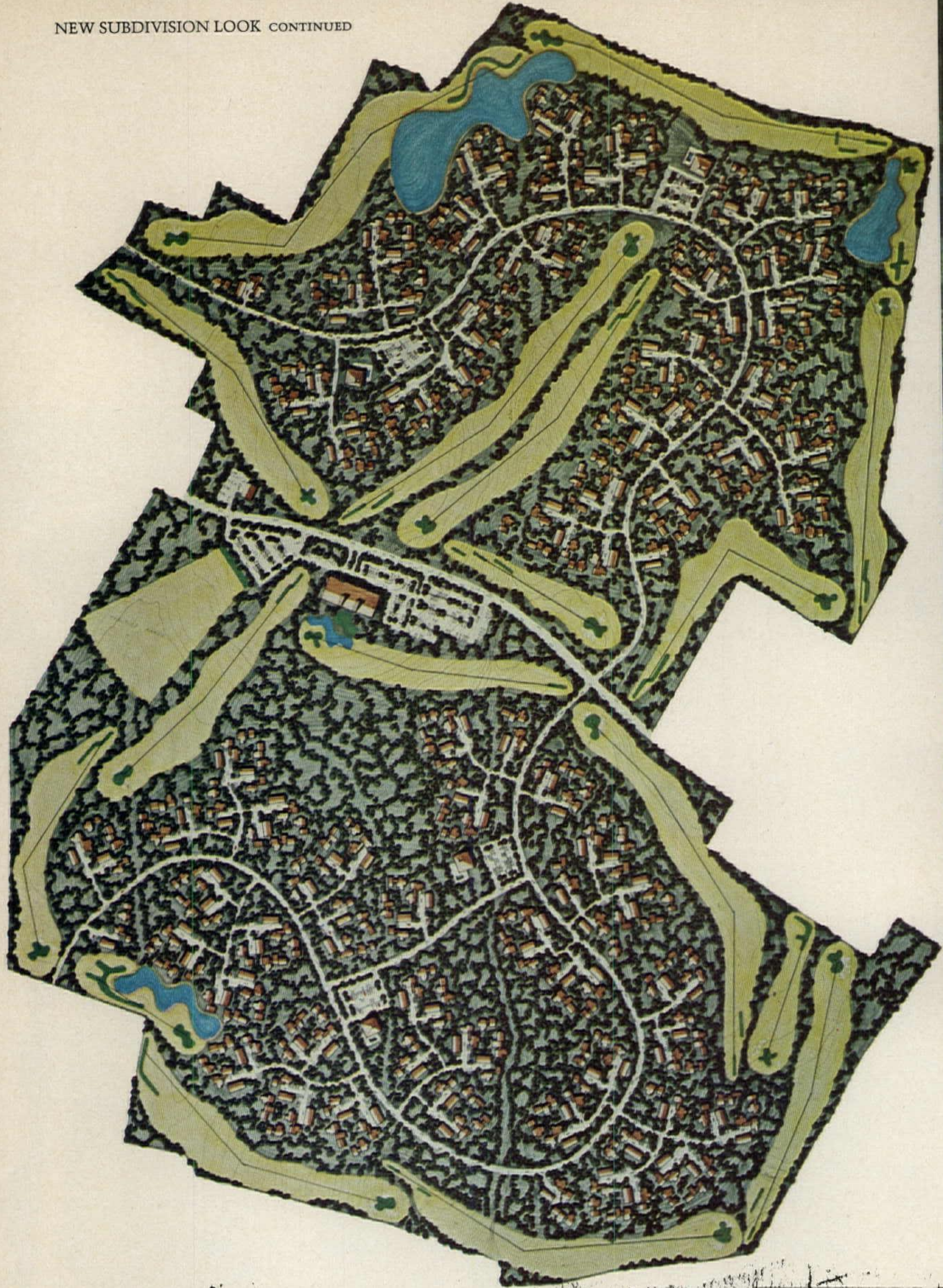
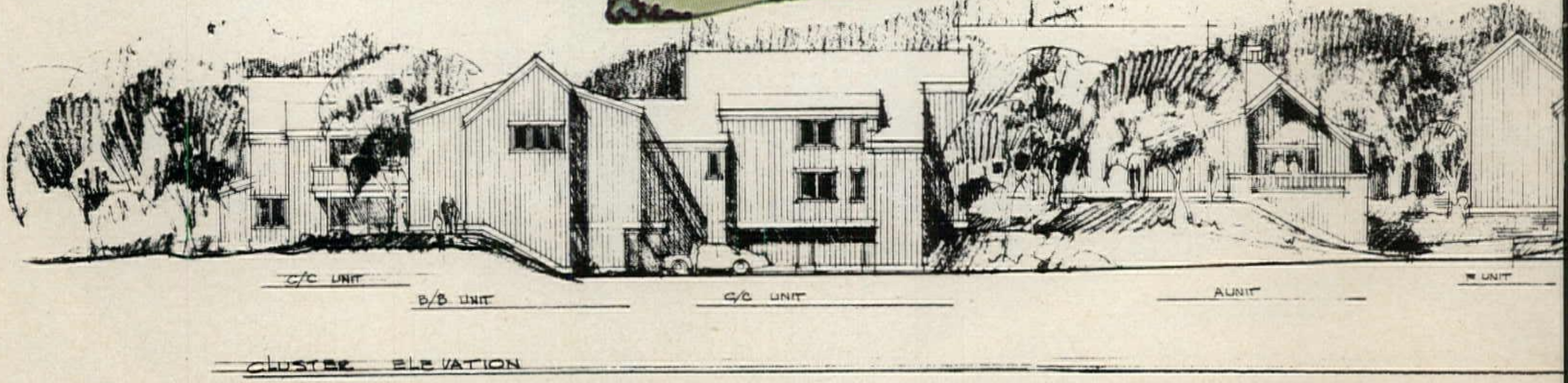
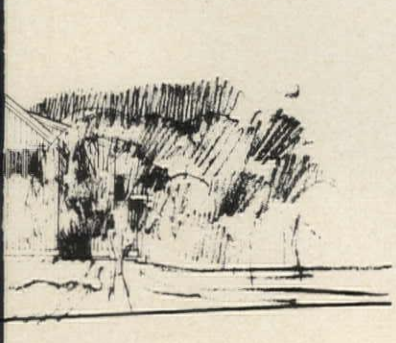


Scale model (*above*) includes two typ
cal fairway clusters. Land plan (*lef*
shows how roughly half of the pro
ect's acreage is taken up by go
course, ponds, and green areas. S
while average density is four per acr
actual density in built-up areas i
eight per acre. Sketch (*below*) show
elevations of a typical cluster. Houses
which will be priced in the 30s, wer
designed by Walz & McLeod.





For a low-density, adult community, small clusters of attached houses

Had the existing zoning regulations been followed, this 304-acre project would have been covered with about 250 high-priced, three- and four-bedroom houses. It would have offered little or no open area and no recreation facilities. And the town (Stratford, Conn.) would have been saddled with a service cost—most of it for education—that would have far outrun the project's revenue-producing ability.

But town officials passed a PUD ordinance. So when Orinoque Village opens, late this summer, it will include 1,218 attached single-family houses, a golf course which also serves as a buffer strip around the project, and four neighborhood recreation centers with pools. Half of the area—excluding the golf course—will be left in its natural state. And since no children under 17 may live there, the town will realize a net annual return of close to $1 million.

The PUD ordinance also gives the builder, Bargas Development Corp., an important degree of flexibility. Within certain limits (no more than four units per gross acre, buildings to cover no more than 10% of the land, houses to have only one bedroom), designs can be shifted to fit the land better and to meet changed market conditions during later stages of development.

"It's one of the great differences between this and a conventional subdivision," says Desmond Muirhead, the project's designer. "We're not held to a rigid plan. We can improve as we build."

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For a new town, a community of townhouses oriented to a system of waterways

The new town is Miami Lakes, a 3,000-acre project west of Miami. And the townhouses, built around and right up to a man-made lake, have proven to be the most spectacular—and the most popular—housing in this project.

Miami Lakes opened in 1962, and up until three years ago 90% of its housing was in conventional single-family homes.

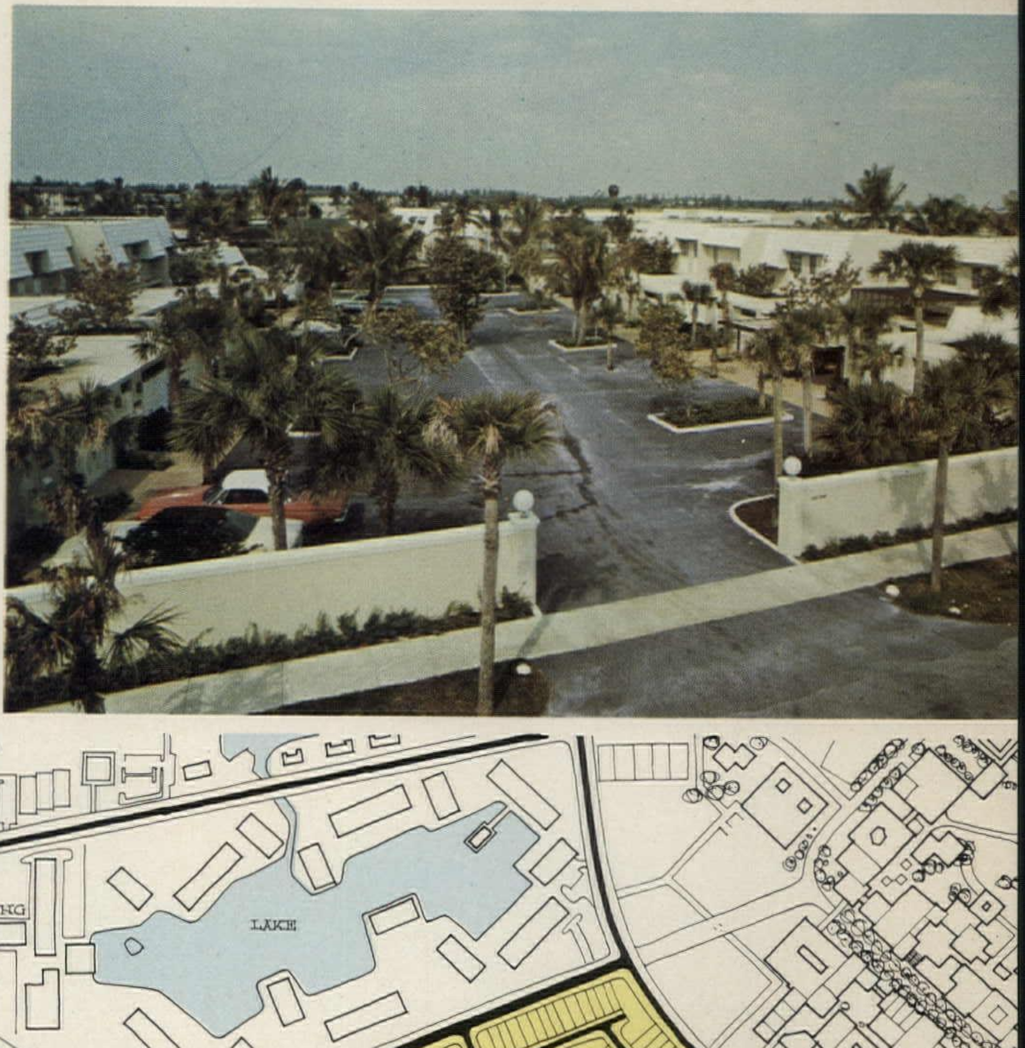
"But," says Floyd Luckey, president of Sengra Construction Co. which is developing Miami Lakes, "this was essentially a rural solution to an urban problem—the old idea of 'We want our own little piece of ground.' We were getting two units per acre and we needed much more."

So three years ago, the conventional program began to be turned off and the townhouse program turned on. Miami Lakes' last 300 conventional lots are now being sold, "And," says Luckey, "there won't be any more. From here on in, housing will be townhouses and apartments only. And densities will go even higher."

The density of this group—the first townhouses built in Miami Lakes—is seven per acre, and since about half the site is water, the net density is double that figure. But the view over the water, which most of the houses enjoy, mitigates any feeling of crowding. And the waterfront itself, as the photo above shows, resembles a European canal city.

Prices range from $33,000 to $50,000. By comparison, the few remaining conventional houses still for sale are priced from $33,000 to $65,000.

Narrow waterway *(above right)* gives the effect of a long canal, brings a feeling of unlimited space to the project. Rip-rap at edge of water is made of bagged concrete dropped in place and spiked down with reinforcing bars. Entrance and parking courts *(right)* are sited between each two rows of houses.



Land plan *(below)* shows two sections of waterway townhouses. The one pictured here is at left; the other is currently nder construction.

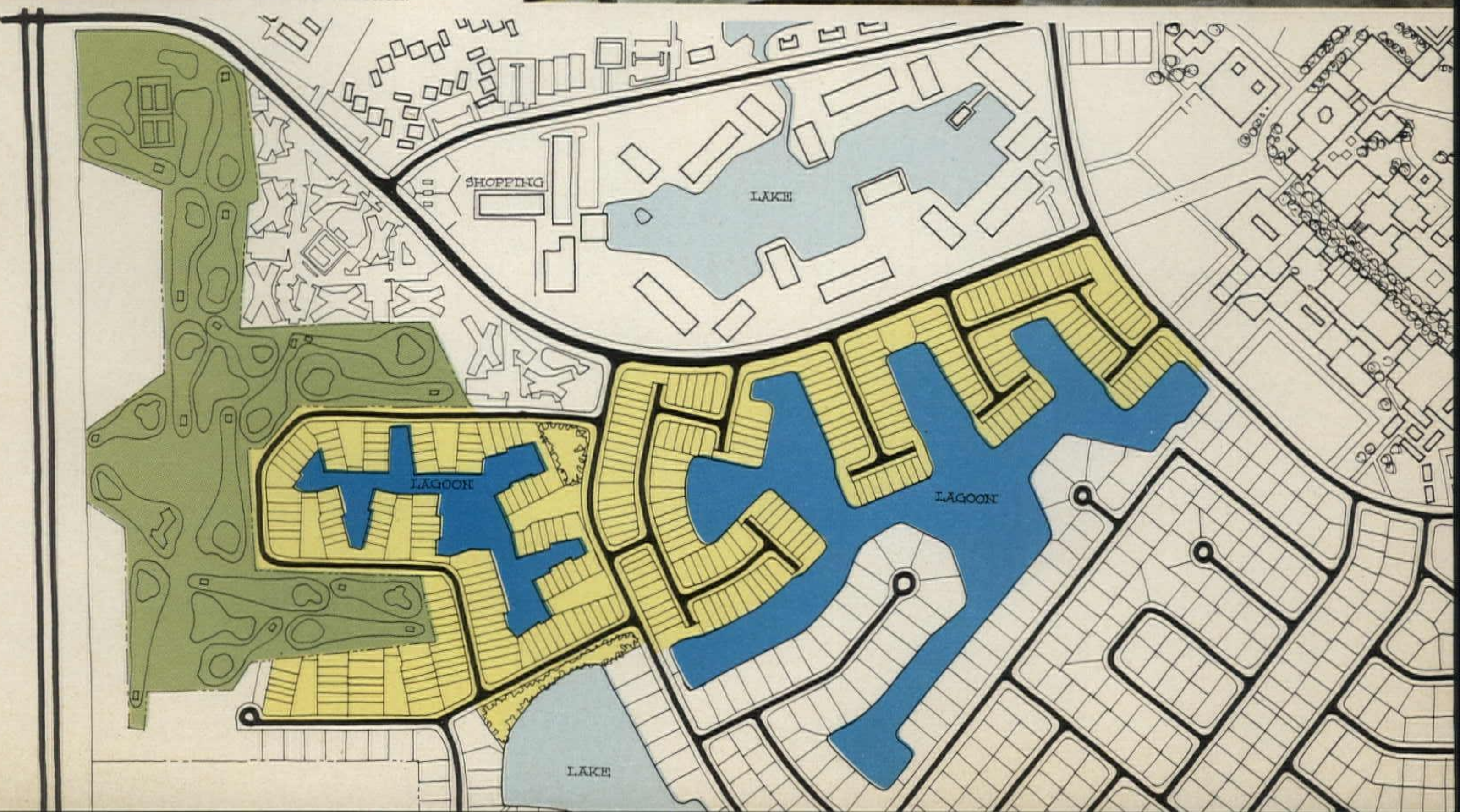


PHOTO: JULIUS SHULMAN

For an apartment community, low density in a rural setting

Until it began the park-like project pictured at left (and on the cover), W/O Company of Seattle had been involved only in conventional suburban and urban apartment complexes.

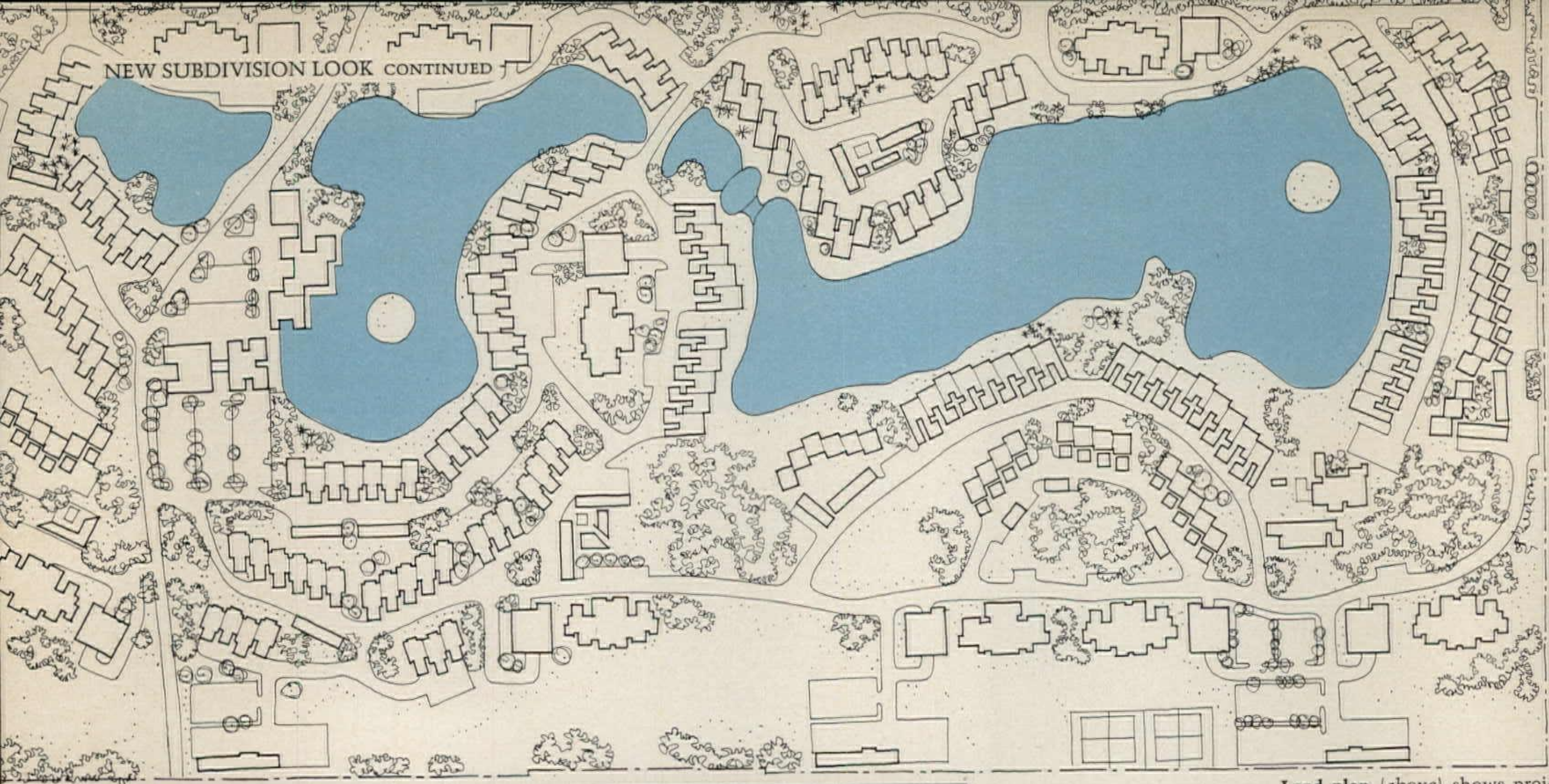
"But we'll never go the old way again," says J.W. Oldenburg, partner in W/O. "Now we're sure our future is in projects like Sixty-01."

Sixty-01 (it's named after the project's street number) is an unusual combination of elements. It is in single-family country (and is surrounded by three such projects), and it has townhouse density (10 units per acre) and townhouse-like units (*photo, left*). Yet it is an all-rental complex, which when finished (it's half done now) will have 770 apartments ranging in size from efficiencies to three-bedroom penthouses and in rents from $145 to $600.

Looking back, Oldenburg considers Sixty-01 a somewhat risky venture.

"We had to go further out than any other apartment complexes to get land at a price that would justify such low density," he says. "And on a square foot basis, we had to charge about 10% more than close-in projects. We didn't know if tenants would go for it."

They did. In a depressed market (Seattle rises and falls with Boeing, and Boeing is currently down), Sixty-01 is renting out almost as fast as units are completed. And W/O Company is now looking into the possibility of other similar projects as far away as Arizona, Texas, and Hawaii. TO NEXT PAGE



Land plan *(above)* shows project's three man-made lakes. Lined with plastic, they cover 15 acres. Half of the project is being developed at a time; the first 349 units are now completed, and work on the remaining 431 units is just starting.

PHOTO: JULIUS SHULMAN

Four-story building *(above and on cover)* has project's most expensive apartment: a three-bedroom unit on the top floor that rents for $600. Two aspects of Sixty-01's design are shown in the photos at left: the way the buildings follow the natural contours of the land *(top)*, and the compact handling of streets and rear carports *(bottom)*. Both the design and the land plan are by Riley/Bissell/Assoc.

Landscaped steps *(right)* and bridge typify the rural feeling that has been a key to the success of Sixty-01. Landscape architecture is by John Lantzius & Assoc.

THE ABCs OF GOING PUBLIC

Builders need credit and capital, Wall Street needs to invest in firms with potential. Thanks to this mutuality of interests, unprecedented numbers of building companies have either gone public or been acquired by publicly held companies. This article is a guide for others who contemplate the same path

If you're planning to go public within the next two years, you should start getting ready right now. Preparing for a stock offering, or for a merger with a publicly held company, often takes more than a year. And the thoroughness of the preparation has a direct bearing on the price your company will bring in the marketplace.

The first thing to do is ask yourself if you really want to go public.

"That may sound like a facile question," says Jack Ackerman of Bache & Co., the investment banker which handled the initial underwriting of Kaufman & Broad, "but it should be asked. There are a lot of pros and cons. Going public means being in business to grow and get big. The principal of a company should decide if he's willing to devote himself to that objective—to invest the effort required to achieve it. A lot of principals aren't. There are a lot of companies that should never have gone public."

The major advantages of going public are obvious: your company receives a healthy injection of working capital, and you, the principal, translate your success in creating a profitable company into a combination of cash and securities for your personal estate. Your company will continue to have access to equity financing, and if the price of your stock rises, your estate appreciates in value.

But there are disadvantages. As the principal of a public company, you'll be spending a considerable portion of your time dealing with investment bankers, security analysts, reporters from financial publications, and stockholders. Since you'll have less time to devote to running your company at a time when you're under pressure to sustain growth, you'll need more depth in management than you ever had before. You and your company will be exposed to public view as you never were when you were a private entrepreneur.

But let's assume that you decide the chance to obtain financial stability for your company and personal wealth for yourself dwarf the disadvantages.

The next basic decision is how you will go public. There are two ways:

1. You can go via an underwriting or an offering of stock, which enables you to obtain equity financing, retain control of your company, possibly get some cash for yourself (a bailout), and limit your tax liability to a capital gain on the stock you sell.

The cost of the first underwriting varies, but it's always expensive. For the average building company, the figure generally ranges from $80,000 to $100,000, excluding commissions.

There also is a recurring cost. You'll have to allocate funds for such things as an annual audit by a national accounting firm, a lawyer with experience in Securities & Exchange Commission work, publication of interim and annual reports, and financial public relations. The bills for these items can easily reach $100,000 a year, even for a medium-sized company.

2. You can go via a merger with a company which already is public. This method usually requires you to relinquish control of your company. But if you're acquired by a firm whose stock is listed on the American or New York Stock Exchange, you will get the benefit of an established market for the securities you receive. Because the company probably will be much larger than yours, it will have the resources to satisfy your requirements for working capital. And it may have management talent and services which you could not afford as an independent. A merger also will end your days of personal liability; the credit of the parent company should be substantial enough to obviate the need for your signature on notes and mortgages.

Before you can sell your company, you need the tools of negotiation

Whichever method you select for going public, there are a number of steps you must take if you want the maximum chance for success:

You'll need a certified audit

It's useless to talk to an investment banker or an acquisition-minded company without first having an audit performed by an accounting firm which has a national reputation. The figures you show for earnings and net worth will not be accepted unless they have been certified. Theoretically, a local firm can certify your statement as well as a national firm. But practically, only an audit by a national firm will carry sufficient weight.

Your audit should cover the last five years. SEC regulations require an audit of the three most recent years, but investment bankers will want to see figures for five. One thing they'll look for is evidence of consistency and growth. If you've alternated between red and black ink for several years and then had one unusually good year, you are not a good candidate for going public.

You probably do business through several different corporations and partnerships. Before you go public, you'll have to consolidate them.

"All of a company's activities have to be brought under one corporate shell, eliminating insider dealings and inter-company profits," says a partner in one of Wall Street's most prestigious investment banking firms.

A New Jersey builder preparing to go public was confronted with the task of consolidating nearly 70 different companies.

"It was a formidable task," he says, "but when we finished we had the first clear picture of our business."

The picture was even better than the one he envisioned before the audit, and as a result he was in a better bargaining position.

A good accounting firm can show you how to report the maximum profit. In fact, the difference between what you thought you earned and what you are entitled to report as net income is sometimes more than enough to offset the cost of an audit.

A builder in the South, planning to merge with a public company, was asked about his after-tax earnings the previous year. He pulled out his statement, prepared by a local accounting firm, and showed it to the company's president. Negotiations ended. The earnings were too low.

Six months later a national accounting firm completed an audit of the builder's company, reporting a net income after taxes that was almost double the figure reported previously for the same fiscal year.

The builder is now in the final stages of negotiating a merger with a company listed on the New York Stock Exchange. Not only did an audit make him an attractive candidate for merging, it also increased the price his company would bring, because in both an underwriting and a merger, the price is a multiple of after-tax earnings.

As the principal of a privately held building company, you've geared your accounting procedures to minimize the profits you report, thereby minimizing your tax bill. But when you're preparing to go public, you have to change your objective. You should report as high a net income as you can under generally accepted accounting procedures. Wall Street doesn't understand depreciation or pre-tax profits; it understands after-tax earnings only. This is perhaps the most difficult aspect of going public for builders to comprehend.

Since you can report your income one way for Wall Street and another way for the Internal Revenue Service, your tax bill may not change significantly. But even if your tax bill skyrockets, you'll still come out ahead by reporting the maximum profit possible. Adding $50,000 to your pre-tax profit may increase your tax payment by $25,000. But the public may value your company at 10 times earnings, and the extra $25,000 you move over to net income after taxes would consequently be worth $250,000.

One factor which enables builders to vary their reported net income is treatment of depreciation. A builder with substantial holdings of income property probably will be advised by his accountant to change from rapid to slow depreciation in order to increase his reported net.

You'll need a realistic five-year plan

An investment banker wants to know whether your company has the capability to grow. An audit will substantiate your company's ability to produce net income, but in one sense it's as useless as a prediction of yesterday's events.

"We want to see a well-reasoned five-year projection," says one investment banker.

Comments Bache's Ackerman: "When we evaluate a company as a candidate for an underwriting, we're looking for a quick listing on the American Stock Exchange or unusual growth aspects."

The projections should be realistic and detailed. They should, for example, include a five-year cash flow. An investment banker wants to know when you'll be coming back to him to raise more capital and what you'll do with the money he raises for you. A company acquiring your firm wants to know the total investment it will have to make to obtain your profits, and

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the total investment includes the working capital it must give you to sustain your growth.

It's difficult, of course, to predict the performance of your company five years down the road.

Says one builder who went through the process: "You have something on which to base your projection for next year. But when you project two years ahead, you're dealing with a bunch of intangibles. After the second year, your projections are almost entirely guesswork."

But Robert H. Winnerman, chairman of the board of U.S. Home & Development Corp., disagrees: "You start with a set of objectives, and then you figure out how you're going to achieve them. We want our divisions to grow at the rate of 20% a year compounded. Knowing that, the division heads can sit down and determine what they have to do and what they need to achieve that kind of growth. Any company we consider for acquisition is expected to do the same kind of thing."

"We don't consider the five-year plan inflexible," Winnerman continues, "but we do consider it necessary. It's a road map. It tells you where you're going and how you can get there."

There is a temptation among many builders to exaggerate their potential when making projections. It's a temptation you should resist.

"If we think a projection is unrealistic," says one investment banker, "we become skeptical about the quality of the management which prepared the projection. And quality of management is a critical factor in determining whether we want to take a company public."

The investment banker will retain the five-year projection and compare it with your performance. Profit projections which are unrealistically optimistic are tantamount, in that context, to guaranteed failure of management in the eyes of Wall Street.

You'll need a realistic profit projection to evaluate the proposed terms of an acquisition. Most acquisitions are made with a downpayment based on current earnings and subsequent payments based on future earnings. Unless you know what your earnings are likely to be over the next five years, you won't be able to estimate the total price you will receive.

As an example, suppose you earned $500,000 after taxes in 1969. Your five-year plan contemplates impressive growth; your after-tax earnings for the next five years will average $1.5 million. The company attempting to acquire you offers $5 million down and $10 million over the next five years, provided your earnings actually average $1.5 million.

It's not a bad deal—equal to 30 times current earnings—provided your projections can be realized. But if your five-year plan shows little growth, you would be better off with a much larger downpayment and a much smaller earnout.

One problem with exaggerating your growth potential is that it may weaken your bargaining position. The man on the other side of the negotiating table will take the position that you should prefer to rely on the earnout for most of the purchase price, because that method enables you to capture the major benefits of the tremendous growth you anticipate. When you don't agree, he wonders why he should have confidence in your projections, since you obviously don't.

To be safe, you should make several projections, incorporating a different set of assumptions into each one. One projection, for example, could assume an extended period of tight money and restricted quantities of working capital and mortgage commitments. Another might assume that all the money you'll be able to use will be available; that is, it shows what you could do under optimum conditions.

Support the projections with specifics. An apartment builder who has built for his own account can prepare a schedule for selling off his inventory of units over the five years. A single-family builder can show how he will convert the land he is holding first into subdivisions and then into house sales.

You'll need a brochure about your company

This is nothing more than a sales tool. You wouldn't try to sell houses without a brochure, and you shouldn't try to sell your company—to the public or to another company—without one either.

The brochure should describe your company as it is today. It should discuss such things as product lines, method of operation, management structure, major assets, and financing.

The brochure should give your company's history. Suppose, for example, you have increased your profits annually for several consecutive years. Investment bankers will be very interested in this fact, and you should explain in the corporate brochure how you've done it and what you've done to establish a base for future growth. You can't emphasize the strength of your key personnel too much. Builders have a reputation for running one-man companies, and anything you can do to overcome that stereotype will count in your favor.

"We just wouldn't want to bring public a company that is completely dependent upon the genius of one man," says an investment banker. "We want to know that he is developing men who can replace him, and when we look at those men we prefer to see youth."

The brochure should describe your market and its future. You have a slight disadvantage by not operating nationwide. Relying on one city or one region increases the risk of someone who invests in your company. You should demonstrate that your local market will support the growth you anticipate. Building in more than one city gives you a cushion; you're less vulnerable to the peaks and valleys of consumer demand in a single market, and are thus a safer investment for the public or a better buy for an acquisition-minded company.

Similarly, if you're diversified the brochure should discuss the different types of building you do. A builder putting up both apartments and houses is regarded by Wall Street as a better bet than is a builder who is involved only with one kind of housing.

The brochure should discuss both your book value and market value net worth. Your financial statement will show book value only, and for many builders there is a substantial difference between book and market value. In discussing market value, talk in terms of future earnings.

Suppose you purchased land five years ago for \$100,000 and today it's worth \$500,000. Your statement will show only the \$100,000 value. The other \$400,000 will show up in profits only after you develop or sell the land.

U.S. Home & Development Corp. has been trying for several years to educate Wall Street to the advantage of its large land inventory. The company was said by some security analysts to have a relatively low book value net worth. But U.S. Home chairman Robert Winnerman pointed to land carried on the company's books at approximately \$2.5 million, contending it had a market value in excess of \$20 million.

"Any time our profits fall below our projections," Winnerman told the analysts, "we could, if we had to, reach into our inventory and sell some of that land."

Because Wall Street is as unsophisticated about the building business as most builders are about Wall Street, the kind of argument Winnerman makes is necessary.

And finally, the brochure should use language Wall Street understands. Don't talk about depreciation or cash flow or pre-tax profits, because an investment banker and an acquisition specialist aren't interested in those things. They are interested in after-tax earnings, return on sales, return on investment, equity turnover, debt-to-equity ratio, and working capital.

You'll need the right attorney

And the right attorney is one who is familiar with the regulations and procedures of the Securities & Exchange Commission. Your present attorney is undoubtedly doing a fine job for you. But unless he has experience with the problems which are peculiar to public companies, he's not the man to help you with an underwriting or a merger.

If you're going for an underwriting, be sure your lawyer has handled a registration statement before. If you're being acquired, be sure he's at least as knowledgeable about acquisitions as the lawyer representing the company acquiring you. The tax aspects of an acquisition are complicated and critical; both your accountant and your lawyer should have expertise and experience in this area.

Decide precisely what your lawyer will do—and not do. This is especially important when you've decided you want to be acquired. The best SEC lawyer may be the worst negotiator. Some acquisition specialists (none of them lawyers) go so far as to say that lawyers don't make deals—they break them.

The best procedure probably is to handle the negotiations yourself, using your lawyer and accountant as advisers. It's possible to get the basic terms of an acquisition on one typewritten page. The lawyer will convert them into a definitive agreement, a contract that runs about 60 pages.

There are many legal firms specializing in SEC work. An investment banker can make recommendations. Once you make your selection, be sure that the particular lawyer handling your underwriting or merger has sufficient experience. Large legal firms have many lawyers, and some are better than others.

One company preparing for an underwriting retained a reputable law firm to handle the legal aspects. But the young lawyer assigned to run the project had never prepared a registration statement. Delays and mistakes, attributable in part to the inexperience of the lawyer, resulted in a cost overrun estimated at \$80,000.

Now you're armed with competent counsel, a nationally known accounting firm, a certified financial statement, and a corporate brochure. What's the next step?

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After you've made your preparations, you're ready to enter negotiations

If your net income is $1 million or more, you can approach a prominent Wall Street house directly. Your lawyer or commercial banker may be able to provide an introduction. While the investment banker is evaluating your potential, you should be examining the quality and kinds of services he can provide you. Different investment bankers have different strengths.

If your net income is less than $1 million, start with a local stock broker or your commercial banker. Tell him what you want to do, and let him steer you to a capable investment banker who would be willing to take you public. The local broker or banker can also serve as a financial adviser when you begin negotiating with the investment banker.

If you want to be acquired, ask your accountant to find a suitable company. A national accounting firm may have clients who are seeking acquisitions in the building field. Alternatively, you can turn to your local stock broker, to your commercial banker, or to a company which specializes in corporate marriages. In fact, you can use all of these sources simultaneously.

When someone steers you to a marriage partner, he may be entitled to a finder's fee when the deal is consummated. The amount is negotiable and depends to a large extent on the amount of work involved. One typical formula gives the finder 5% of the first $1 million of the purchase price, 4% of the second $1 million, 3% of the third $1 million, and so on. The formula to be used should be negotiated before the finder begins his search.

Finders aren't always necessary. It's not unusual for a company to approach a builder directly with an offer to acquire his company. Neither would it be considered unusual for you to present yourself as an acquisition candidate, although it is better to have a third party act as an intermediary.

Try to estimate a fair price

Placing a price on a company is, at best, an unscientific process. But you should try to estimate the fair value of your firm because inevitably you'll be asked how much you think your company is worth.

An investment banker trying to evaluate your company examines the price-earnings ratio of comparable companies, analyzes general stock market conditions, and decides what your company will be worth in the eyes of the investing public. You should go through the same procedure before approaching either an investment banker or a potential merger partner.

You should know that an initial underwriting involves only a portion of your total stock. A company earning $1 million after taxes may be valued by an investment banker at 15 times earnings, or $15 million. But only a third of the stock may be offered to the public on the initial underwriting. That means you'll be raising $5 million, less commissions and fees. Theoretically, the remaining stock is worth $10 million. Whether or not it actually is depends on the performance of the stock after the issue is sold out. The hope is that it will be worth substantially more.

Of the $5 million, you'll be able to take only 20% to 25% for yourself. The rest will be designated for working capital. Often you will not be able to bail out any of your stock on the first issue. The investment banker prefers that you wait until a secondary issue. The argument is that the greater the bailout, the greater the risk of losing investor confidence.

The first step in pricing your company for an acquisition is to determine the price-earnings ratio of the acquiring company. Almost invariably, the company will pay you a multiple of earnings below its own multiple. A higher multiple would result in dilution of earnings. Take a company whose stock is selling at $40 per share and earning $2 per share. Its multiple, or price-earnings ratio, is 20. If that company pays you less than 20 times your earnings, its earnings per share will increase by virtue of the acquisition.

Assume that you earned $1 million in the year the company acquired you, and you received $15 million in stock (375,000 shares). The company had one million shares outstanding and $2 million in net income before the acquisition. Now it has $3 million in net income and 1,375,000 shares outstanding. Its earnings per share rise from $2 to $2.18. If it maintains its multiple of 20, the price of the stock rises from $40 to $43.60.

If your company had received $21 million from the same company, its earnings per share would have dropped (dilution). Assuming the multiple remained constant the price of the stock would decline—an event calculated to make no stockholder happy.

Some companies may be willing to suffer dilution to gain entry into the homebuilding industry, but don't count on finding one.

There usually is only one way to exceed the multiple of the acquiring company: base the price on future earnings. You could take 10 times your current earnings as a downpayment against the total price. You would keep the downpayment, regardless of the performance of your company during the next few years. But the total price might be 10 times the average of your after-tax earnings for the next five years. Should your earnings increase at an annual rate of, say, 15% or more during that five-year period, the total price would turn out to be far in excess of 20 times your current earnings and the acquiring company would suffer no dilution.

Another formula would pay you 10 times your current earnings and 10 times the amount by which you increase your earnings over the next five years. This formula also avoids dilution while giving you a price that may be greater than 20 times your current earnings.

There are as many formulas as there are companies, but you'll find there is not much basic difference between them.

Analyze the offers you get

Estimate the total price you'll receive in dollars and shares. Take the formula given to you by the acquiring company and apply it to the figures in your five-year projection. Then you'll have an idea of the total price you'll be getting. It's important to know the price of the stock to be used in calculating each payment. If the market price at the time of each payment is used and the stock turns into a flyer, you'll be getting proportionately fewer shares. Your dollar value will be constant, but you'll lose the appreciation in value of the stock.

Is there a floor on the price of the stock you receive? You may be getting $15 million worth of stock, but in two years that stock may be worth $30 million—or $30. You can protect yourself by getting a floor on the price of the stock you receive as a downpayment: the company gives you $15 million worth of stock at $40 per share and promises that it will be worth $40 per share at the end of two years. If the stock is selling for less at that time, the company will give you an additional quantity of shares to restore your $15 million value. A two-year guarantee is reasonable, although the floor probably will be 10% or so below the current price. To get the floor, you may have to agree to a ceiling, giving the company the benefit of a rise in value over a predetermined price.

Is there a ceiling on the number of shares you can receive? One company offers a generous earnout formula, but it also imposes a limit on the number of shares it will pay. The formula may entitle you to 750,000 shares if you meet your projections, but the ceiling may limit you to 500,000 shares.

Is your tax liability limited? The most popular method of acquiring a company is by a pooling of interest through a tax-free exchange of stock. Oversimplified, a pooling occurs when two merging companies exchange stock and combine their earnings, presenting themselves to the public as though they had always been one company. It's possible to structure such a deal improperly, making the principal of the acquired company liable immediately for a tax on all the stock he receives. Since there is no cash payment involved in the deal, the principal has to reach into his pocket to pay the tax. This is one area where the lawyer and accountant can earn their fees.

Are there limitations on your future earnings? You should have assurances that the parent company will not be able to restrict your ability to generate net income. If you have an inventory of apartments, there should be an agreement regulating their sale. You want to sell them when the market is right; the acquiring company wants assurance that you will replace the units as they are sold, so that you can't liquidate and leave at the end of the fifth year.

Are there provisions for working capital? Is the parent company required to provide specific amounts of working capital? What will it charge you for the money provided?

Will you have to make payments to the parent company? You'll probably be required to contribute to the overhead of the home office, although that is sometimes subject to negotiation. You should determine whether the payments will be deducted from your earnings when the earnout payments are calculated.

Are there provisions for a bailout? You may want the parent company to make a private placement of part of the stock you receive as a downpayment. The private placement can be made to occur simultaneously with the closing of the acquisition, and it can be a condition of the closing. Selling stock through a private placement today requires a hefty discount. Who absorbs the discount is a matter for negotiations. You may also be able to obtain piggyback rights; when the parent company goes for an underwriting, you have the right to register some of your stock as part of the offering. Most or all of the cost of the underwriting is paid by the parent company. Another possibility is an independent registration of your stock at the expense of the parent company.

There are other factors to consider, and most of them should be considered by an expert—your accountant, lawyer, or financial adviser. A year can elapse between the day you decide to go public and the day you actually become a public company. The success you meet depends to a large extent on the preparations you make before that day arrives. —David Thaler

Will modular units find a place in the non-residential market?

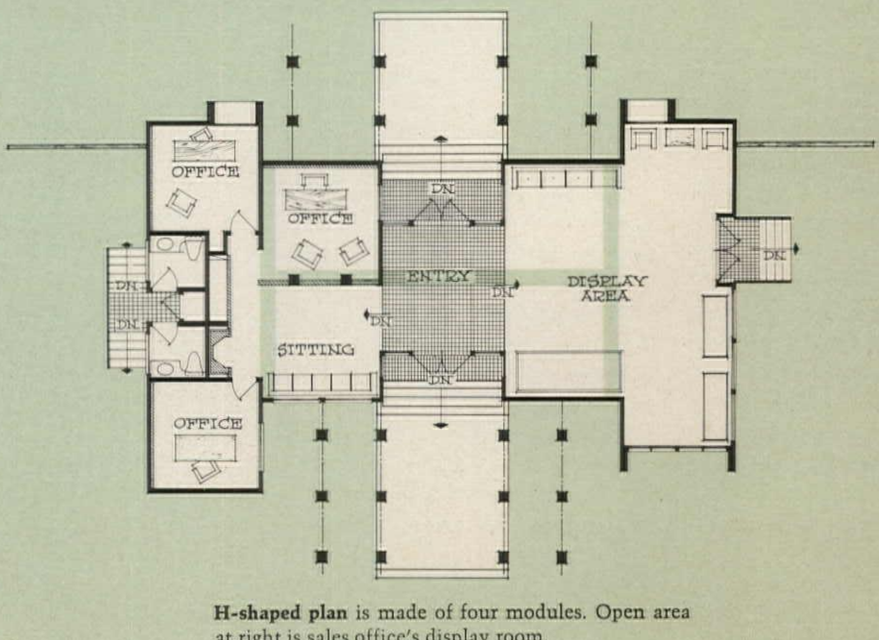
They may indeed, according to Barry A. Berkus, whose Environmental Systems Industries of Los Angeles designed and built the buildings shown here and on the next two pages. Thanks to the mobility and flexibility of the modules, says Berkus, they can work well for such widely diversified applications as schools, shopping centers, day-care centers, and marinas, in addition to office buildings and sales centers as shown in this article. And to stretch the non-residential label a little, dormitories and motels are quite feasible.

The module shells are the same ones Berkus is using to build lower-cost houses (they'll be shown in an upcoming issue). But instead of conventional room partitioning, the inner space of the modules is left open, and the user partitions it off according to his needs.

Instant mobility is the main advantage Berkus sees for the modulars. They move on wheels (for about 50¢ a mile) and need no crane for mounting or demounting. Result: buildings can be used over and over in different locations. And land can be used temporarily, then easily freed as its value appreciates and a new use is called for.

A movable sales office for a big subdivision builder

Like most builders of single-family houses, Levitt & Sons has traditionally used a model home for a sales office, remodeling and selling it when the job is complete. But in the firm's recently opened project in Santa Ana, Calif., there is an honest to goodness sales office (*photos on facing page*) made up of four modular sections joined as shown in the drawing at right. The initial cost is about the same as a model office would have been—$21,000—but instead of having to be remodeled, the 1,700-sq.-ft. modular office can either be picked up and moved to another tract or changed, with a minimum amount of remodeling, into a recreation center.



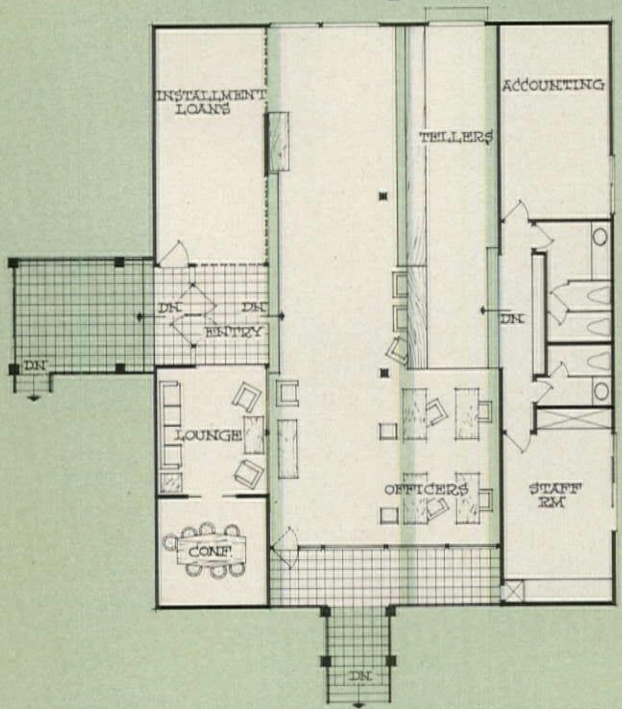
H-shaped plan is made of four modules. Open area at right is sales office's display room.

PHOTOS: JULIUS SHULMAN

Heavy trellises increase the apparent size of Levitt & Son's sales office and help mask the boxiness of the modules. Buildings are made with shear panels and box beams to allow for large expanses of glass wall—unusual in a modular.

Interior spaciousness made possible by the open modules is shown in the two photos below. Picture at left is the display area as seen from the entry, picture at right shows the model displays. End modules are set at different levels. Entry floor is quarry tile, rest of building is carpeted.

A temporary headquarters for a new suburban bank



Rectangular plan of bank is made of four modules. Center units are shorter to leave room for deck.

Mission Bank in El Toro, Calif., will need its temporary headquarters for two years until a permanent building is completed. So the bank has leased a piece of land and ordered the four-module building shown here. When the lease is up, the building will be dropped onto wheels and rolled to a new site where it will serve as a branch bank. (As the plan at left shows, the banking equipment, such as tellers' counters, is already in place.)

Cost was a factor in the selection of modules for this building, and so was the speed with which it could be erected. Its 2,735 sq. ft. of floor area cost $38,000, a figure that includes decks and air conditioning. And the office was open and doing business two weeks after it was delivered.

Landscaping and low fences *(below)* give building feeling of belonging on its temporary site.

PHOTOS: JULIUS SHULMAN

Front view shows how four modules—two with shed roofs and two with flat roofs—are combined to produce an interesting facade. Center modules are set lower than side units to produce the interior effect shown in photos below.

Interior views (*photos below*) show the breakup of space effected by having modules at different levels. Although building is now an office, built-in furniture for its future as a branch bank is already installed.

How to survive and grow despite the credit crunch

It is the mark of the successful homebuilder that adversity only toughens him. The boom-and-bust housing cycles of the past two decades have taught him that he must stay flexible—in his product, in his marketing, and in his organization. He has learned that homebuilding skills can also be profitable in non-residential activities . . . sometimes more profitable. On the following pages, case histories tell how eight different builders are meeting the problems of tight money, shrinking markets, and rising costs. Some are large volume builders, others are small. They're scattered from coast to coast, in large cities and small. The lesson to be learned from them is that some businessmen prosper even in the worst of times, and the differences between winners and losers are imagination, planning, and an instinct for opportunity.

■ Builder Robert Schmertz is about to apply his successful retirement-market formula to new geographical areas and a new breed of buyer.

The formula – giving older buyers all the elements of good retirement living without moving them far away from family and old friends—has worked well at Leisure Village, Lakewood, N.J., where Schmertz has sold more than 2,000 condominium units since 1963. The average price of the attached, one-story houses is $28,000, and most owners are in the upper-middle-income bracket. Village facilities include two big community centers—one with a 1,300-seat auditorium – hobby shops, and meeting rooms.

In this market, Schmertz hardly feels the current mortgage-money pinch. His buyers are so well heeled that more than 90% of his sales are for cash. And the few mortgages are for nominal amounts easily procured from local banks. As a result, his need for construction financing is minimal, and his only major front-money outlay is for land, land improvements, and community facilities.

The formula worked so well that Schmertz is using it again.

To further exploit the giant New York area market, his firm, Leisure Technology, Inc., will be opening another upper-middle-income Leisure Village, this one at Brookhaven, Long Island, on a 700-acre site.

"We're sure the Leisure Village concept is transferable," says Schmertz. "Our primary market is the retired person or couple who doesn't want to move thousands of miles from family and friends, but who does want to create a life of his own with a large measure of privacy and freedom from maintenance responsibilities. There are thousands of people in every major metropolitan area who feel this way."

Leisure Technology is also planning to try a variation of its formula in a lower-priced community. This spring, the company will open its first retirement community aimed at the moderate-income retiree market. Leisure Towne will be a 1,400-acre project in the Philadelphia-Camden area, and it will offer detached, single-family houses at $13,000 to $28,000. They will not, however, be condominiums. Says Schmertz:

"We're sure there is a huge market at this income level (blue-collar and clerical job retirees) that understands and prefers fee simple single-family ownership over co-ops or condominiums. Some of our competitors have been selling this market while we concentrated on the higher income retiree. We feel confident that we can offer buyers in the lower price class the kind of retirement living and the amenities that others have not yet offered."

Morton Salkind, marketing vice president, explains the importance of the wide range of facilities and activities LTC offers.

"We long ago discovered that we were not selling housing, but rather community and activities. It is important that our facilities be built before the first family moves in."

Mergers with established builders are opening even more markets for LTC. Having gone public in 1969 with the sale of 400,000 shares of stock (American Stock Exchange), LTC has embarked on an aggressive, continuing acquisition policy that should give it toe-holds in other strong markets:

In Florida, LTC merged with Tiffany Homes (George, Joel, and Irwin Karpay), one of the nation's largest odd-lot builders (H&H, June '65). Through this organization, LTC will now begin to invade the major league of retirement housing, Florida's Gulf Coast.

In Chicago, LTC acquired Richard J. Brown & Assoc. Brown has begun a 550-unit condominum apartment for retired families as his first new joint venture.

In the Pocono mountains, LTC bought Leisure Equities, Inc., a Philadelphia company (owned by Fred Frankel) that has more than 7,000 acres in this favorite vacation spot for Pennsylvania, New Jersey, and New York families.

Temporarily, LTC prefers the merger route into new markets to using its own management. Schmertz explains why:

"For one thing, it's faster. Two new developments would strain any growing company. But with mergers, we buy good management. We give each operation a wide degree of autonomy, and the parent corporation stays out of day-to-day management. We are developing our own people too, but for immediate growth the mergers are best.

"Internally, we are using our new-project department and our cost estimating section as training grounds for future project managers. After a man has gone through the problems of setting up a new development, estimating costs and proving out those estimates, he can handle just about anything that comes up in a retirement community."

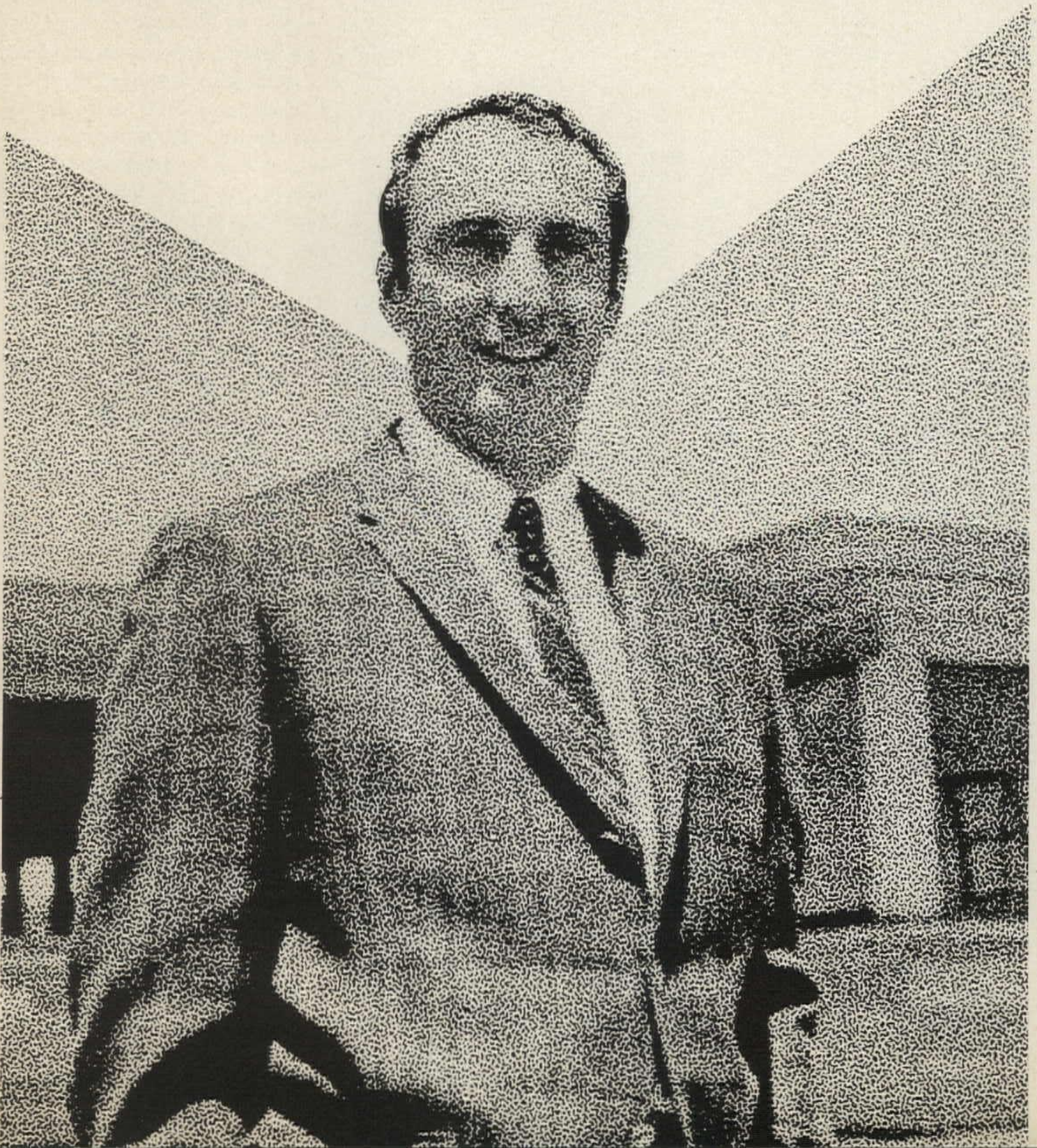
A total profile of their buyers is the base for LTC's sales effort. The profile includes much non-statistical information on how buyers live and what they like and dislike. Using this profile, Marketing Vice President Morton Salkind is introducing three new sales ideas to continue Leisure Village's present happy state of having sales three months ahead of production.

1. Selective use of radio advertising. The profile accurately pinpointed one radio program that an overwhelming number of their older buyers listened to. Daily spot announcements on this program have delivered a large number of clearly identifiable customers. Other programs will be bought only if they prove the same audience loyalty.

2. Off-site selling. Until now, all Leisure Village selling was done at the Lakewood model complex. But Salkind has just completed a $25,000 color film of life and activities in the community, and his sales force will take this film to meetings of interested groups (Kiwanis, Rotary, etc.) in the marketing area. The theme that runs through the 15-minute film is "close enough to your family to enjoy them, but far enough away to have a life of your own."

3. Stressing security. Although Leisure Village has always been a controlled community with a single, gatehouse-guarded entrance, the sales pitch was slanted towards privacy and status. But Salkind found that buyers were identifying this feature as personal and property security, probably because of the unrest and violence in the cities. So future sales presentations will put greater emphasis on the security measures.

A retirement-housing specialist gets set to broaden his market



A diversified builder even makes money on a big hole in the ground

■ Probably no builder interviewed by HOUSE & HOME for this (or any other) article has diversified more than Andes & Roberts of Kansas City, Mo.

Partners Wilmer Andes and Paul Roberts even own a limestone cave (the picture shows them at one of its entrances), where they not only quarry rock for use in concrete aggregate but also rent space to commercial and industrial tenants.

It's their diversification, the partners note, that lets them ride out homebuilding's periodic money droughts.

Last year they took in $2 million on sales of 102 houses—a respectable total by most standards but less than 17% of the company's $12 million volume.

This year they figure on another $2 million from house sales. And once more the bulk of their business will stem from other activities in other markets. Some examples:

Mobile homes. In a joint venture, Andes & Roberts is developing 300 acres for a mobile home park north of Kansas City. Density will be eight units per acre.

Apartments. Temporarily stopped by a lack of permanent mortgages, the partners are, nevertheless, completing plans and specifications for two apartment projects (658 units) so "we can get a running start" when money is forthcoming.

Urban renewal. On a bypassed, 80-acre site near downtown Kansas City, the company has been selected as a developer of low-income housing and commercial facilities. The housing will include two high-rise towers for the elderly and townhouses for families with children.

Total communities. Andes & Roberts is completing all the land development, including a dam for a 314-acre lake, at a 2,000-acre recreational community southeast of Kansas City. The project will have high- and low-density housing, resort facilities, and a shopping center. Says Roberts:

"A few years back we bid in a dam job just so we could learn how to build our own dam when we were ready."

Old hands at large-scale land development, the partners own 243 pieces of rolling equipment, including some of the largest earthmovers made.

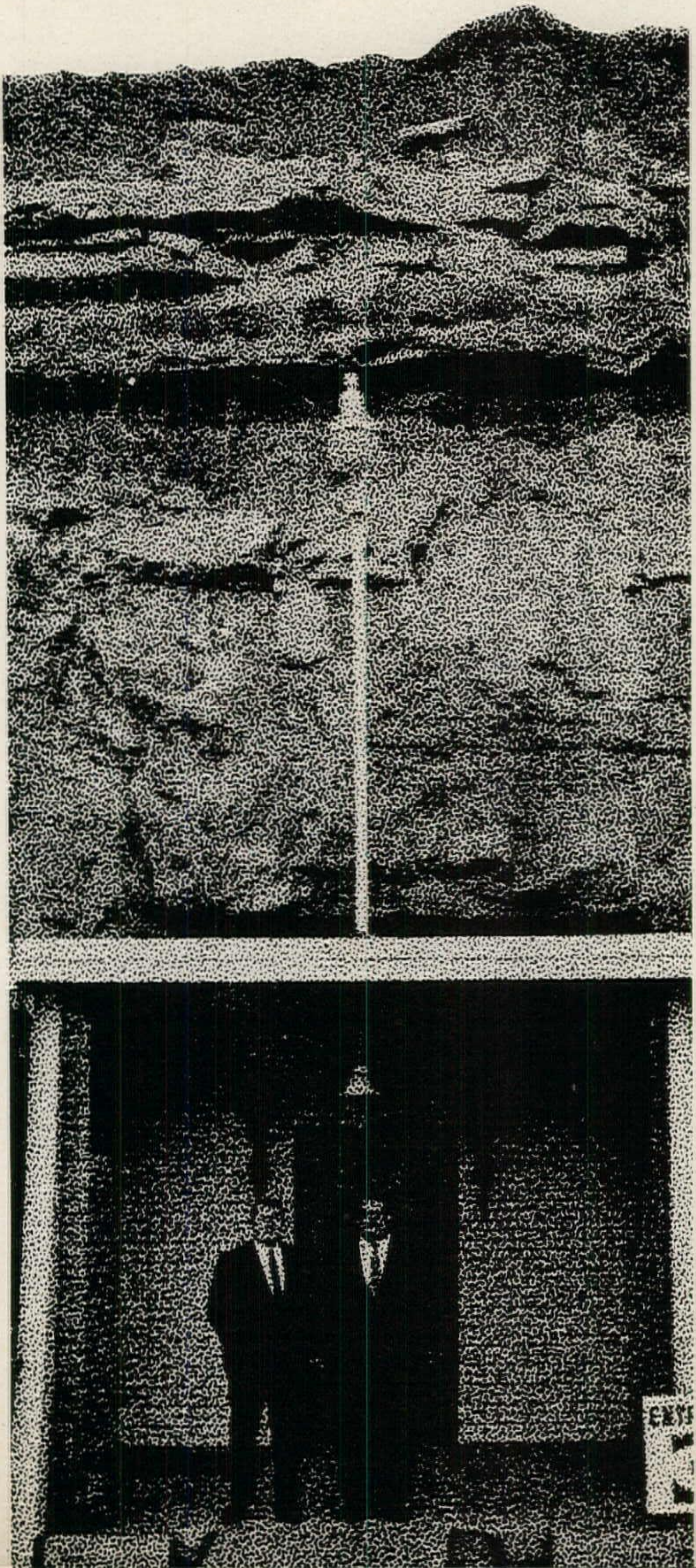
Public housing. The company is building a 250-family, $3,-360,000 Turnkey project for the Independence, Mo., housing authority.

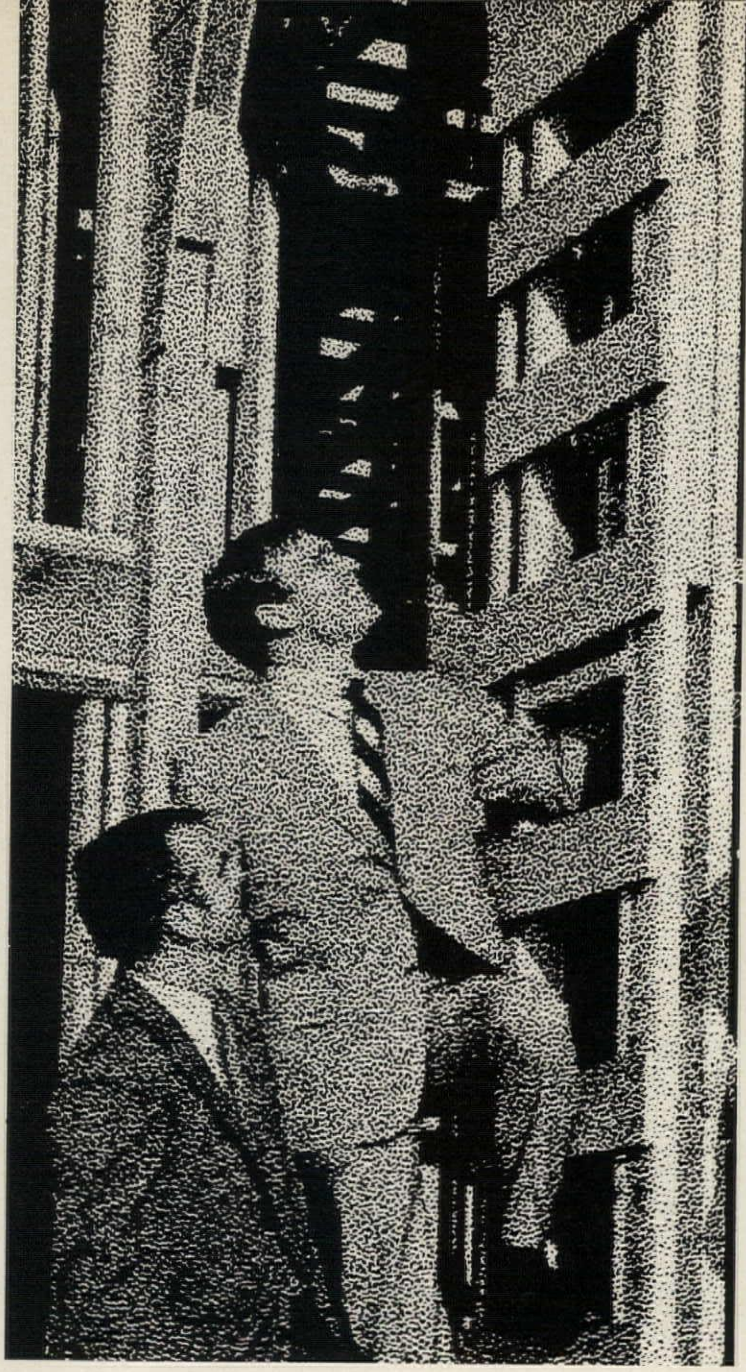
Nursing homes. Convinced that there is a strong market for convalescent facilities, Roberts and Andes have a just-hired hospital-administration expert to help them draw up a nursing home construction program.

As for that cave, Roberts says:

"We simply pave the shale floor, whitewash the walls and ceilings, and bring in electricity. Then the tenants improve the space to meet their needs."

So far the partners have opened up 210,000 sq. ft. of usable space. They've rented most of it but also use some for their own general offices, materials storage, and plumbing, electrical, and sheet-metal shops. By the end of the year, further quarrying will have opened another 410,000 sq. ft., of which 75% will probably be rented.





A young company scrambles to stay on the ladder

■ To Greminger-Davis, a three-year-old Los Angeles company, scrambling means building anything it can build that turns a profit.

It also means:

Taking custom-house contracts when money is tight. Says Henry Greminger (*above, right*): "In early 1967 there was no money around for spec houses and apartments. But there were plenty of well-to-do people with commitments for custom houses. We prefer building houses for sale, but it was nice to have a construction contract that we could take to the bank and borrow on."

Seeking out repossessed land—sites that S&Ls want to get off their books as scheduled items and back on as mortgages.

"The first houses we built on such sites were a joint venture with an S&L," says Greminger. "This arrangement worked out so well that other associations called us in. We've turned down some, but right now we're negotiating with six S&Ls to build houses in their subdivisions. They have the improved land and the money. We have the construction and sales expertise. So we marry them."

Joint venturing with other builders. A case in point is the company's first apartment job. To build the 100-unit project, Greminger and his partner, Jack Davis, teamed up with a commercial/industrial builder who has high-rise experience plus access to capital.

Hiring experts to fill the gaps in their own expertise. One of the company's new ventures is a convalescent hospital—a building involving specifications and code requirements that are unfamiliar to homebuilders.

"We didn't want to go to school to learn all about hospitals," says Greminger. "So we hired people who know the answers, put them in charge, and will share the profits with them."

Greminger sums up his company's philosophy in one sentence: "A percentage of something is better than all of nothing."

So far that philosophy has paid off. Even though Greminger and Davis formed their company at the tail end of tight-money 1966 and must now cope with another money squeeze, they have doubled their volume each year since 1967. They built 15 houses in '67, 35 in '68, and 70, plus some small stores and offices, in '69. This year they expect to complete 100 houses as well as the apartment building and hospital.

The Greminger-Davis partnership is a blend of complementary talents. Greminger is almost a classic example of the homebuilder who came up through the trades. A laborer at 16, he did part-time construction work while in college, joined an engineering contractor for experience, and then started building custom houses. Davis has a strong sales and marketing background with an oil company and a broadcasting firm.

A townhouse expert counts on two assets to keep up sales

■ For James L. Phillips (*picture above*), who introduced townhouses to Houston in 1964, the keys to his current sales success are a broader product line and attractive financing.

To appeal to the broadest possible market in terms of family income and size, Phillips offers townhouse models as narrow as 16' (price: $22,000) and as wide as 22' and 24' (up to $37,365).

When he opened his new 200-unit Briarpark development last October, his mortgage commitment called for a rate 1½% above what the S&L was paying depositors. This put the townhouse mortgage interest at 7½%. Says Phillips: "It looked high last year, but this year it looks great."

Construction financing for Briarpark came hard. Phillips finally persuaded two local banks to share the loan, which was too large for either to take alone.

Phillips is also going into commercial building for his own account. He wants to capitalize on the market for services created by the houses and apartments he builds. For instance, to serve Briarpark and other nearby housing, he will build a 32,000-sq.-ft. neighborhood shopping center with offices, including his own, above the stores.

Phillips got a taste of commercial building last year, when he built two restaurants for nationally franchised food chains. The entire cost of buildings and land is met by the net lease payments and guaranteed by the franchisers.

"It's a fine deal," he says "but be sure the franchise is a strong one backed up by more assets than a few ads in *The Wall Street Journal.*"

His extensive financial dealings have led Phillips into banking. He and associates now control the stock of six S&Ls and banks, and he has applied for a charter for a new bank in a growing section of Houston. (Texas has a no-branch-banks law that encourages a proliferation of one-location banks).

Also because of his financial know-how, Phillips has helped to form two investment clubs. One is made up of 20 homebuilders, the other of 17 men with mixed business or professional backgrounds.

Each member put up $10,000, and will add to this pool of capital with regular payments. Up to now all profits have been plowed back into new investments.

The clubs invest in new companies, in established ones that need financing, in land, and in first and second mortgages. Elected boards of directors (Phillips is on both) make investment decisions and report to monthly membership meetings. Says Phillips: "We don't invest in any deal in which a member is involved, but anything else might be considered."

■ "If I can't get one big commitment, I'll take a hatful of little ones," says George M. Holstein III of Los Angeles. "I'm getting ten loans here and five there and three somewhere else. That's a lot of work and I really don't have that many hours in a day. But today I have to do it."

His company, founded by his father in 1923, normally builds 800 to 1,100 houses a year, but its 1969 production was down to 550 houses, and this year's volume is expected to be the same.

"However," says Holstein, "in many ways, we're better off than in 1966. At least we have no backlog of unsold houses and no cancellations of those we sold under contract."

Even while he is door-to-dooring local S&Ls for mortgages ("One gives us only three a month"), Holstein is exploring a wide range of operating changes.

He is looking into three new ways to raise operating capital:

1. Publicly held realty trusts. Holstein hopes the dearth of construction and land-development loan opportunities will make mortgages more attractive to this huge pool of money.

2. Syndications (H&H, Apr.). Says Holstein: "These are professionally organized money raising schemes, with top-drawer real estate people or mortgage bankers selling syndications on a commission basis. A lot of apartment builders are using syndicates to raise money."

3. Joint ventures. Minneapolis-based Investors Diversified Services Inc. will join Holstein in a 500-house addition to The Bluffs, his nationally known community at Newport Beach, Calif. (H&H, Apr. '65). Financing will be through an IDS subsidiary, IDS Mortgage Corp.

Holstein is also tightening his corporate belt. His survival kit includes some tried-and-true business remedies for keeping expenses in line. Items:

• He has trimmed his staff from 30 to 15 people. ("Nobody has assistants anymore"). But the trimming has been highly selective. For example, although the company's FHA-VA specialist now has little to do, Holstein kept him on in case the market breaks loose in the near future.

• He has stopped buying land. But that's not as drastic as it sounds because The Bluffs, where Holstein does most of his building, is on Irvine Ranch land. The Irvine Co. stockpiles sites and sells them to seven developers as they are needed.

• He has cut back his advertising, but not his merchandising. Among other things, Holstein has started a quarterly magazine, *Home and Club*, to keep in touch with buyers, and a "Sparkle Lady" service to inspect new houses for the little faults that irritate buyers.

Finally, Holstein is expanding into new markets and new ventures. To reach the upper-income market, he has introduced a line of $60,000-$70,000 houses. Models are shown by appointment only—a snob-appeal tactic that attracts prospects who don't want to go through crowded model houses.

Holstein has also gone into several non-housing ventures. One is a small thrift and loan company, in which he is the largest stockholder. A second is the private Newport Beach Tennis Club at The Bluffs. Started to attract homebuyers, the club has become a self-sustaining business, and Holstein now plans an expansion to include 54 cottages and a 104-room motel.

An old-timer revamps his loan-shopping tactics

A new-town builder capitalizes on four market opportunities

■ Among any new town's great assets are the broad business opportunities it offers its developers. Such opportunities are spurring the growth of Denver's Perl-Mack Companies at a time when many builders and developers are struggling just to survive.

Last year Perl-Mack's volume was $34 million. This year partners Sam Primack (*right*), Jordan Perlmutter, and William Morrison expect to hit $40 million. And the bulk of the business will be generated by four types of building at Montbello; Perl-Mack's 3,000-acre new town:

1. *Industrial plants.* Forty-six factories and warehouses, including the headquarters of the Samsonite luggage company, have been built in Montbello's 510-acre industrial park. And much of this building, including a 300,000-sq.-ft. warehouse for a department store chain, has been done by Perl-Mack's general contracting division.

2. *Stores and offices.* Ground has been broken for two office towers on part of the 200 acres of commercial land. A major motel and a neighborhood shopping center are already finished, and a regional shopping center is planned.

3. *Apartments.* Perl-Mack already has commitments for 1,400 apartments in 1970, compared with 910 in 1969. The clustered buildings, which Perl-Mack owns and manages, buf-house areas from the industrial fer the town's single-family-and commercial acreage. And the 233 multifamily acres will provide an economic base for the shopping center.

4. *Single-family houses.* Perl-Mack built 1,200 single-family houses in 1969 and expects to do the same this year. But to do so, the company has moved into two new price brackets that

A multi-city apartment builder seeks greater financial flexibility

■ George Martin (*picture right*), a vice president and secretary of NAHB, builds apartments in three cities—Louisville and Lexington, Ky., and Nashville, Tenn. And in each he has builder and/or investor partners.

For a growth-minded builder like Martin, this arrangement poses a problem that can be acute when money is tight.

"Suppose our Louisville operation spots a market opportunity but lacks the capital to take advantage of it," he says. "Suppose at the same time, that Nashville has money to spare. Shift funds from Nashville to Louisville? Right. But that's just what we can't do under our present set-up. So what we need is a new set-up permitting greater financial flexibility."

To get that flexibility, Martin is consolidating his separate partnerships, and the income-producing properties they control, into a single master organization.

Once the consolidation is complete, Martin expects to tackle a major venture in a fourth city. He has been asked to join a publicly held corporation in developing a 2,200-acre tract in Cincinnati. Eventually, he hopes to trade the equity in his income-producing properties for stock in the corporation.

Meanwhile, Martin is stretching available building funds as far as they will go. He programmed 1,300 apartments for 1969 but built only 814 because of tight money and collapsing mortgage commitments. Early this year, however, he got permanent mortgages on two apartment projects that he had financed through construction loans from local S&Ls. He will roll over these loans and start two new projects the same way. This, he concedes, is gambling on finding a mortgage takeout by the time the projects are finished, but it lets him keep on building.

Because of Kentucky's strict 7% usury law, Martin has gotten much of his apartment mortgaging as a corporation (no legal limit) rather than as an are expected to comprise a large part of this year's volume.

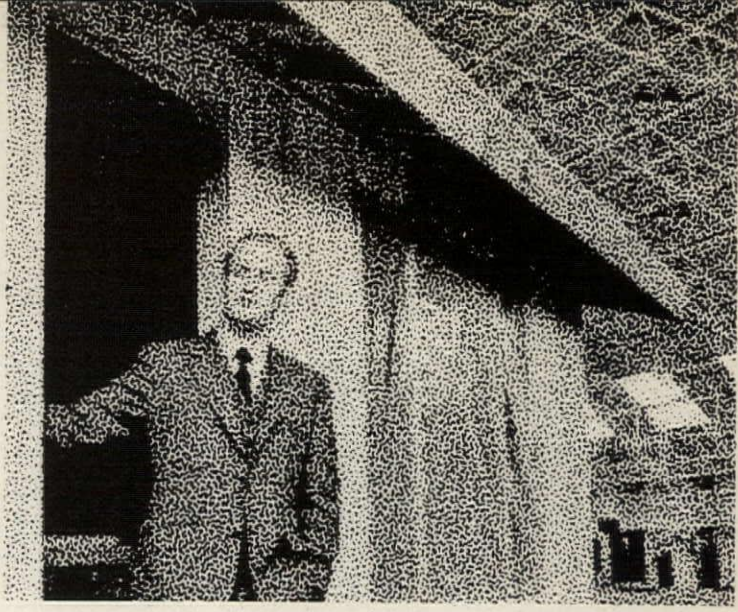
At the bottom end, Perl-Mack has brought out its so-called Accent '70 houses—one-floor models priced from $15,350 to $18,750, which can be sold on normal FHA or VA terms or under FHA Sec. 235. The new line of models complements other Montbello houses priced from $21,700 to $31,300.

At the top of its price range, Perl-Mack is building outside Montbello on Denver's prestigious South Side. There the company has just opened one of the most expensive subdivisions it has ever built. Priced from $30,950 to $35,500, the houses are aimed at buyers who want semi-custom homes.

individual or a partnership.

Martin is also coping with the money squeeze by building stores and offices. He explains: "The high cost of mortgages and construction loans is not such a problem with commercial buildings because they yield a higher return than apartments. In Louisville a typical apartment rents for about $2.64 a sq. ft., while office space brings from $4 to $5 a sq. ft."

This year Martin's biggest commercial building effort will be a 57-acre office park at an interstate highway intersection near Louisville. The condominium project will include a 10-story tower, several two-story office buildings, a motel for a national chain, and acres of parking. Martin will sell some of the office space and retain some for rental.



A conventional builder places a big bet on modular houses

■ Like many builders, Seattle's McGrath Brothers (David and Thomas) say their volume will probably drop this year. But they are hardly pessimistic. Reason: they've tooled up to produce modular housing for the Alaskan market.

Last year the McGraths built 450 houses and 250 apartments. This year they'll build no apartments—partly because of the mortgage-money shortage but primarily because of the high local vacancy rate caused by staggering layoffs at the Boeing Co., the city's largest employer. By contrast, they are aiming for 500 house sales in 1970—a realistic goal, they say, because they have introduced a new line of low-priced models ($17,000 to $23,000); previously, their lowest price was $21,500.

But the McGraths are pinning their long-range hopes on exploiting what they consider to be a promising market for modulars.

"There is a huge need in Alaska for moderately priced houses," says David McGrath (*picture above*). "Our units will sell for about $20 a sq. ft., and that's well under the price of conventional housing in an area where on-site labor and materials come high."

This year the McGraths expect to build from 200 to 250 modular units, mostly for a faculty townhouse project at the University of Alaska in Fairbanks. To get into production, they have invested $250,000 in research, plant equipment, and prototypes, and have leased a 52,000-sq.-ft. airplane hangar (*above*). The hangar is surrounded by paved aprons and taxi strips, where completed modules will be stored before shipment.

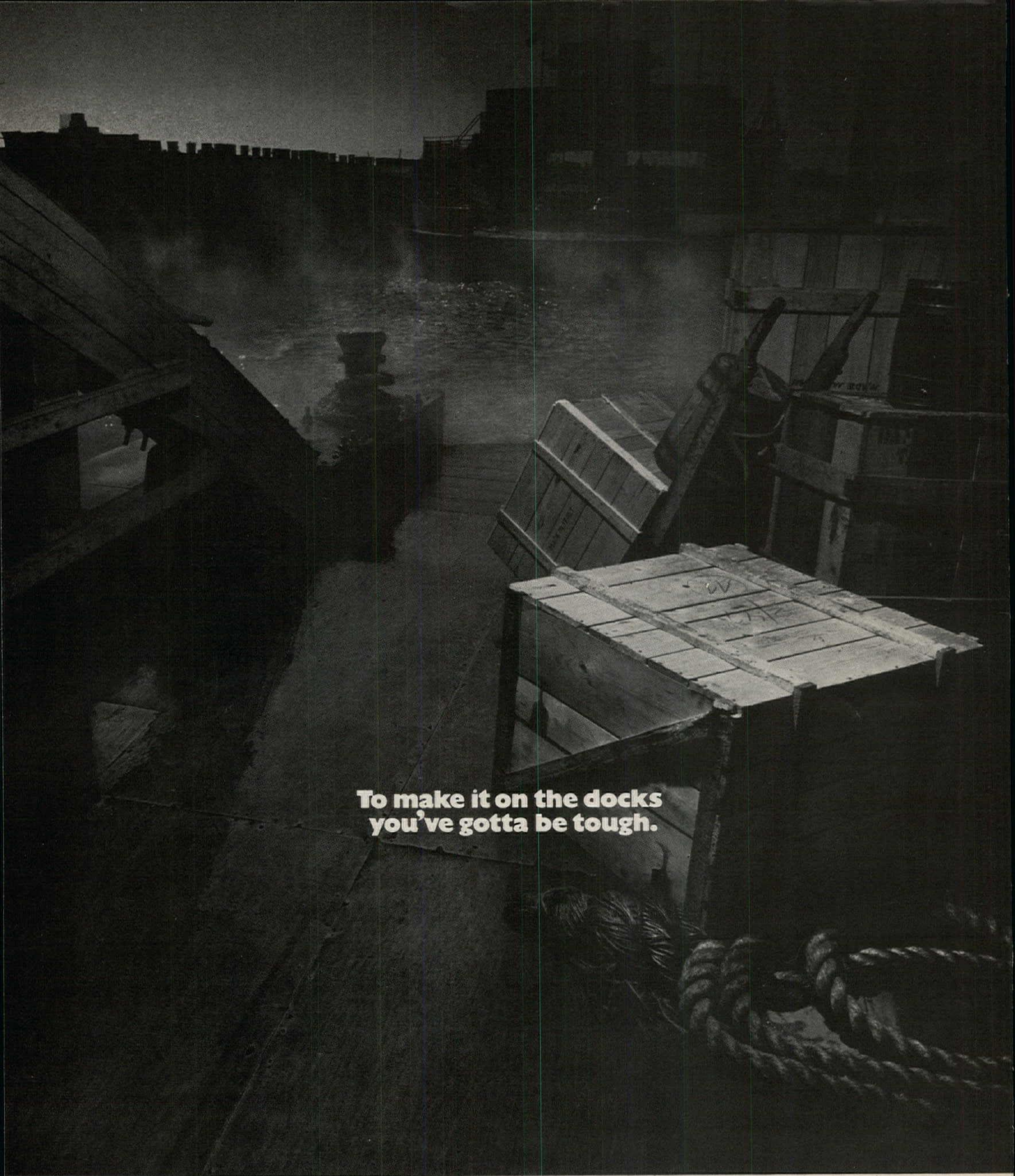
"Our modules must be built to take the stresses of ocean travel," says David McGrath. "And unlike most present modular systems, they must be designed to withstand the rigorous Alaskan climate."

Closer to home, the McGraths are delving into two other fields:

1. They already have about $1 million in contracts for Turnkey public housing and expect to add another $3 million this year. On some of these jobs they may use their new modular units.

"We are especially interested in public housing for smaller towns in western Washington state," says David McGrath, "but we are also willing to go down to Oregon or up to Alaska for Turnkey projects."

2. They are developing and selling expensive lots for custom houses costing up to $100,000. Last year the McGraths picked up an 87-acre parcel adjoining a state park, then subdivided it into 123 homesites priced from $11,500 to $19,000. So far sales have been brisk. More than 30 lots have been sold, and the McGraths expect to sell the remainder by the end of the year. They do no custom building themselves; instead, they find a builder for each lot as it is sold, then take a commission based on the cost of the house.



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