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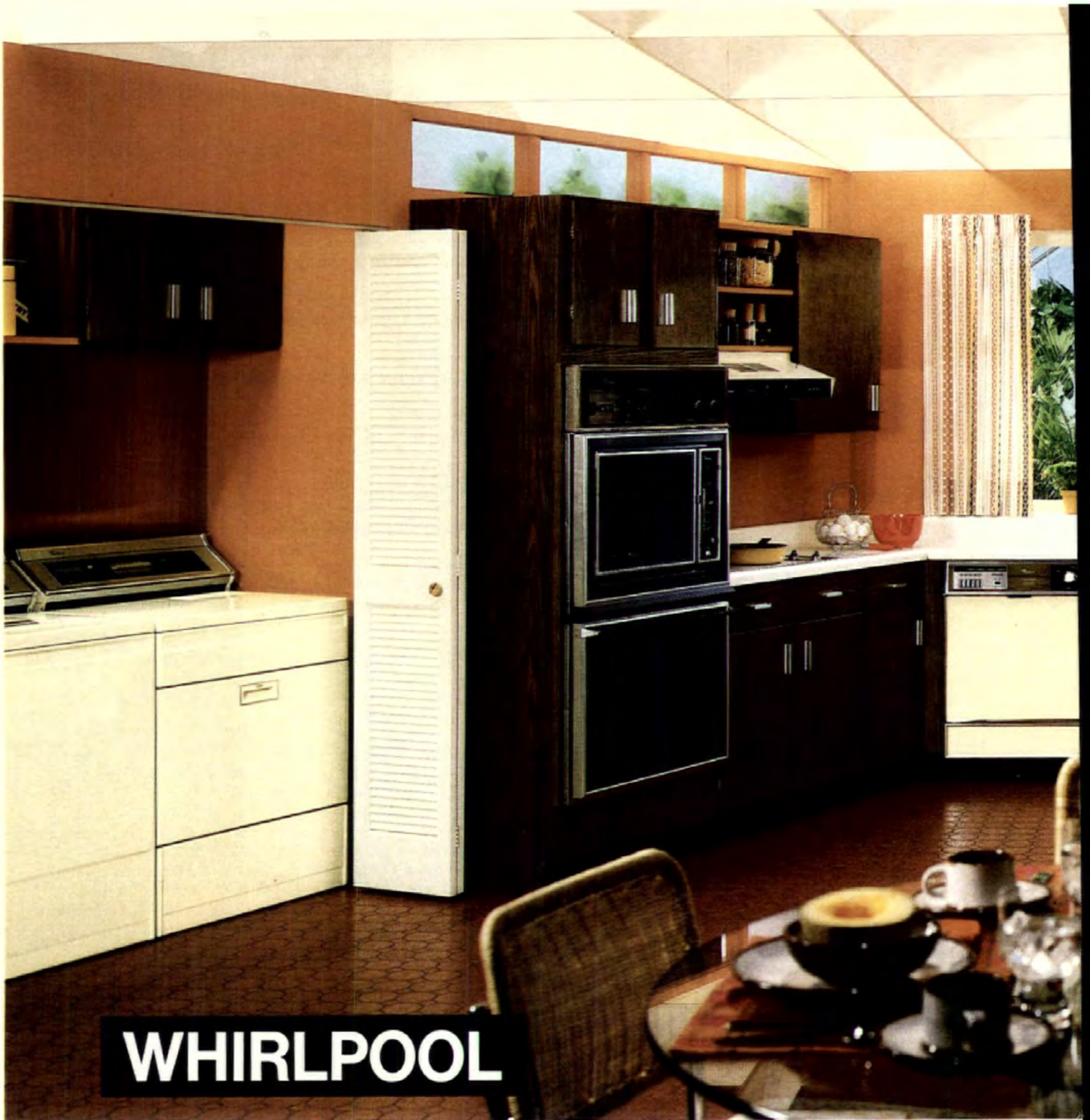
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This issue of House & Home is published in national and separate editions.

Only the name will change

This month you received the last issue of a magazine called HOUSE & HOME. Next month you will receive the first issue of a magazine called HOUSING.

The two, of course, are one and the same.

As you have probably noticed, we have been phasing in our new name for the past year. The formal change—from HOUSE & HOME (the magazine of housing) to HOUSING (formerly HOUSE & HOME) is simply the final step.

Why change a name we've had for 25 years? Because the new name more accurately reflects the market we serve.

Regardless of our affection for the name HOUSE & HOME, to many people it still connotes what we are not rather than what we are.

We are not a consumer shelter magazine like *House Beautiful* or *House & Garden*. Nor are we a "house" magazine concerned only with single-family homes.

As any subscriber knows, we are a strictly-business magazine edited specifically for the business people and professionals who plan, build, market and manage all types of residential construction. Some of these readers also do remodeling and rehab work. And others venture into non-residential construction, which is why we also produce stories like this month's cover feature.

Chances are, it will take time for our new name to sink in—even here with our own staff. So if you call us and we answer "House and Home," try to understand that old habits are hard to break.

One old habit we don't intend to break is the way we cover your industry. We'll continue to stay on top of major housing news—particularly the news from Washington. We'll continue to bring you workable ideas and methods that you can adopt or adapt to your own operations. We'll continue to report the bad as well as the good—even if we make some people mad. And, as always, we'll stay flexible—meaning that we'll add new features, such as our Housing Demand Index (Nov.), as we spot the need for them.

In short, we stand pat on how we meet your information needs. Only our name will change. —JOHN F. GOLDSMITH


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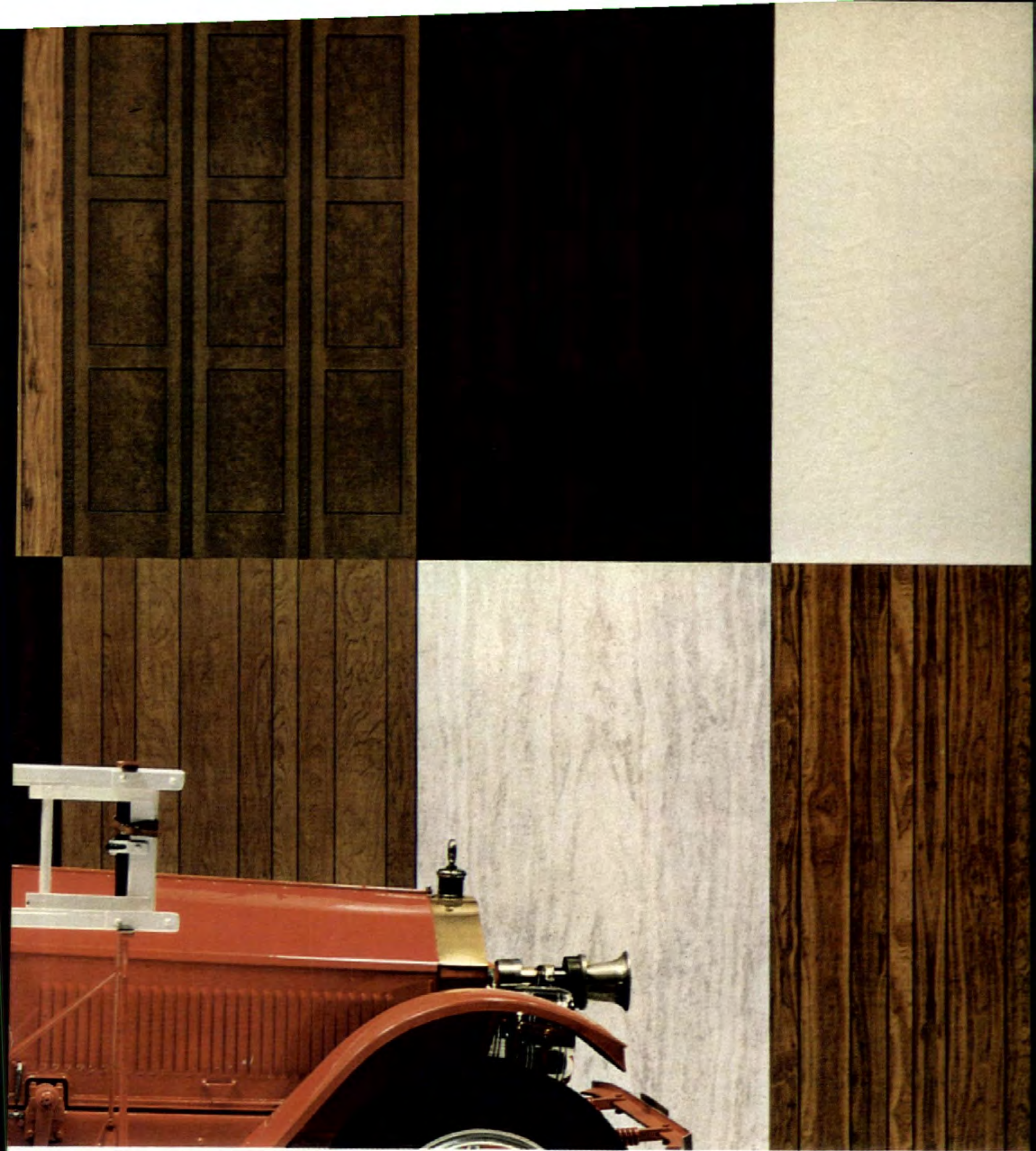

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Mrs. Harris losing status

Her job seems safe for now but her image is slipping

Patricia Roberts Harris has had a rough first year as secretary of housing and urban development.

Housing problems *per se* are no political problem for her, mainly because of the two-million level of housing starts this year. The industry can't in good conscience badger Washington for help. So the builders are not a problem for Mrs. Harris in her dealings with the White House—except that their costs are high.

Secretary Harris
Big tests still to come

But there's no question the Harris image has slipped during her first nine or 10 months of office. She got off to a bumpy start on the White House assignment of producing a new urban and regional development policy. She has had to give ground to congressional efforts to hem in her authority. And she faces a new struggle with Joseph A. Califano Jr., secretary of Health, Education & Welfare and an accomplished infighter at high administration levels, over whether to bite into housing-subsidy programs to help pay for welfare reform.

Job security. Mrs. Harris is hardly on the skids, however. Slippage in prestige is considered normal for many, if not most, cabinet officers. President Carter's own standing has slipped, too, according to national opinion polls. As one HUD official notes, "She's still making all the final decisions here, and there's no chance that she'll be forced out of her job."

The Harris high point probably came last April, when Jimmy Carter made her the "convenor" (that is, leader) of a half a dozen cabinet members charged with producing policy for "urban and regional development."

Enter Embry. Carter's program is to be revealed in his State of the Union message in January. Mrs. Harris welcomed the assignment at first, but by August the lack of progress forced her to bring in as director Robert Embry Jr., the energetic assistant secretary from Baltimore, to get his project moving. That was something that Assistant Secretary Donna Shalala, the secretary's first choice, had not been able to do.

Subsidy dispute. Earlier, Mrs. Harris was shaken to discover that the White House—through the powerful Office of Management and Budget—was behind a proposal to dismember HUD's housing-subsidy programs in order to fashion for the President a welfare-reform proposal with the least possible addition to the federal budget.

Mrs. Harris won a truce of sorts—but the issue is expected to arise again when welfare reform comes up, as it inevitably will.

Congress has limited Mrs. Harris's initiatives by putting strings on the $1.2 billion in urban-development action-grant funds that she was given to parcel over three years. Mrs. Harris wanted to be free to pick and choose. Congress wrote criteria that determine who's eligible. But the administration did prevent Congress from taking all discretion out of the secretary's hands by requiring her to parcel out dollars strictly by formula.

Bypassed by Congress. Congress also has moved to create two new housing agencies outside HUD—each concerned directly with "revitalizing neighborhoods," which is to be a centerpiece of Carter's yet-to-be-announced urban policy.

One new agency—the new National Commission on Neighborhoods—will use up to $2 million to pursue its own independent analysis of neighborhood problems, second-guessing whatever new programs the Carter-Harris team recommends to Congress.

The chairman, Joseph F. Timilty of Boston, has been associated with Senator Ted Kennedy and ran Carter's campaign in Pennsylvania. Five mayors and five neighborhood officials will make up the commission.

Urban competitor. Another new entity—the Neighborhood Reinvestment Corp.—would be created by a bill that passed the Senate without dissent. Its purpose: To set up, as an independent corporation, the nine-year-old Urban Reinvestment Task Force, now operating under the Federal Home Loan Bank Board on HUD grants. The object: To expand the present programs of so-called "neighborhood housing services" from its present 35 neighborhoods (and 18 in the pipeline) to 500 neighborhoods by 1981.

The HUD hierarchy opposed creation of this new independent housing agency and a compromise next year may yet put the expanded program under HUD.

Poor image. In these political battles Mrs. Harris has handicaps.

For one thing, the department is labeled a special pleader for the housing industry, which critics claims skews HUD's policy stands.

For another, the department's image as a manager of complex national programs is bad. The memories of the FHA housing scandals, [H & H, Nov.], the massive financial difficulties of many subsidy programs, and the failures of urban renewal are still green.

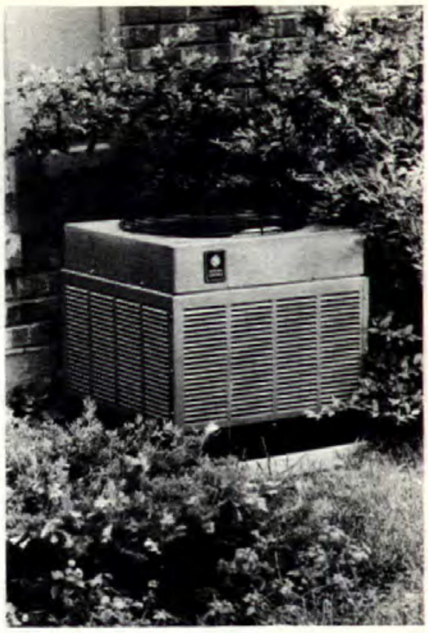
The toughest test for Mrs. Harris comes this month and in January, when Carter decides on his new aid-to-the-cities program. He will also decide whether HUD gets a bigger role, or shares more turf with Commerce, Treasury, HEW and other agencies.

—DON LOOMIS
McGraw-Hill World News,
Washington

ADDENDUM

HOUSE & HOME failed to credit Bryan Hardwick Associates, Palos Verdes, Calif. with developing the target-marketing concept and subsequent advertising campaign described on page 50 of the October issue.


BROOKVIEW



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GENERAL ELECTRIC

Circle 13 on reader service card

The rape of Fannie Mae is delayed a bit

One year after The Federal National Mortgage Association's Oakley Hunter came under fire in a cold war with the Democratic power structure in Washington, the Fannie Mae president survives. Indeed, in the first voting test of strength in Fannie Mae's boardroom, he won, hands down.

Even so, the odds on whether he will continue in control for another year are hard to call. And whether he stays or goes, builders may just possibly see Fannie Mae shift direction as the Carter administration's Housing and Urban Development Department (HUD) and the Senate Banking Committee's liberals strengthen their influence on its policy.

Confusion. Exacerbating the fight over Fannie Mae is the association's own hybrid status, which is neither entirely private nor entirely a government body. In 1968, Congress took it out of the federal budget in order to free its housing expenditures from government outlay ceilings. The lawmakers then turned the ownership of Fannie Mae over to its private stockholders, but the association retained its borrowing rights with the Treasury. And HUD retained—or at least tried to retain—supervisory powers.

The Banking Committee's hostility to Hunter has eased as he has made changes at Fannie Mae to conciliate the committee's leaders. But Hunter's relations with Housing Secretary Patricia Harris have progressively worsened. Right now, sums up a mortgage-banking industry source following the action in Washington:

"Oakley's strength is that nobody has assembled a coalition to replace him. [Fannie Mae board member Raymond] Lapin tried and he failed. It has got to be somebody who is in good with the White House, the industry, the hill and Fannie Mae investors."

First showdown. Another board member, Julian Zimmerman, also moved against Hunter, denouncing to the board Hunter's poor relations with HUD. But this attempt backfired and gave Hunter his finest hour. The board voted 11-to-1 to reject Zimmerman's contention that it was time for Fannie Mae's management to quit.

Others close to the action say it was more of a vote against Zimmerman than for Hunter—the board considered the possibility of a vote of confidence for Hunter and decided against it. Then, at the next monthly meeting, the board, at the request of board member Sidney Kaye, took up three questions not particularly welcome to the Hunter management—whether to split the chairmanship and the presidency (Hunter holds both now); how to groom a successor as chief executive officer; and the troubled HUD-Fannie Mae relationship.

Fannie Mae's Hunter
Standing strong—and pat

Opposing stands. Zimmerman rests his fight against Hunter on the latter point: "No matter where the fault lies, when a regulated organization like Fannie Mae can't agree with its regulator, something has to go. Since we can't fire somebody in the federal government, we, the board, damn well have to do something."

Hunter says he expects to win in the end. The Fannie Mae chief recalls that this is not the first time he's fought for his job: "Sherman Unger tried to throw me out. There was a big scuffle there, but Unger retired from the scene."

But Hunter is not unaware that a recruiting effort is under way among his foes to find a suitable replacement.

Appeals to Carter. Meanwhile, Hunter's enemies seek the aid of the White House with arguments that Hunter's Fannie Mae of the last eight years is too investor-oriented to serve Carter's goal of rehabilitating cities.

Yet the White House has refused to lean on the Fannie Mae board.

To Bolster his defense, Hunter has made changes that have been appreciatively received by the formerly critical Senate Banking Committee. Predicts a committee aide, "This committee is not going to be a source of pressure on Hunter if he shapes up, and he's on the right track."

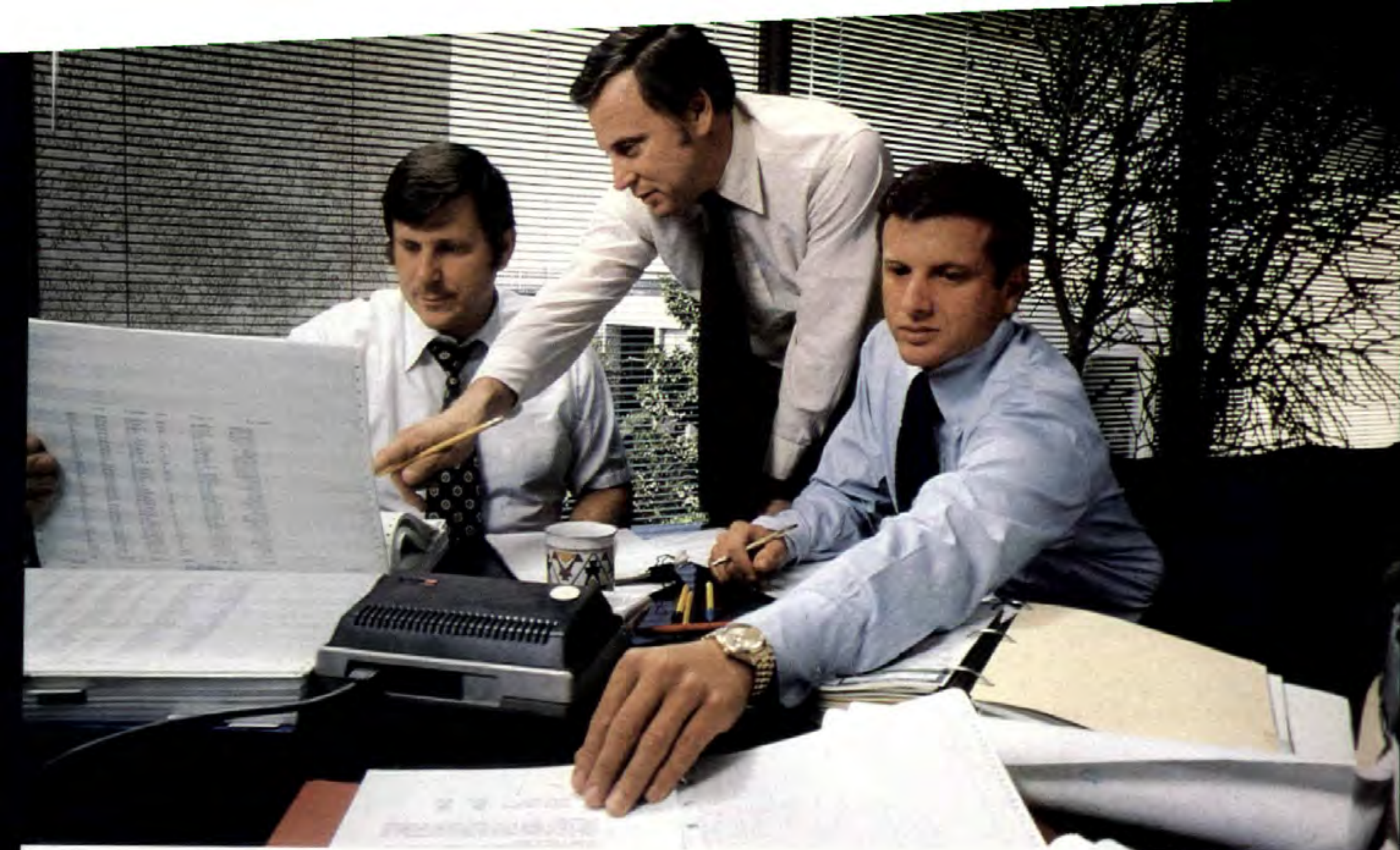
Reforms. Specific steps that win Hunter approval on the hill are new underwriting standards, endorsed by the Justice Department, which can influence lenders to make more urban loans, a voluntary freedom-of-information policy newly set up along the lines of the government's disclosure policy and a willingness of Fannie Mae to check out Baltimore's excellent rehab program for the inner city.

But the showcase urban investment program has been bogged down at HUD since September, as are Fannie Mae proposals for two-to-four family conventional loan programs and multifamily loans. And at Fannie Mae, officers see HUD shifting its main focus from the impasse over Hunter to a struggle over policy. Fannie Mae maintains, and HUD denies, that the program changes HUD wants would crimp the "reasonable profit" that the Fannie Mae charter says the corporation is entitled to receive.

Compromise. The possibility of a spreading impasse in 1978, when tight money may create a greater need for Fannie Mae's help in the mortgage market, could force the whole issue to a showdown. But some elements of a compromise solution are in sight. For one thing, a reading of Hunter's contract has convinced HUD that he cannot be deprived of his pay owed for the rest of his five-year term—a critical point for the 61-year-old Hunter.

Any deal probably would also have to include some reassurance to Fannie Mae's shareholders that political interference would not run Fannie Mae into red ink. Fannie Mae's insiders, defending present management, see themselves also as defending the shareholders' interests. Says Vice President Gordon Nelson:

"We are stewards for $1 billion in other people's equity. We can't increase costs and reduce income and keep things afloat." —STAN WILSON
McGraw-Hill World News, Washington



HUD streamlining self by hiring hundreds

The Department of Housing and Urban Development has reorganized for the 19th time since its founding in 1969.

No changes are being made at Washington headquarters, although perhaps 300 regional-office jobs will be shifted to Washington and another 1,000 shifted from regional offices to area offices. Not all present jobholders are expected to stay; 300 or 400 employees may quit rather than move.

But despite the streamlining that is to take place by next spring, when the new organization is to be in place, HUD is hiring hundreds of new employees. The payroll already numbers 15,250, and the White House had okayed an increase to 15,900. (The department had asked for 16,700.)

The costs. Officials at HUD estimate that the reorganization will cost $10 or $11 million, but they claim that savings over the next four years could amount to $100 million.

The important change makes Assistant Secretary Larry Simons more accountable for the success or failure of housing programs that cost $4 billion a year, and Assistant Secretary Robert C. Embry Jr. more accountable for the way the community planning and block-grant programs are carried out in the 4,700 localities that will spend close to $4 billion a year in HUD grants.

The new management structure gives Simons direct authority over the housing division directors in the local offices and Embry direct authority over the community planning and development division directors. Simons and Embry can hire and fire these officials.

Regional bypass. The ten regional offices and their "administrators" are taken out of the chain of command, except for minor exceptions. They are left with a "management staff function," which means that they monitor how the area office people are doing and report to Simons and Embry.

HUD's Simons . . .
Gaining wider authority . . .

RUSSART

. . . and Embry
. . . in HUD reorganization

As things are now, according to Under Secretary Jay Janis, the ten regional offices give "ten different interpretations of HUD policy" and "the housing assistance plans of the localities just weren't being observed."

Simons and Embry and their new headquarters staffers will allocate funds and spending authority to the area offices, will approve or disapprove waivers for builders who seek exemptions from HUD regulations for their particular project, and will provide "program guidance and interpretation" to the area office staffers.

Area office authority. Out in the field, the big change puts into 40 area offices the processing of multifamily programs, including Section 8, along with the insuring of single-family mortgages. These offices also continue in charge of the community development block-grant program, and are being given responsibility for the Section 701 comprehensive planning assistance program.

Single-family mortgage insurance will also be processed in 34 outlying "service offices" in such places as Albany, Cincinnati, Shreveport and Reno—although seven of these will still process multifamily insurance applications. At Denver, the Regional and area offices merge. —D. L.

Aluminum wire under attack again

The Consumer Product Safety Commission has resumed its battle against the aluminum-wire industry by asking a federal district court in Washington to order the repair or replacement of aluminum wiring systems installed in 1.5 million homes between 1965 and 1973, and to declare the systems a hazardous product.

Claiming that aluminum wire in so-called old-technology systems poses an extreme fire hazard, the commission made its requests in a suit naming 26 companies that manufactured the wire. Defendants include Reynolds Metals Co., Kaiser Aluminum & Chemical Corp., The General Electric Company's wiring-device business department, and the Anaconda Co.

Fight in courts. The commission's efforts against aluminum wiring date from 1973. At one point, a federal judge ruled that aluminum wiring systems could not be considered consumer products, and were therefore outside the agency's jurisdiction. That ruling was later overturned in a decision that is being appealed by the aluminum industry. Kaiser, meanwhile, has won a gag order against the agency, prohibiting it from making statements about aluminum wire on the grounds that information put out by the CPSC was hurting business.

In its suit filed October 26, the commission claims that old-technology wiring systems present an "imminent and unreasonable risk of fire."

The Aluminum Association, meanwhile, said it was unaware of any justification for the suit, maintaining that the wiring is safe.

—MIKE MEALEY
McGraw-Hill World News,
Washington

Big drive on to reform condo laws

The intensifying campaign to reform state condominium laws has entered a new phase.

Action last summer by the National Conference of Commissioners on Uniform State Laws insures that an innovative approach to both developers' freedoms and unit owners' rights will be on the agenda of all state legislatures when they reconvene early next year.

The conference is a prestigious group of lawyers, professors and judges. It writes model laws on everything from probate to drug treatment. Some arouse little interest in state capitols. Others, such as the Uniform Commercial Code, become virtually the law of the land. But since the organization's members are appointed by their home states, there is in every jurisdiction a group pushing for passage of every act recommended by the conference.

'All kinds of laws.' The idea is to make it easier for businessmen by having the same rules around the country. A developer who now wants to promote his project to prospective buyers in different states "has all kinds of state laws to comply with, and they're all different, and it gets very expensive," says Cynthia Lewis, a lawyer representing the Department of Housing and Urban Development on Washington's condominium task force.

The conference gave final approval to a Uniform Condominium Act last summer, and "there's reason to believe that this one will be adopted by many states," Mrs. Lewis predicts. The reasons: burgeoning interest in using the condominium concept for high-density development, the complexity of working out condo laws in individual legislatures, and the apparent weaknesses of the current scheme of regulation.

Canada too. Those working on the model law expect Pennsylvania to put it on the books within six months. They rate Connecticut, Colorado and Idaho as other jurisdictions likely to move quickly. Canadian provinces are also looking at the draft bill.

Most states now regulate condos with horizontal property acts, based on a pioneer law in Puerto Rico and adopted widely in the early 1960s to let local developers take advantage of FHA programs. These acts allow full-ownership rights to be sold for units that are part of a larger structure. But the laws leave the way open, on the one hand, for developers to rook customers with sweetheart service contracts and recreational facility leases. And on the other, the same developers may be hampered in putting together big projects and may be forced to operate in a legal limbo.

For instance, large projects in some jurisdictions must now be sold as separate condominiums with a complex umbrella association; in others, builders selling off parts of a project while others are still unbuilt are subject to lawsuits if the owners' association becomes difficult.

Reserving land. The Uniform Act tries to address the problems of phase development by letting the developer set aside three kinds of land: that which he may later want to add to the project, that which is a part of the project but which he may later withdraw, and that which is to be common-use property but which may later be converted for individual living units.

These guidelines are supposed to give the builder sufficient flexibility to adapt his master plan to changing market and financing conditions. The developer is also given the power to subdivide units and—an entirely new concept—to set aside some of the living space as "convertible space." That area might be the penthouse floor of a high-rise, and it would be assigned a percentage of the total project value. But only after buyers show up would the decision be made on whether to make it one big unit, two medium units or a number of small apartments.

Operations guide. The model law includes many details of how the condo should be run, down to such specifics as quorums at association meetings. It lets individual bylaws modify those rules but assures that, if the bylaws are sloppily drawn (as many are), there still will not be legal problems. By simply accepting the decision of the statute, a developer can simplify the necessary documentation, with a 15-page set of bylaws replacing what now might take 100 pages.

The model law spells out the builder's right—questionable under most existing state laws—to develop condos on land that is leased rather than owned, to use units for sales purposes, and to have access to the common elements in order to complete the project.

Limitations. The builder's rights, new and explicit, come at the price of a heavy dollop of prohibitions.

The developer's ability to control the condo association after most units have been sold is flatly banned. Devices previously common, especially in Florida, such as giving the developer control of the association until the last unit is sold are things of the past in the Uniform Act.

Sweetheart contracts are brought under control. The owners' association, once owners control it, gets the power to cancel any contract made during the period of the developer's control with any organization affiliated with the developer. And "unreasonable" contracts, even with independent firms (which may have already paid off the developer), can also be cancelled.

The proposed act holds that, just by selling a unit, the developer is warranting that it is constructed "according to sound engineering and construction standards, and in a workmanlike manner" of materials without defects, even if the developer makes no specific promise.

'Can live with them.' "The key thing about all these consumer protections is that, when they are folded in with the protections given the developer, the developer can live with them," insists Robert M. Diamond, a Virginia lawyer and one of the legislative draftsmen of the Uniform Act. As he sees it, many developers have gone to unreasonable lengths to keep control of condo associations because they had so little legal protection otherwise for the kind of business decisions they had to make.

And HUD's Mrs. Lewis makes another point about the model law's treatment of buyers' rights:

"The industry whole suffers when it has a bad name because of a few unscrupulous people. It's to the developer's interest to have a strong consumer protection statute, and that's what the condominium act is."

—DAN MOSKOWITZ
McGraw-Hill World News,
Washington

More builders sell, lease back models

Ed Zale, building 150 houses a year in the Chicago market, recently put up five model homes in Rolling Meadows, Ill.

He then sold the models to Comco Investment Services Ltd., a home-building consultant firm in Hinsdale, Ill., for $410,000. And finally, he arranged to lease the models back from Comco for slightly more than an annual 10% of the models' final sales price.

Why did Zale do it? He had borrowed $250,000 in a construction loan to build the models, and because the $410,000 represented fair market value for the homes, Zale immediately freed up an extra $160,000 in cash. "It's new to me and it's a good idea," says Zale.

For a builder to sell his models immediately on completion and then lease them back is not a new idea but it has gained new impetus. Several companies are now buying up models, financing them with 75% to 80% mortgages and paying the balance with investor funds. The practice is spreading across the country.

Costs of deal. Probably the largest firm doing such business is Equity Programs Investment Corp., based in Alexandria, Va.—EPIC for short. The company will buy $30 million worth of model leasebacks this year, says President Tom J. Billman. Last year, EPIC bought models worth $11 million, and next year Billman aims to close deals for up to $50 million in models. The builder pays EPIC a 6.8% fee on the model value for playing middleman between himself and an investor.

The builder sells his models to the middleman for the fair-market value of the home minus expenses for optional items and decorations. These are subtracted from the model's value because, typically, a builder could not recover their cost anyway. To lease the models, the builder pays 1% a month on the sale price. He gives up, of course, any appreciation that might accrue to him in the period that he uses the homes.

Cash-in-hand advantage. A builder operating in the traditional manner takes out a construction loan to build his models and then hangs on to them for awhile. On their completion, he acquires an instant equity amounting to the difference between his construction loan and the market value of his models.

But that is equity, not cash.

The advantage of the leaseback, EPIC officials contend, is that the builder can acquire that same amount in ready cash. He can then put it to work earning anywhere from 25% to 40% in other phases of his building business.

EPIC's Billman
Buying $30 million in models

Pro and con. Builders are still divided as to whether the EPIC approach makes them money, however. They agree that as money gets more expensive to borrow, the EPIC deal becomes more attractive—even with its effective loan rate of 12%.

Executive Vice President Rick Ramsey of Raldon Corp. of Dallas, which builds 600 houses a year, says the leaseback "comes very close to being a washout," that is, the builder's costs are about the same whether or not he uses the plan.

Yet Raldon recently sold 42 models to EPIC. President George Tannous says he did so to free the capital that the company had invested in the models: "Carrying 42 models on our books was just more than we wanted to handle."

Good business. William H. Tucker, president of Wood Brothers Homes of Denver, also likes the way the EPIC plan gives him cash. "I can use that money to make about 40%," says Tucker. Selling the models takes assets off his balance sheet, he explains, and such action follows the time-honored practice of turning assets over quickly. Tucker says such a technique is one hallmark of a well-run company.

President Billman of EPIC concedes that some builders find the 12% lease rate is too high. But, says Billman, "we're giving the builder 100 cents on the dollar. The 12% would be too high if we were giving him only 75 cents."

The Comco service. President Gerald Levin of Comco Investment says there is far more to the deal than Tucker describes. He points out that most big builders have credit lines that permit them to borrow the full market value of their models anyway, and he stresses the over-and-above services offered in his own leaseback plan.

Comco, Levin says, offers the builder more than just a market for his models. Charging loan fees of 8% to 11% of the value of the model, Levin provides help to the builder in pricing, presenting, and marketing the homes.

W. Dexter Gauntlett, midwestern regional manager for EPIC, says his plan offers even more advantages. For example, he says, a builder can save up to 1% on the fee that a savings and loan or bank would charge him for a construction loan if he has a presold model or two on hand before construction of his subdivision starts.

Pooling plan. Levin is trying to organize investment pools for packages of 15 models that would be built by half a dozen builders. Such packages could serve builders in small localities. Each builder would have one or two models, and the risk of investment would be spread over several models.

Gauntlett says EPIC has used the sale-leaseback plan along the Florida west coast and in Dallas, Houston, Ft. Worth, Baltimore and Washington. Gauntlett says he likes to see a minimum of four models in a development before he commits the firm, but he will go smaller if need be. The range of home prices that he typically handles is from $45,000 to $125,000.

For the builders who like to free up cash on their models quickly, sale leaseback offers a route.

"The deal is a good deal," says Tucker of Wood Brothers. "We'll always take a bird in the hand over a bird in the bush." —DAN BROWN
McGraw-Hill World News, Chicago

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Flexible mortgages making new stand

The push for flexible-pay mortgages is sweeping Capitol Hill again.

Foes in and out of Congress now concede that the outer defenses against the new mortgages have already been overrun. The showdown fight is still to come—probably early next year.

Both banking committees of Congress will then have taken testimony from groups opposed to the new proposals for the flexible mortgages. These proposals would generally render the mortgage contracts safer for borrowers.

The contest is over whether the standard fixed-rate mortgage should be supplemented by such alternatives as the variable-rate mortgage (VRM), the Canadian roll-over mortgage, the graduated-payment mortgage (GPM) and the reverse-annuity mortgage (RAM).

Green lights. Resistance to the whole idea of flexible mortgages is easing somewhat. Congress has already given mortgage lenders a broad go-ahead so far as the GPM is concerned, just so long as it is backed by FHA insurance—conventional GPMs are still a long way from getting the Congressional okay. And one of the flexible mortgage concept's harshest critics, the AFL-CIO's urban affairs director, Henry Schechter, not only agrees the GPM is worth a try; he endorses it as a "a good idea."

But on the VRM and the rollover, Schechter, like some influential members of Congress, is still totally negative. "I don't know what they will do in congress but we will still be fighting hard," he warns.

The leading advocate. The man leading the charge in behalf of flexible mortgage instruments is David Kaplan, chief economist of the Federal Home Loan Bank Board. Kaplan set off the current phase of activity in October by handing to Congress a Bank Board staff study incorporating a suggested set of consumer safeguards that, he hopes, will clear the way for all the alternatives to the standard fixed rate contract.

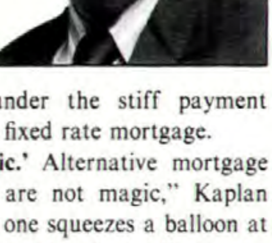
Kaplan's pitch to Congress was that an inflationary economic climate had produced a "financing gap" as people found they could not swing home purchases under the stiff payment terms of the fixed rate mortgage.

THE DIFFERENCE IN PAYMENTS
30-year, $30,000, 9% mortgage

The "worst-case" variable-rate mortgage, the rollover, the graduated-payment mortgage, the standard fixed-payment mortgage

End of Year	VRM Worst-Case	5-Year Rollover	5-Year, 7½% GPM	10-Year, 3% GPM	SFPM
			TOTAL PRINCIPAL AND INTEREST PAID		
1	$ 2,896	$ 2,896	$ 2,188	$ 2,408	$ 2,896
2	5,922	5,793	4,540	4,888	5,793
3	9,075	8,690	7,070	7,443	8,690
4	12,356	11,586	9,788	10,075	11,586
5	15,764	14,483	12,710	12,785	14,483
10	33,435	32,026	28,419	27,607	28,969
30	104,122	102,197	91,254	92,335	86,900
			OUTSTANDING BALANCE		
1	$ 29,795	$ 29,795	$ 30,533	$ 30,304	$ 29,795
2	29,592	29,570	30,945	30,562	29,570
3	29,389	29,326	31,212	30,765	29,326
4	29,184	29,057	31,306	30,908	29,057
5	28,976	28,764	31,197	30,983	28,764
10	27,618	27,416	29,098	29,975	26,828

Notes: The VRM is allowed to increase by 0.5% per year and by 2.5% overall. The overall 2.5% cap also applies to the rollover. The 5-year GPM has payments graduating at 7.5% per year and the 10-year GPM has payments increasing at 3% per year.



Bank Board's Kaplan *Leading the charge*

'Not magic.' Alternative mortgage instruments are not magic," Kaplan admits. "As one squeezes a balloon at one end to make it small, so the balloon should be expected to bulge at the other end."

Yet, he argued, the GPM—which enables a borrower to defer much of the debt from the early years of a mortgage until later on in the life of the contract—would open up home ownership to those with lower initial incomes. In fact, Kaplan claims, "the GPMs have the potential of increasing home ownership by up to 5%.

Likewise, said Kaplan, the VRM will help stabilize the mortgage market by giving lenders some protection on their profit spread against a rise in their cost of funds. The VRM indexes the mortgage-loan yield to the rise and fall of the cost of money. Members of Congress, consumer groups and organized labor are well aware this can work against the consumer.

Opposing sides. With the right kind of consumer safeguards, Kaplan can hope for support from Senators Thomas McIntyre (D., N.H.), Alan Cranston (D., Calif.) and Edward Brooke (R., Mass.). Conceivably they could sway the Banking Committee chairman, William Proxmire (D., Wisc.), who is presently skeptical.

The real political problem will show up on the House side, where hard-hitting Rep. Fernand St. Germain (D., R.I.) is firm in opposition.

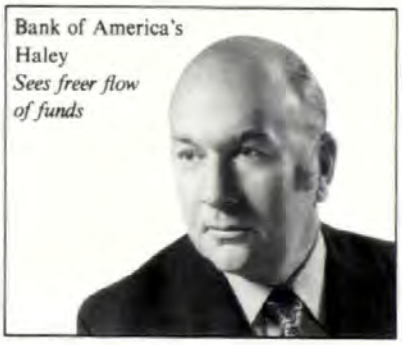
Kaplan has no illusion but that it will be an uphill fight, and he explains: "The controversial issue in this whole discussion is . . . the appropriate type and degree of consumer safeguards."

—STAN WILSON
McGraw-Hill World News,
Washington

Bank of America's rollover variable

The Bank of America, a crusader for mortgage reform, will offer next month a new type of variable-rate mortgage on which interest rates will be reviewed every five years.

George H. Haley, senior vice president for real estate loans, said the plan will help the lender manage liquidity, and will assure borrowers and homebuilders a fuller flow of mortgage funds.



Bank of America's Haley
Sees freer flow of funds

Similar to the rollover mortgage in Canada, the loan provides for a fixed interest rate for the first five years. At the end of the fifth year, the rate may be changed according to an index reflecting the prevailing cost of real estate funds available in the market.

But unlike the Canadian plan, in which individual institutions determine the index internally, the Bank of America will use an external index that it does not control. At the time of the announcement, it had not been decided whether to use the Federal Home Loan Bank of San Francisco's cost-of-funds index or some other yardstick.

Borrower's option. A borrower can accept the revised interest rates for another five years, or he can prepay the loan without penalty. If the interest rate goes up, a 30-year loan can be extended up to 40 years to keep the payments even.

In some ways the plan is like existing VRM programs offered by the Bank of America, Wells Fargo Bank, and most state-chartered savings and loan associations. In all of them, interest-rate increases are limited to 2½% during the life of the loan. However, in the earlier programs, mortgage interest rates can go up ¼% every six months after a year's grace period. The interest rates have not yet moved, since the FLHB index has been "immutable," according to one S&L executive.

Lower initial rate. Under the Bank of America program, initial interest rates will be ¼% lower than for fixed-rate mortgages, now at 9%. Loans are guaranteed assumable by a qualified buyer.

The new VRMs will be offered, along with existing mortgage instruments, for single-family homes, on which the bank limits loans to $150,000.

With the rollover feature, the bank can tie mortgages to a shorter term cost-of-funds than on a fixed-rate mortgage, many of which stay on the books for 20 or 25 years.

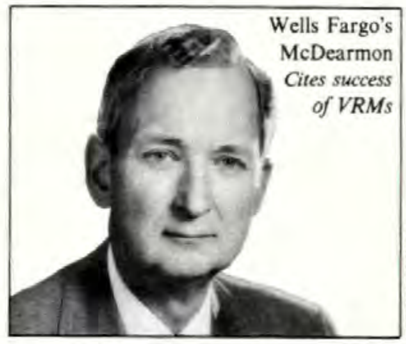
Haley believes the new instruments will enable banks to participate in the real estate market more aggressively, increasing the amount of mortgage money available. While the Bank of America has the largest real estate portfolio of any bank in the country, he said, "hopefully we can get other banks into the mortgage market, so that in times of tight money we won't see them all fleeing into corporate loans."

Public reception of VRM. The Bank of America sponsored the legislation recently signed by Governor Edmund G. Brown Jr. allowing the five-year rollover loans to begin next month. The legislation was endorsed by the savings and loan associations.

Since the bank adopted a VRM program a year ago, only 12% to 15% of its borrowers have opted for variables, according to Haley. To increase that percentage, the bank would have to step up its marketing efforts on VRMs and "perhaps place some restrictions on the fixed-rate mortgage," he said.

Anthony Frank, Chairman and chief executive of Citizens S&L, one of the associations that pioneered with VRMs three years ago, said the Citizens' VRM portfolio grows about 1% a month. By the first of the year, he expects 40% of the Citizens' mortgages to carry variable-interest rates.

Wells Fargo program. Wells Fargo was the first large commercial bank in California to adopt variables. The bank offers the option of a fixed-rate loan or a VRM up to $60,000, and it makes the VRM mandatory over $60,000. According to Fielding McDearmon, senior vice president for real estate loan administration, about one-third of the Wells borrowers choose the VRM even below the option point. In September, roughly 70% of the bank's new mortgage loans, in dollar amount, were VRMs. McDearmon says the bank probably will offer a program similar to the Bank of America's "if our customers want it."



Wells Fargo's McDearmon
Cites success of VRMs

GABRIEL MOULIN

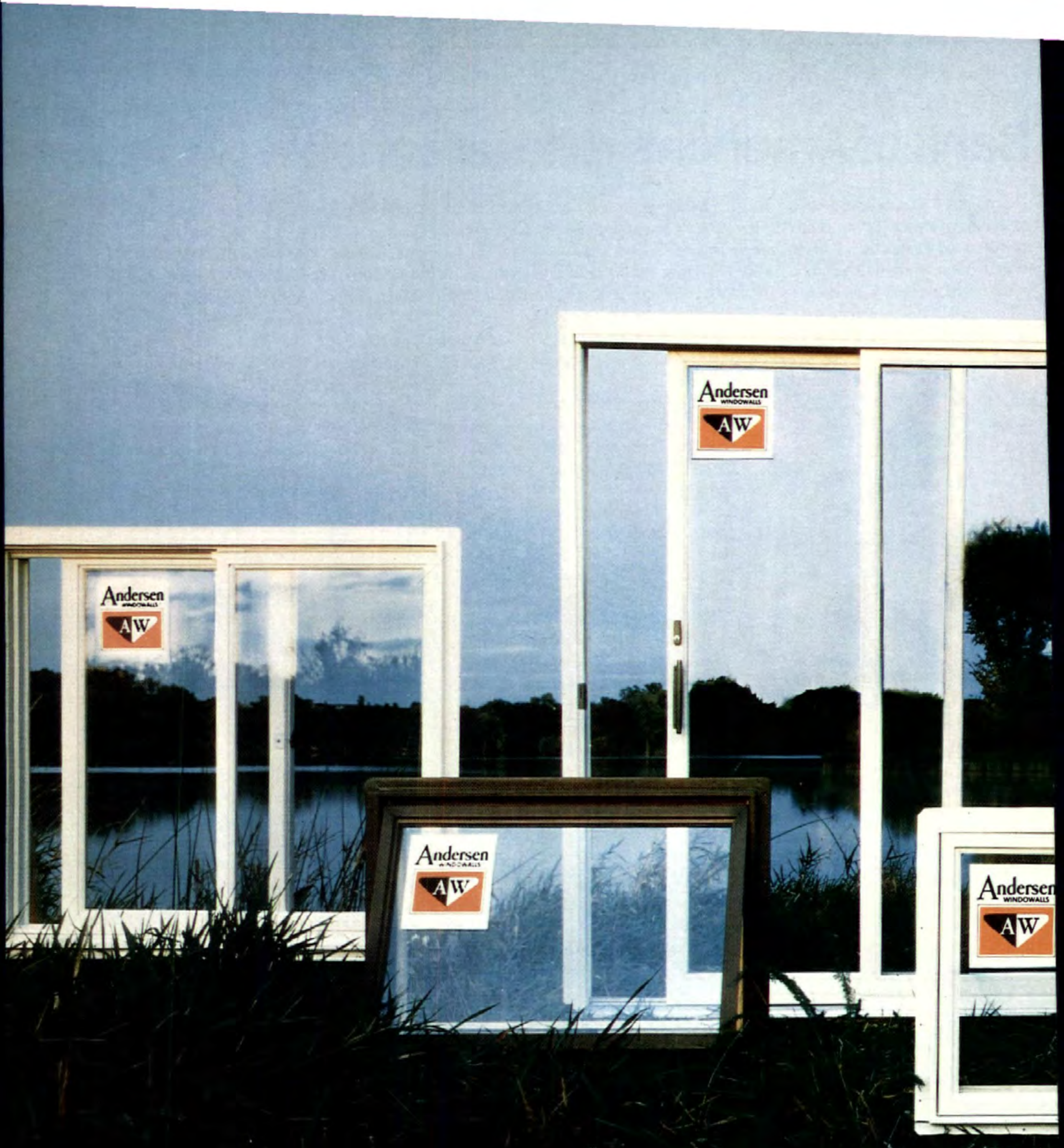
New Evans pass-throughs. In another development, Evans Products Co. of Portland, Ore., has announced that its subsidiary, Homebuilders Mortgage Corp., will make permanent financing available to buyers of its precut homes, and has entered into an agreement to sell pass-through certificates to private investors. Dollar Savings Bank of Pittsburgh and the Paul Revere Life Insurance Co. of Greenwich, Conn., have agreed to invest $5 million. Other institutions may participate later.

The certificates will represent investment interests in a pool of mortgage loans on certain customized homes sold by Evans' Capp Homes and Ridge Homes divisions. Homebuilders Mortgage will originate and process the mortgages to be placed in the investment pool, and will service them. Payments by homeowners will be passed through to the investors.

Construction loans, too. Evans offers 12-month construction loans through another subsidiary to finance the basic housing package.

This year, Evans expects to deliver 4,000 precut homes at an average price of $27,000. —JENNESS KEENE

McGraw-Hill World News, San Francisco



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Big builders' council dies quietly

The tumult and the shouting dies;
The captains and the kings depart.
Rudyard Kipling,
Recessional, 1899

The Council of Housing Producers, born amid fanfare and circumstance in 1968, is being counted out.

The man tolling the bell for the organization of those that were once the nation's largest corporate builders is the council's executive secretary, Rene Henry.

Henry, executive officer of a Los Angeles public relations firm, has been in his council post since the beginning. He says that the organization's death—which occurred quietly on Oct. 17—was from natural causes.

Henry had hoped to have the surviving members present to sign the death certificate at a meeting at Washington's Watergate Hotel October 18. "But," he explains, "we couldn't even get a quorum. Since I'm the only remaining officer, I've taken the legal steps to dissolve it. There wasn't any resistance from members."

What happened? The council's virtually unnoticed demise was a far cry from its heady beginning nine years ago, when the councilmen faced Wall Streeters and reporters at an elaborate press breakfast in the discotheque of a posh Manhattan hotel. The council, Henry says, has fallen victim to changing times and to a changing housing industry as well.

Housing recessions took their toll of the industry's giants of the 1960s. A roll call of the original council finds many members defunct or struggling back from the brink of bankruptcy.

'Limitless futures.' All was not so dismal in 1968. At their Drake Hotel opener in New York, the councilmen said they hoped to have an impact on both Wall Street and the federal government. Henry claims the council

Council's Henry
'Had considerable impact'

"had considerable impact on both. We informed and educated government and the investment community. We changed their minds about builders."

Initially, it was hoped that the Council would act as a counterweight to NAHB by giving corporate builders a separate voice, one that would be respected.

As Kaufman and Broad's Chairman Eli Broad said at the Manhattan breakfast: "A few years ago the financial community thought homebuilders wore overalls and went bankrupt regularly. But it is learning that this industry is studded by capable, sound businessmen—with limitless futures."

Those futures did have their limits.

Then and now. The council reached its zenith in 1972 with 14 members:

Alcan Design Homes Ltd. of Montreal (an Alcan Aluminum subsidiary); ITT Levitt & Sons Inc. of Lake Success, N.Y.; Kaufman and Broad Inc. of Los Angeles; The Klingbeil Co. of Columbus, Ohio; The Larwin Group of Beverly Hills (a CNA Financial Group subsidiary); Lewers & Cooke Inc. of Honolulu (a U.S. Plywood subsidiary); Wm. Lyon Development Co. of Newport Beach, Calif.; National Homes Corp. of Lafayette, Ind.; the Pearl-Mack Companies of Denver; Ryan Homes Inc. of Pittsburgh and U.S. Home Corp. of Clearwater, Fla.

At its death, the council included five active members: W.R. Grace Corp. of New York City; Lewers & Cooke; The Larwin Group; Levitt & Sons; and Leisure Technology Corp. of Lakewood, N.J. The rolls also listed Kaiser Aetna, although the land development combine was dissolved by its parents, Kaiser Aluminum and Chemical Corp. and Aetna Life & Casualty, last spring [H&H, April]. —T.A.

Another court bars racial hiring quotas

The Associated General Contractors has won a second round in its legal campaign against government-imposed hiring quotas based on race.

Federal District Court in Butte, Mont., has issued a temporary restraining order against implementation of a federal requirement reserving 10% of a $4-billion public works program for minority contractors. The ruling comes on the heels of a similar decision by a Federal District Court in Los Angeles [H&H, Nov.].

Builders' campaign. The AGC chapter in Indiana has been seeking a similar ruling in that state. In Pittsburgh, however, a federal court denied the contractors' request for a restraining order. The Pennsylvania AGC is appealing that ruling.

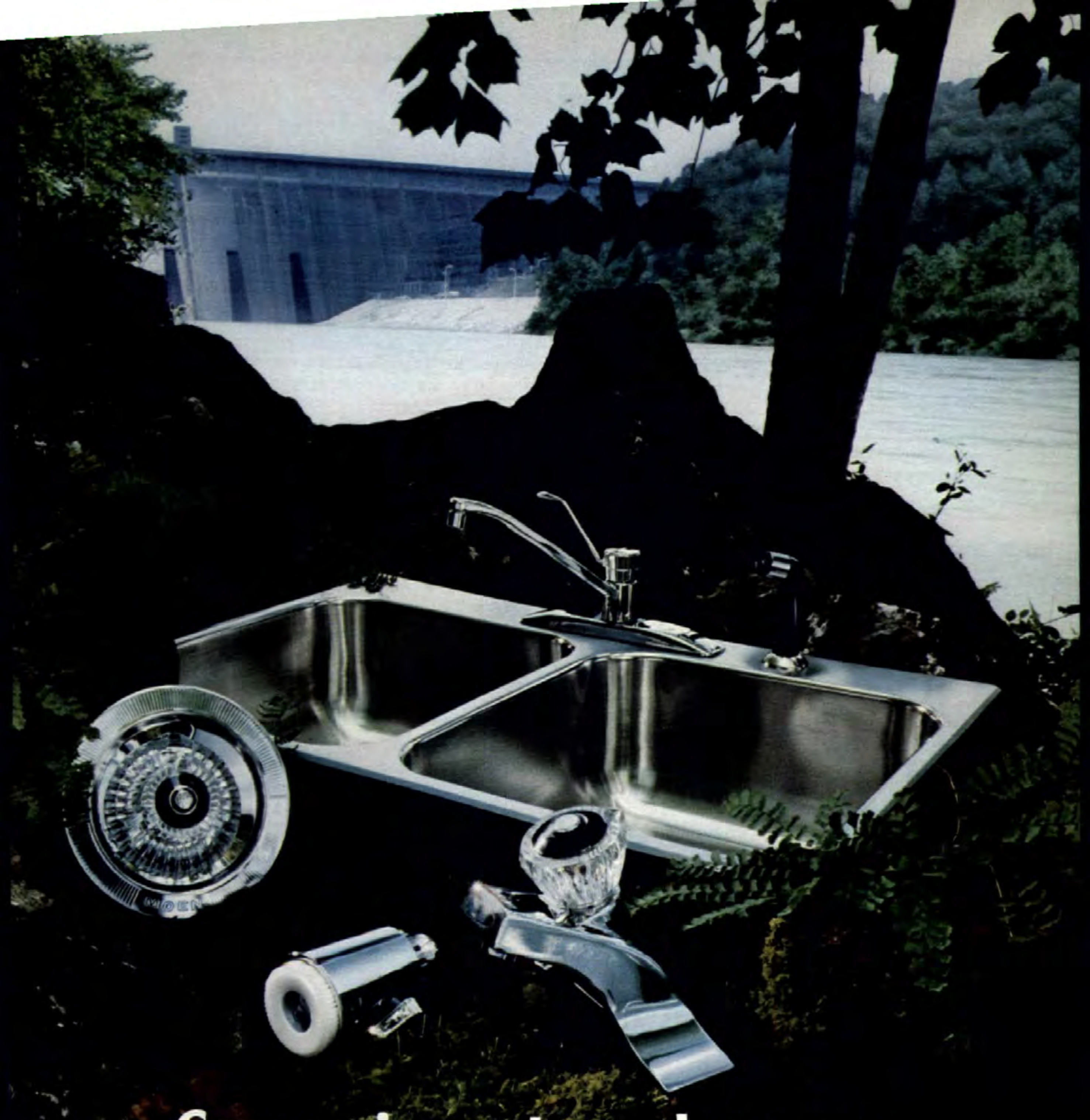
The dispute between the AGC and the Justice Department threatens to delay the award of contracts, possibly until the U.S. Supreme Court resolves the whole issue.

John Ellis, assistant executive director of the 8,000-member AGC denies that his association is attempting to halt the program.

Says Ellis: "We're for it. We lobbied for it." Ellis admits, however, that most of its projects will probably be delayed.

Defense of quotas. Justice Department officials, who defend the constitutionality of hiring quotas, claim the 10% requirement is realistic. Racial minorities, the department asserts, make up 17% of the U.S. population, yet minority-owned construction firms account for only 1% of the construction industry's gross receipts.

Congress approved the public works program—and the quota along with it—last spring.



Builders refuse to choke on a Danish

Boulder's Danish Plan came as a blow, but developers rolled with punch

Slow growth is normally the bane of a builder's existence. But if it minimizes the unpredictability of boom-bust cycles and allows the builder to earn a fair profit, can it be all bad?

In the university town of Boulder, Colo. (pop. 90,000), local builders have learned to adjust to a stringent slow-growth measure that has been in effect nine months.

The ordinance—called the Danish Plan after Paul Danish, the city councilman who pushed its enactment—limits construction of new housing units to just 450 per year.

Less land, higher costs. Even before the plan, developable land within the city limits was scarce and increasingly expensive. Now, says local builder Thomas Hoyt, president of McStain Enterprises, "it takes well over a year—once we've bought the land—for completion of all the necessary paperwork. Costs have gone up and so have the prices homebuyers have to pay."

While the new regulation has seemed to enhance the fortunes of local builders somewhat, it has driven the larger Colorado builders—such as the Writer Corp. and Witkin Homes (a U.S. Home subsidiary), both of Denver—out of Boulder and into the more receptive and more rural surrounding communities.

Under the new regulation only 244 of 368 allowable building permits were granted during the first round of allocations. Yet, explains Jim Leach, vice president and general manager of Wonderland Hills Development Co., local builders had a six-month breathing space between the time when the Danish Plan was proposed and when it took effect. In that time, he says, the Denver NAHB chapter assisted Boulder builders in scheduling up to three years worth of business in advance.

Sellers' market. James Pettit, president of JRP Construction Co., warns that the higher home prices caused by the ordinance may mean the end of low and middle-income housing in Boulder.

But the higher prices, Leach insists, have failed to depress housing demand "and the quota system promises to keep demand high." The artificially controlled housing supply, Leach adds, "stabilizes at least one of the elements of the boom-bust cycle in our housing industry."

In the Boulder suburbs, notes Pettit, builders have experienced an upsurge in sales—albeit, he thinks, a temporary one.

Says Pettit: "It could be that all the publicity about growth control will bring us [in the suburbs] a lot of homebuyers."

Jim Leach agrees with Pettit's assessment and cautions that "homebuyers looking for a traditional single-family home on a third of an acre in Boulder may be out of luck."

Gazing into his crystal ball, Leach sees homebuyers confronted with a difficult choice. "It just may be", he says, "that buyers wanting to live in Boulder will have to live in a comparatively expensive condo or just not live here at all."

High density housing, the Boulder builders agree, is the best and only way to at least partially satisfy existing demand while getting the most out of what land is available.

Bitter pill. The builders are unanimous in their hope that the Danish Plan will be replaced by a countywide comprehensive plan "that shapes growth instead of arbitrarily limiting it." Such a plan, however, is still in the talking stage and it will be awhile, the builders say, before it is enacted into law.

In the meantime, the Boulder builders will continue to swallow the bitter pill of regulation, a pill which has apparently produced few bad side effects.

—JOSLYN GREEN
Boulder, Colo.

Five more years for Petaluma Plan

The nation's pioneer slow-growth community—Petaluma, Calif.—has extended its controversial housing control system for five years.

This time, however, the restrictions seem less harsh than those in the original plan, which was upheld by the U.S. Supreme Court in a ruling that aroused wide interest last year (H&H, April '76).

While the interim slow-growth plan continues to limit construction to 500 new residential units a year, developments of less than 10 units are now exempt. Petaluma's 1972 ordinance exempted only those developments with fewer than four units.

Other exemptions. The Petaluma city council has also exempted low-income projects receiving federal or state funds and "congregate" housing projects for the elderly. Such senior citizens' housing provides separate living and sleeping accommodations but common kitchen and dining facilities.

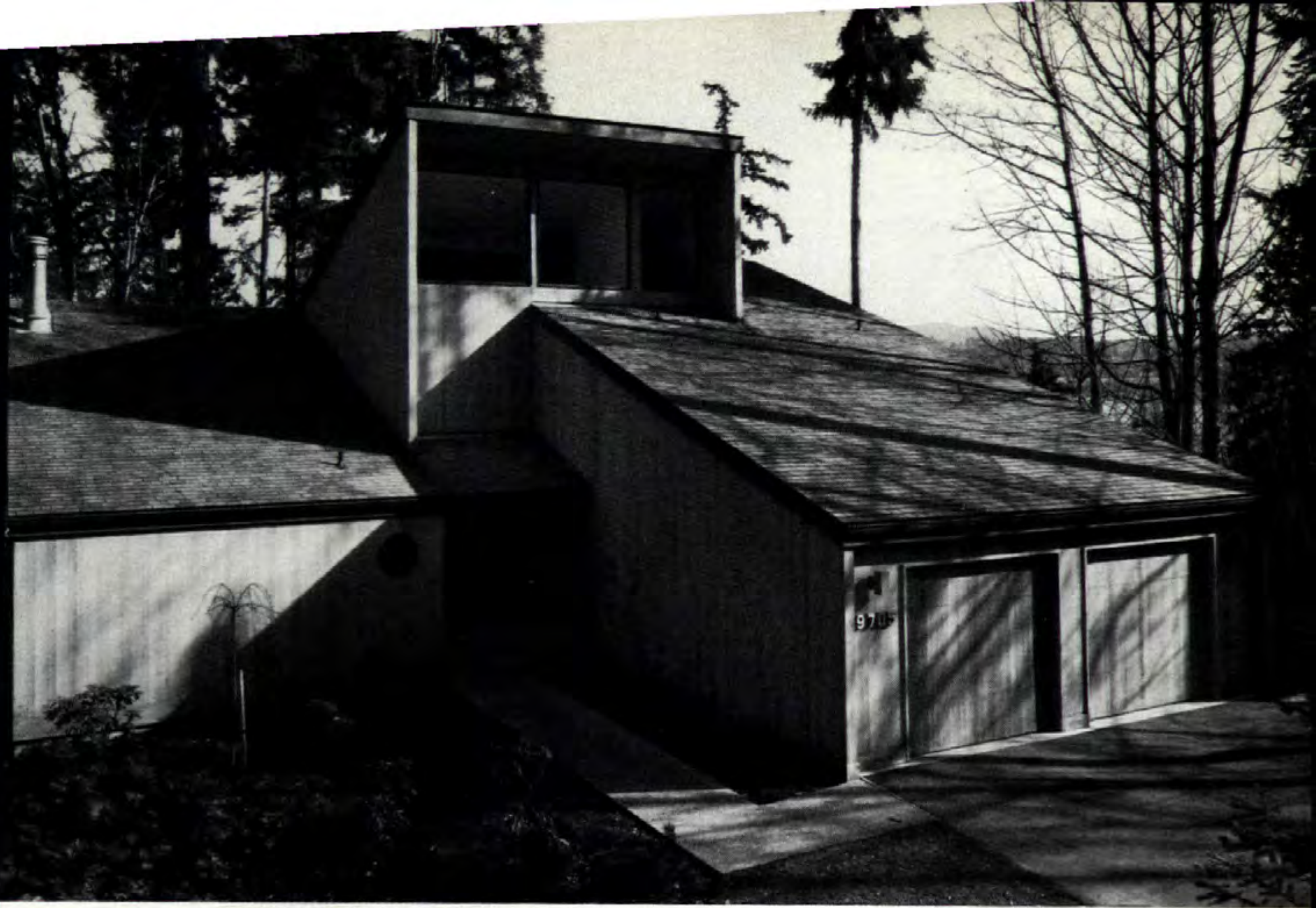
The council also asked developers to mix lot sizes and to mix multifamily units with single-family homes.

Like Boulder, Colo., Petaluma adopted its slow-growth measures five years ago to prevent overcrowding. The current plan foresees a 6% population increase per year until 1985. By that time the Petaluma population will peak at 85,000, up from 24,000 five years ago.

Contrasts. In Boulder, the Danish Plan limits population growth to just 2% per year instead of the 8% annual growth rate prior to the recent enactment of slow-growth measures *(see story above)*.

In Petaluma, housing is allocated by a citizens evaluation board. Boulder's Danish Plan, however, uses a merit-point system to determine which projects will be built.

—JENNESS KEENE
McGraw-Hill World News,
San Francisco



Residence on Mercer Island, Washington. Architect: Roger S. Hilbert, AIA. Builder: Greg Newitt, Seattle, Washington.

"Red cedar shingles and shakes never let you down."

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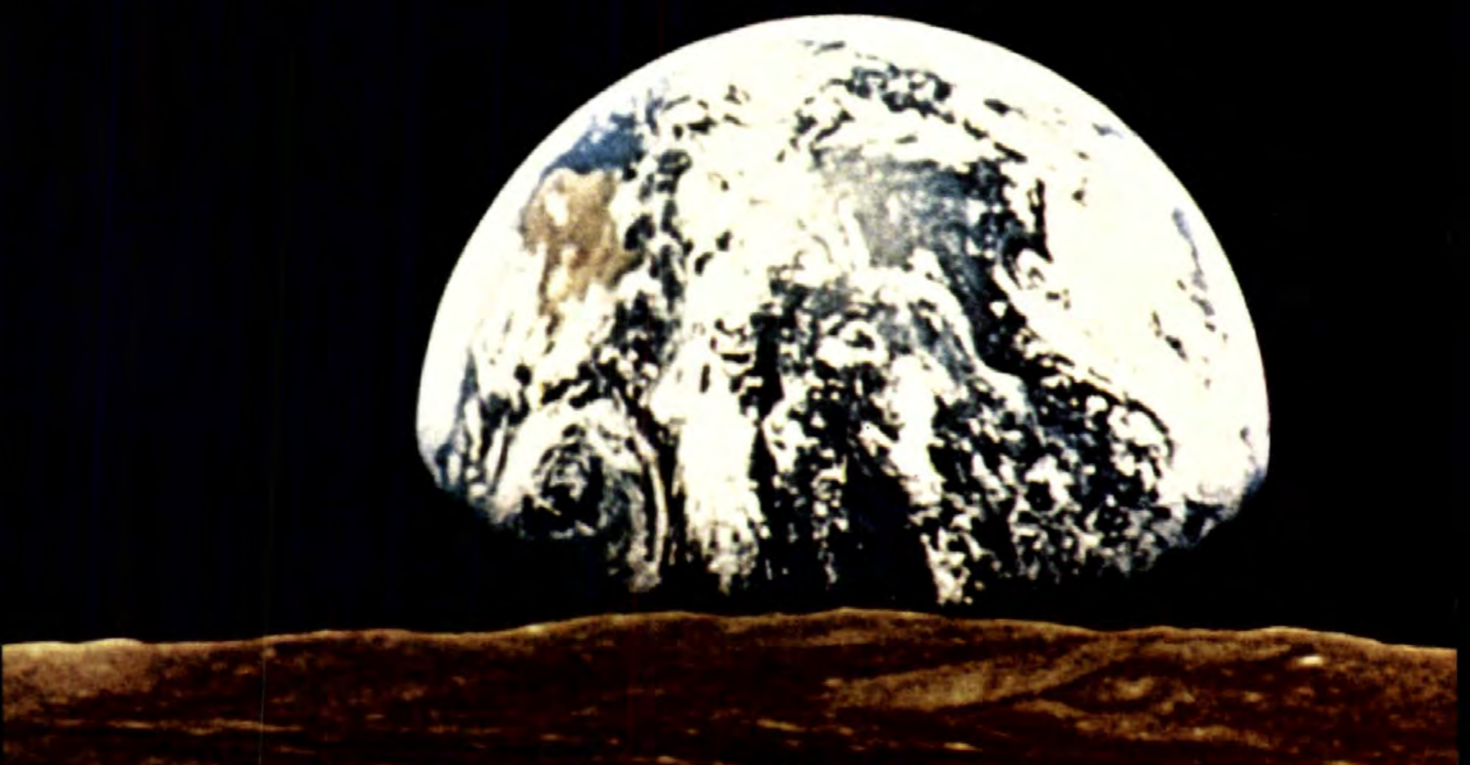

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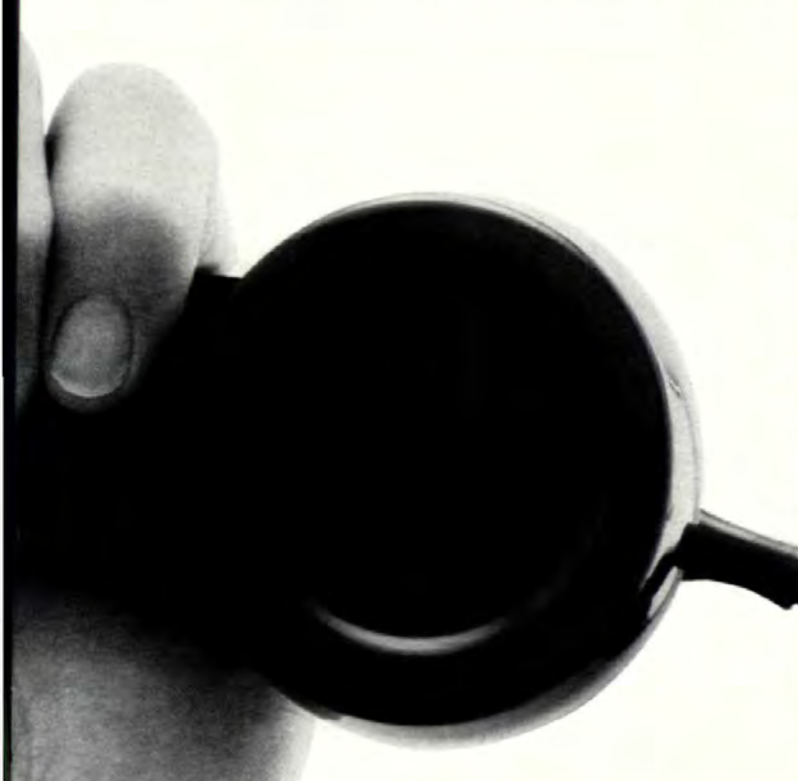

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Martin J. Lewis
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(704) 392-0311
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(412) 665-3600
Pittsburgh

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(513) 745-5400
Cincinnati

Troy C. Bybee
(502) 452-3531
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Circle 33 on reader service card

Local ad blitz saves resort condo..

The ads were largely responsible for selling out the 253 apartments housed in the 25-story tower.

And, report builders Gerald M. LaVay and Robert J. Harris of Washington, D.C., the ads have also led to an additional 110 sales in a second, identical tower going into construction on the eight-acre site.

Significantly, the turnaround was achieved without price-cutting; in fact, there was an increase in prices as the builders approached the sellout.

In the spring of 1976, however, the project, named Maisons-sur-Mer, was a white elephant on the sands of Myrtle Beach, S.C.

"We'd been open nearly a year but had sold only 75 units," says Douglas LaVay, general manager for the builders. "The whole operation seemed to be going nowhere."

Enter the ad men. Austin Kelley Advertising, an Atlanta agency appointed to help salvage the project, analyzed the market. It found:

- Myrtle Beach condos had been depressed for almost two years—there had been plenty of foreclosures—but

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...and culture boosts a Memphis project

Audubon Square, a 360-unit condo development that almost went under two years ago, is now selling up a storm in Memphis.

But there's a special twist to this turnaround. The project's impressive comeback—it's more than 80% sold out—is being staged in a market that, until recently, has stubbornly resisted condominiums.

What changed the sales climate?

Nothing short of a totally revamped marketing approach that now stresses both the economic and cultural benefits of condo living. Main thrusts of the new sales strategy:

- Price reductions for the project's nine floor plans. Low-end units, initially pegged at $25,950, were cut to $23,500. Prices for top-of-the-line models were lopped a full 15%, going from $49,950 to $42,500.
- Introduction of a buy-back feature, which provides for refunding the initial down payment after a two-year occupancy. The only condition: Buyers must give written notice after the 23rd month.
- Free on-site cultural events and entertainment. Presented every other Sunday, these include local musicians, dance groups and art shows, with magic acts and story tellers for children's days. Shows are open to the public as well as residents.

Birth pains. Audubon Square, one of some 40 condo developments started in Memphis four years ago, got into trouble early. By late '75, none of the units had been sold (40% were rented) and the project's main creditor—BankAmerica Realty Investors—was ready to foreclose.

Instead, BARI took a deed on the property and hired an experienced marketing executive to run the show.

Enter project manager Melvin Marlowe, a former vice president at Centex Corp. and the Donald J. Scholz & Co. He had also done a stint as marketing director of Levitt Building Systems.

Marlowe's new three-point program, launched early last year, paid off fast: 110 units were sold in the first six months. Results were so good, in fact, that the buy-back feature, which clinched many of the early sales, was discontinued 75 days after its offering.

Thus far, 292 of Audubon Square's 360 units have been sold, with total volume now exceeding $10 million. Average selling price: $34,500. (Single-family homes in Memphis now fetch an average of $36,212, up 11% from last year.)

The project's renting pattern also turned around. The number of tenanted units, once as high as 150, has been reduced to 12 as new owners move in and former renters convert to ownership.

On the rebound. The timing of Audubon Square's recovery coincides with a general upsurge in condo demand throughout the Memphis market. But it was a long time coming.

In 1973, the city was flooded with stylized condo projects. Emulating Bavarian villages, California ranch homes and Italian villas, they came mainly in mixes of garden and townhomes that were long on the amenities: pools, tennis courts and even some golf courses. That year's building binge produced more than 3,000 units.

The expected buying rush never materialized, however, and the market dried up before many of the developments were completed.

For the next two years, local condo business was marked by bankruptcies, unpopularity, mistrust and unfilled promises. Some 445 units were sold in 1975, but thousands went begging.

Conservative Memphis, in short, turned thumbs down on the condominium; it would stick with single-family homes.

Turn of the tide. Citywide demand for condos spurted last year—and it's still going strong. In the second quarter of '77, for example, a

37

the market was beginning to turn.

• Maisons-sur-Mer had been widely advertised all along the East Coast by two prior agencies but with scant results. There had been scarcely any attempt to learn who prospective buyers were and where they lived.

• The project had a lot going for it—an excellent oceanfront site, a complete recreational amenities package and five saleable floor plans (flats ranging from 1,662 to 1,899 sq. ft. and selling from $75,000 to $125,000). But this information was not getting to the right audience.

Buyer interviews. By interviewing families who had bought into Maisons-sur-Mer, the Kelley organization determined that the buyers were mostly successful empty nesters, earning $40,000 a year and up and seeking extra status through owning a second home on the beach front. By reviewing its own real estate files, the agency found plenty of similar prospects in the Carolinas and adjacent states.

"So we decided to localize the campaign," says agency president Austin Kelley, "and blitz only a few geographic markets with bigger and more numerous ads."

'Snob appeal.' Armed with a $350,000 budget, the agency created large-space newspaper and magazine ads and 30-second television commercials. They stressed the project's attributes through "interviews" with its condo owners (*see ad below*).

"Our approach was blatant snob appeal," notes Kelley. "We positioned the owners as people who had made it big, and suggested that others would do the same by purchasing a Maisons-sur-Mer home."

The ads originally ran only in the Carolinas; later, coverage was extended to Washington, D.C., Atlanta and West Virginia. In addition, space was purchased on 25 billboards along roads into Myrtle Beach.

The response was instantaneous; traffic picked up substantially at the project, with as many as 300 couples visiting during peak weeks.

And to further stimulate sales, the builders added their own marketing wrinkle.

"If a visiting family was qualified," says LaVay, "we invited them back to stay in a rental flat for a week or a weekend. We sold almost 100 units this way." —J.G.C.

PHOTOS: MANNY RUBIO

Snob appeal is intent of ad at right, which stresses condo project's attributes through quotes supplied by its apartment owners. Before local newspaper/magazine/TV/billboard campaign, only 75 units were sold in 25-story oceanfront tower (*photo above*). All 253 apartments are now sold and 110 additional units are taken in an adjoining twin tower just going into construction.

record 241 units were sold (average price: $31,265) and another 218 moved in the July-August period.

To date 3,416 units, or 76% of the Memphis condo stock, have found buyers; and 22 of the projects started in '73 are now at least 95% sold out.

Commenting on the recovery, Mel Marlowe says that people's attitudes have changed. "They've come to realize that condominiums are a shared experience, one that encompasses residential privacy as well as the social and amenity benefits of community life. People here now accept the life style offered by condos and see them as a viable form of homeownership."

Memphians, he says, have finally overcome their reservations about the condominium.

Cultural traffic. Although Marlowe readily admits that bargain prices helped to break down much of the initial sales resistance, he also feels that Audubon Square's cultural program played a major role in upgrading the condo's image.

"While we don't claim to have turned the market around," he says, "sales did begin to accelerate all over the city shortly after our first few concerts."

One thing is certain. The free concerts, roundly plugged by the local media, generated a lot of traffic—including people who had never seen the inside of a condo project before.

Says Marlowe: "Many who came for the music and dance had a chance to inspect our models at intermission time or after a performance—and they became prospects."

Dealer's accolade. The situation is perhaps best summed up by Gail Porter of Joyner, Heard and Jones, a Memphis brokerage firm responsible for on-site sales at Audubon Square.

"We used to think that being assigned to a condo project was a form of punishment," she says. "Now it's one of the most lucrative assignments you can get. In fact, six of our eight sales reps have each done at least $1 million in volume at Audubon square." —PORTER SMITH
Memphis

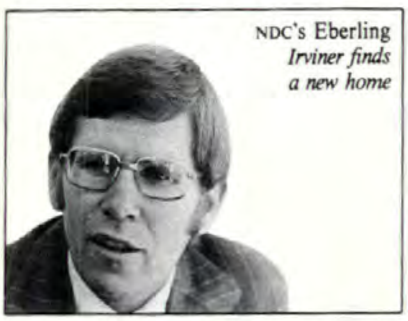
Traffic-generating concerts and other entertainments are held in aquascaped outdoor setting. Cultural events, offered every other Sunday, shift to the roomy clubhouse (*above*) in cold or rainy weather. Sales of Audubon Square units (*below*) went from zero to $10 million in 18 months.

Some builder leaders get back on top

Some former building-company presidents resurface and some other execs are annointed with presidential oil.

Stuart Golding, who occupied the president's hot seat at U.S. Home Corporation's headquarters in Clearwater, Fla., from June 1973 to May 1975, pops up as a prominent member of an Oklahoma construction partnership that is backing a shopping center in a 600-acre planned unit development in Tulsa. The project director is **Burt McIntosh,** a former executive with the Del Webb Corp. and Arlen Realty & Construction. Golding recently completed the $1.2-million Countryside Mall near his old USH stomping grounds in Clearwater.

In California, meanwhile, the ex-president of the Irvine Co., **Raymond L. Watson,** joins four other principals to form the Newport Development Co. Coming aboard with their old boss are Irvine alums **Lansing E. Eberling** and **Thomas C. Wolff Jr.** Joining the Irvine trio are **Donald N. Albrecht** and **William S. Lund,** who also continue as principals in Terramics Inc., a Los Angeles realty investment firm. Watson says his new company will be headquartered in Newport Beach and will buy vacant land for subsequent conversion to residential, commercial and industrial use.



NDC's Eberling
Irviner finds a new home

Another refugee from the recent Irvine shakeout, **Douglas M. Gfeller** [H&H, Oct.], finds a roost as president and chief operating officer of the new Atkins/Gfeller Co. of Tustin, Calif. The company, a subsidiary of the Atkins Co., will concentrate on the planning and development of mixed land-use projects.

Merrill Butler 3d is tapped to be assistant director of marketing at Butler Housing Corp. of Anaheim, an Irvine subsidiary. Butler's father, **Merrill Butler Jr.,** is company chairman and vice president/secretary of NAHB.

Vacant posts are filled at two Shapell Industries divisions. **William S. Effinger** is named president of the parent's San Diego division. **James C. Ghielmetti** becomes president of Shapell's Northern California division, with headquarters in Sunnyvale.

In the Midwest, **Donald C. Alexander** becomes vice president of sales and marketing for the Hoffman Group's Hoffman Homes division in Hoffman Estates, Ill. He occupied the same post at Pulte Homes' Detroit division. He succeeds **Tracy Cross,** who earlier was named vice president of corporate planning [H&H, Nov.].

In Silver Spring, Md., **Lewis M. Letson** is named executive vice president and general manager of Rossmoor Construction Corp., a new post.

Lee A. Perry moves from New Jersey to Florida to become vice president of Woodmont Construction Co. of Tamarac. She was assistant to the president and broker-sales manager for DCA of New Jersey Inc., with offices in Forked River, N.J.

Connie E. Schuchman is appointed vice president of administration for Homes by Dave Brown Inc. of Phoenix. She had been an administrative assistant with the company.

In Griffin, Ga., **Warren Davis** becomes director of field operations at Imperial Homes Inc., a Wick Building Systems subsidiary. Imperial, which has manufactured 7,500 homes during its 17-year history, was acquired by Wick last August.

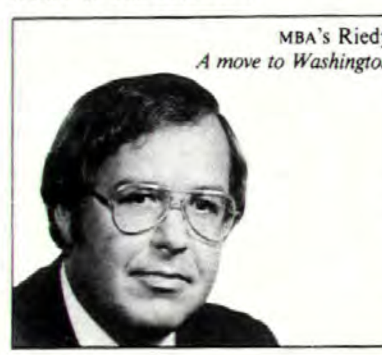
LENDERS: William L. Atteberry fills a presidential vacancy for the James T. Barnes Mortgage Co. in Detroit, a subsidiary of James T. Barnes & Co. Atteberry was president and chief executive of Mortgage Investment Securities Inc. of Clearwater, Fla.

John P. Rees is elected president of U.S. Mortgage Corp. of Clearwater, Fla., a subsidiary of U.S. Home. He succeeds **Theodore J. Eisch,** who resigns as the Federal Home Loan Bank Board's general counsel. No successor is immediately named.

DEVELOPERS: In Tarzana, Calif., **Gilbert O. Nielson** joins Griffin Development Co. as vice president for land planning, a vacant post. He had been a development manager for the Kaiser Aetna joint venture.

ARCHITECTS: Bruce Downing and **James Leach,** principals of Downing/Leach & Associates of Boulder, Colo., merge their firm with Environmental Design Consultants, another Boulder architectural company. The new company will be called Downing Leach/Environmental Design Consultants. **James Leese,** a former EDS principal, and **Robert K. Welton,** former associate architect and Downing/Leach business production manager, become principals. Downing Leach/EDC specializes in residential and mixed-use architecture and in land planning.

ASSOCIATIONS: The Mortgage Bankers Association names **Mark J. Riedy** to succeed Oliver H. Jones as its executive vice president. Riedy had been vice president and chief economist for the Federal Home Loan Bank Board of San Francisco.



MBA's Riedy
A move to Washington

ANKERS CAPITOL PHOTO

The American Land Development Association taps **J.B. Belin Jr.** as its 1977-78 president. Belin is president of Belin & Associates of Houston. **C. Randolph Warner,** president of Fairfield Communities Land Co. of Little Rock, Ark., is elected treasurer.

At its New Orleans convention, the National Apartment Association names **Henry Shane** to a one-year term as president. **Timothy Schaefer** moves up to first vice president. Shane is co-owner of Lake Development & Management Co. of New Orleans. Schaefer is president of Schaefer Management Co. of Madison, Wis.

PHOTOS: JOHN SIEBENTHALER, ELFERS

Play room designed for very young children is decorated like a zoo, with the closet space turned into a monkey cage. The floor is carpeted with a game rug; and a 4x4 post, wedged between floor and ceiling, is fitted with dowels so visiting children can hang hats and coats.

Train room has an authentic looking caboose that rests on tracks made of stairway banisters. The caboose can serve as a closet. Storage space beneath the bed frame eliminates need for other furniture, leaving ample play space.

Bunkhouse theme room includes a sawhorse for young equestrians, a cast-iron stove, wagon-wheel wall decor and a weathered tree trunk on which young cowpokes can hang their clothes. Shutters on window simulate a corral fence.

Kids' rooms that sell houses to the parents

The appeal: decorating ideas that turn secondary bedrooms into fun places for children. The rooms are in Rutenberg Homes' models—and the ideas can be duplicated for about $500 by using working drawings that the builder gives free to buyers.

The buyers: a growing market in Florida—families headed by young executives who are replacing empty nesters and retirees as Rutenberg's primary customers.

The purpose: to maintain the company's image as an innovator in design and merchandising.

So says Dennis Eckel, marketing manager for the custom division of U. S. Home Corp., which sells through model-home centers located along Florida's west coast.

"The change from older to younger buyers means we're selling mostly three, four and five-bedroom houses," he says. "So we need varied interior design that families will continue to talk about after they visit our centers."

The rooms have become more than talking points, Eckel says: "The excitement generated by the offbeat decorating concept translates into enthusiasm for the design of the entire house."

An added bonus: Children tend to stay in the theme rooms; so their parents are free to tour a model in leisurely fashion and discuss contract details without interruption.

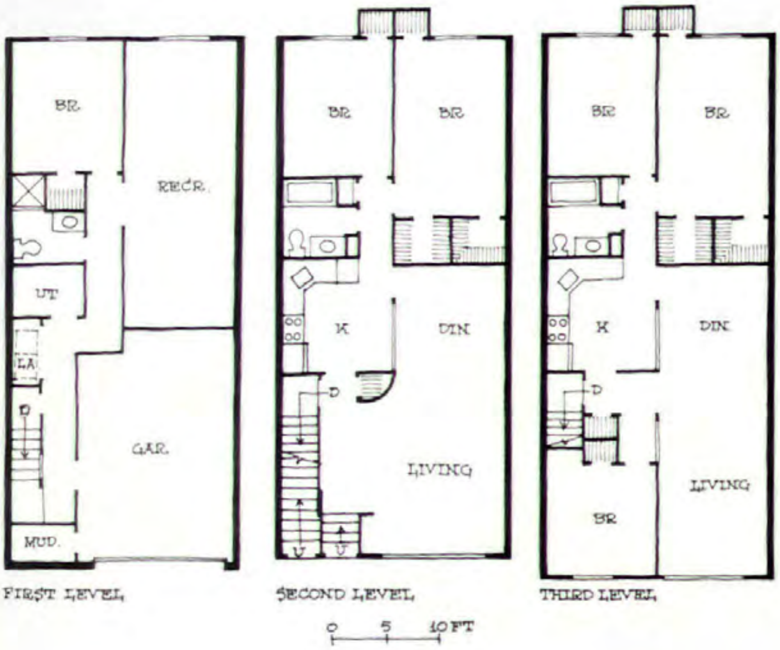
Base prices for Rutenberg's houses range from the mid-$40,000s to over $100,000. The theme rooms were created by Tom Cornett, manager of the company's in-house design staff. The Rutenberg division is headquartered in Largo. —J.R.V.

Want to ease buyer carrying charges?

Add a rental unit to your homes

CHRIS SIRAKIDES

Five-unit townhouse grouping *(photo above)* displays project's Tudor-style architecture. Density of 97-unit section is 10.7 per acre. Building lines are broken by varying setbacks and roof pitches. Below: Floor plan of single layout offered shows top-floor rental apartment. The architect: Stanley Laswood.



Developer Peter Del Pesce tried that approach (not new, but unique in this case because of the number of units involved) in the townhouse section of his attached-housing project on New York's Staten Island.

It worked so well that he sold all 52 units of the section's first phase in eight months. And many sales were to buyers who ordinarily would have shied from the $73,990 price tag.

"Our buyers get $300 a month from the rental units," says Del Pesce. "That covers a lot of their mortgages and taxes."

Sales resistance melts. The rental-unit approach is permissible under the zoning regulations in New York City and in other densely populated urban areas. Del Pesce's plan drops monthly carrying charges for townhomes below $270 *(see table below)*.

"When buyers see that bottom line, their sales resistance just melts," says sales manager Dennis Sperico.

Each townhouse contains a six-room, 1,056-sq.-ft. apartment on the top floor of the three-level unit *(floor plan at right)*. Buyers have the lower two floors (1,744 sq. ft.). They are mostly home owners from nearby Brooklyn who need bigger houses for their growing families.

The project. Del Pesce plans to open a final phase of 45 townhouses early next year. He is also building fourplex condos and two-family attached homes in the 23-acre project, called Green Tree Estates. When built out, it will contain 252 homes (not including rental units). —JOEL G. CAHN

Here's how the rental unit cuts monthly buyer charges

Sales price	**$73,990**
Paid on contract	7,400
Paid on title	7,590
Closing costs	1,250
Mortgage (30 yrs. at 8½%)	**59,000**
Interest & Amort	453.66 mo.
Taxes (est)	115.00 mo.
Less rental	$300.00 mo.
Total monthly costs	**$268.66 mo.**

In Delray Beach, Fla.

One size fits all at a three-market project

There's no choice when it comes to house size at Bass Creek, Delray Beach, Fla.; its three models all have about 1,400 sq. ft. of living space. They're all priced the same too—$43,500 with a $4,000 premium for a few lots bordering a canal. But buyers haven't complained. In fact, the 183-house project scored an eight-month sellout.

Why did same-size houses sell so well? Because that 1,400 sq. ft. is arranged three very different ways:

• *For families*, there's a plan with a lot of room for formal and informal activities (*top right*). A front porch (*photo top of page*) contributes a sense of spaciousness to the living room, and sliding glass doors open the family room to backyard play areas.

• *For young couples*, there's a plan with sophisticated touches (*middle right*). The bath off the master bedroom has a glass-walled shower with a view of a private garden, and there are sliding glass doors that open the bedroom to the same garden. (This plan was initially Bass Creek's best seller, but the other two caught up as sales progressed.)

• *For empty nesters*, there's a plan designed for privacy. Its two bedrooms are isolated at either end of the house (*bottom right*). One is a master suite with sunken tub in the bath, the other was intended for guests. (As it turned out, only 50% of the buyers were empty nesters; this plan also appealed to younger couples.)

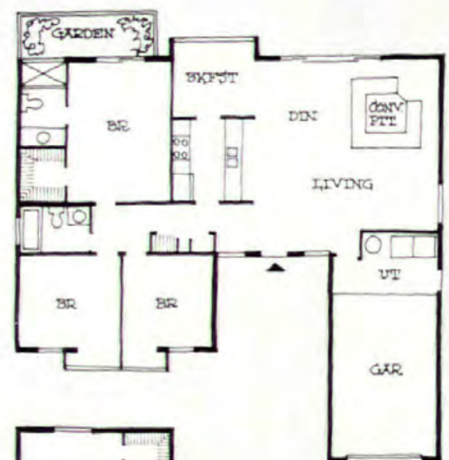
Why the one-price, one-size approach in the first place? "It's an attention-getting device," says George Fuller, general partner in the project which was joint-ventured with the National Corporation for Housing Partnerships. "Furthermore, it puts prospects in a better frame of mind. There's never the problem of choosing between the model they like best and one that's less expensive."

Another technique Fuller used: He instituted evening sales hours, unheard of in his area. "This brought us a great deal of business," Fuller says. "Most of our buyers are working couples, even those with children, and they don't want to devote their weekends to house hunting."

—BARBARA BEHRENS GERS

FOR FAMILIES

Family-oriented model (*photo above, plan left*) features front porch shielded for privacy. Builder Fuller used wood on exteriors and wood windows, a look currently very popular in Florida.



FOR YOUNG COUPLES

FOR EMPTY NESTERS

In Largo, Fla.

Low-end single family tailored to the market

The houses at Pinebrook, Largo, Fla., are inexpensive—$34,480 to $42,480—but that's not the only reason 132 have been sold in 13 months. Sales were brisk because the builder pinpointed the preferences of local moderate-income buyers, and tailored its houses to suit them.

For instance, market research showed that working families on Florida's west coast were tired of traditional white stucco/tile roof exteriors. So Pinebrook's houses feature brick and wood detailing and shingle roofs *(rendering below)*.

This market also wanted:

• More open, up-to-date interiors. Consequently, floor plans allow for a free flow of activity between living and eating areas.

• Two-car garages. Even the smallest (959-sq.-ft.) plan shown below has a two-car garage. Most comparably-priced houses don't offer enough storage for families owning one or two cars plus a boat or bicycles.

• An attractive land plan. Care was taken to preserve trees and lakes on the site, and to provide an impressively landscaped project entry.

Pinebrook is a joint venture of Beacon Homes by Hoeldtke, based in New Port Richey, Fla., and the Pinebrook Development Co. When built out, Pinebrook should have 630 single-family houses. —B.B.G.

How to get lots of exposure for little cash

Reach the people who steer the prospects.

That's what the marketers of Piercefield Forest, a low-end single-family project in Richmond Hill, Ga. did.

The method: A builder/broker luncheon followed by an afternoon cocktail hour on site.

"We got a lot of mileage out of that luncheon," says project manager Kenneth Kimbrough, "and it cost less than $1,800.

"Realtors traditionally sell new houses in the Savannah area, so we got them together with the promise of a free lunch and a sneak preview. This gave us the chance to describe the project to them and make suggestions on how to sell it."

Turnout. About 90 brokers and influential members of the community attended, almost a 50% response to the developer's invitations.

The $1,735 bill included the cost of printing invitations ($365); lunch at a local motel ($427.50); drinks and hors d'oeuvres at the model house ($742); the wages of two hostesses ($50); and a photographer ($100).

The idea of staging the luncheon came from marketing consultant William E. Becker of Teaneck, N.J.

Sales. There have been 40 sales in the project's first five months. Current prices range from $30,800 to $34,700.

Piercefield Forest was developed by Richmond Hill Realty Corp., New York City, and William E. Gilbert of Greenwood, S.C. Four Savannah-area firms are building in the project: Burnsed Enterprises; Kilpatrick-Smith Construction Inc.; Remler Construction Co.; and Haynie & O'Neil Enterprises. —B.B.G.

Typical Piercefield Forest house is this 1,123-sq.-ft. model priced at $34,700.

The California Marketing Scene

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HH 12/77

Tomorrow's truly energy efficient home needs today's new gas appliances.

Energy-efficiency means conserving energy and saving money. That's important to every family building a home today, and that makes it important to *you*.

Helping people achieve energy-efficiency in their new homes is part of the builder's job. People respect your knowledge and listen to your advice. So when they're considering appliances, tell them about the new breed of energy-efficient gas appliances available today. They're up to 50% more efficient than the ones offered just five years ago, with features like pilotless ignition, better insulation and improved heat transfer.

For the big household jobs—cooking, heating, drying clothes and heating water—gas is the most efficient energy there is. And people will appreciate your telling them that, because it means they'll be saving money for years to come.

True energy-efficiency means making the best possible use of our energy resources. Today's gas appliances do just that.

To state it simply:

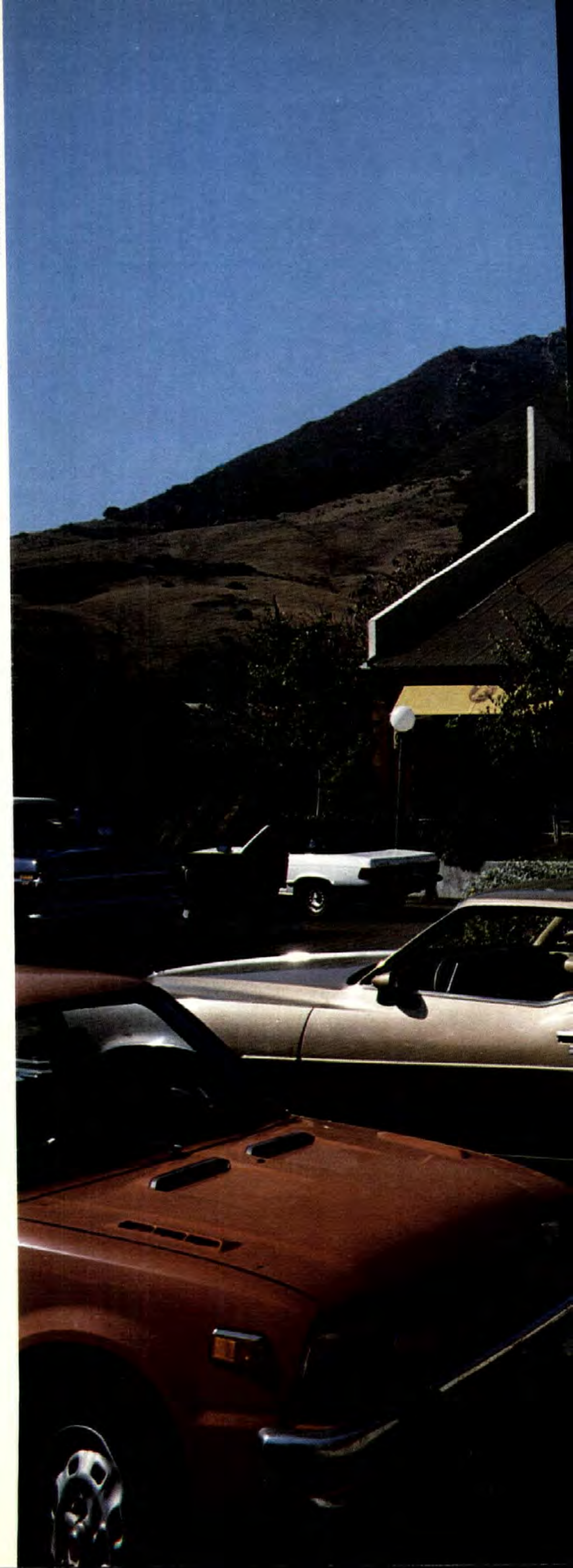
New gas appliances are good for your economy!

Gama

GAS APPLIANCE MANUFACTURERS ASSOCIATION

Circle 53 on reader service card

JOSHUA FREIWALD. COURTESY AMERICAN PLYWOOD A



Is there a non-res opportunity in your backyard?

Chances are there is—especially in small (roughly $1 million) commercial or light industrial projects. Such jobs are generally shunned by big commercial developers because they're too small to be worth the effort. But they're very much in scale with the operation of a typical small-to-medium volume homebuilder. And they can offer such a homebuilder a number of advantages: tax shelters against for-sale housing profits, a chance for equity growth, steady cash flow and something to do when the housing market goes sour.

The possible variety of non-res opportunity is almost infinite. Here and on the next 12 pages are six examples that homebuilders have tried—and profited from.—JUNE R. VOLLMAN

Colorful shopping center *(right)* was created by remodeling a milk processing plant in San Luis Obispo, Calif. To learn more about this offbeat center, turn to page 65.


The
Yarn Barn

offices

with an R.O.I. of 20.4%

by its two custom ...

They want it as something to fall back on when they no longer build homes or when the homebuilding industry eases into the doldrums.

When they started this building several years ago, they sought a long-term equity position rather than a quick profit. So they decided to concentrate on prestigious offices that would attract both national and local companies.

The builders are Hill Colbert and Thomas Pariseleti. They still operate the same custom-home businesses they ran before teaming up for this venture. They had intended to build a small office building for themselves. But in looking for a site, they found that the area had no top-quality office space.

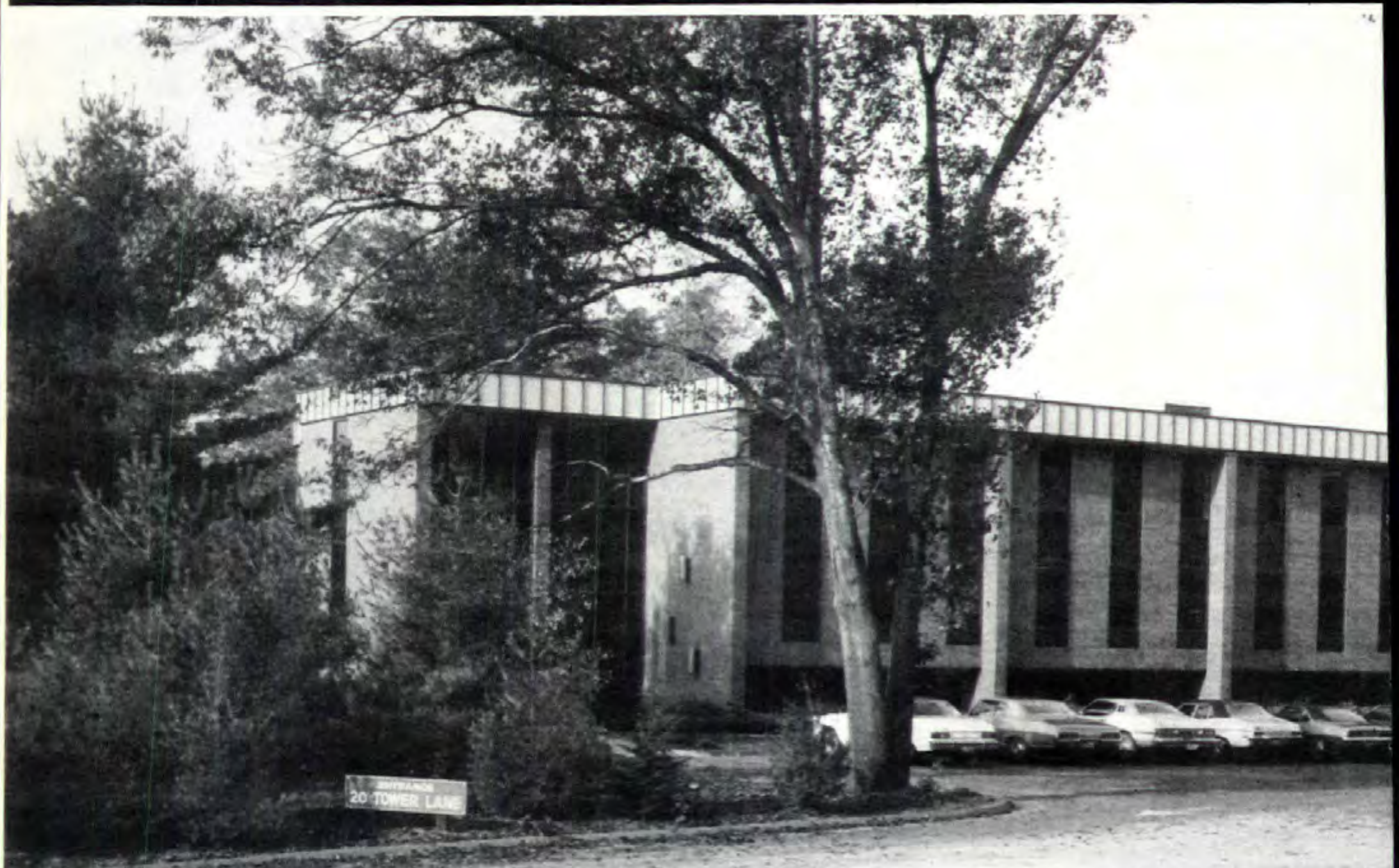
"Executives for whom we built homes had complained about the long commute to their Hartford offices,"

They built in a program for refinancing the project

Colbert and Pariseleti knew that they probably would have to wait for a new office location to catch on. So, after preparing a feasibility study on the basis of immediate rent-up *(table facing page)*, they worked out another to determine whether they'd be able to refinance up to $850,000 if the building didn't attract tenants right away.

The first study incorporated a rental rate of $7 per square foot, which Colbert says was conservative because market rents were increasing above that figure. So in the second study, the partners upped the rent rate to $8.

"We found the extra $1 per square foot would increase our cash flow by $4,000 and our R.O.I. to 23.3%, even



though expenses and mortgage payments would both be higher," Colbert says.

That convinced the partners they would be able to refinance if they had to, so they decided to proceed.

This long-term planning paid off. Initial rent-up was slow, the building was refinanced for $850,000, and by the time leasing picked up, market rates were at $8 per square foot.

While the partners were building the offices and waiting for tenants, they also built and sold a 124-unit rental project and a 36-unit condo.

"We put the profits into the office building so it would eventually be the equity investment we were looking for," Colbert says. "We also continued to build custom homes. That's how we supported ourselves."

They chose a site that would let them expand

The partners' decision to build a spec building was based on more than gut feelings that they could make a go of it. They had commissioned a research study of the entire Farmington Valley area and it showed that growth was on the way, Colbert says.

"So we decided that if our first building was successful, we should have enough land to expand."

The site they chose was in a wooded area where they could spot their buildings in a park-like setting and work out an intertwined parking arrangement *(see site plan below)*. "We didn't want to expand haphazardly, so we decided to master plan the whole site right from the beginning," Colbert explains.

They worked with people who understood the office market

The first experts were commercial real estate people. "They told us the type of space people coming into the area were looking for," Colbert says. "And on that basis we decided we'd cater to both small and large firms."

The second set of experts were architects and mechanical engineers who were familiar with office structures *per se*. "We told them what we wanted aesthetically; they worked out the details," Colbert says.

The final expert was a commercial leasing agent. Colbert recommends that kind of arrangement for a first venture in offices "because a commercial agent knows which local companies are expanding, who is moving into an area and the best way to reach them."

Colbert says one of the most important things the partners learned soon after they began this venture was to split their duties.

"When we first started, both of us were out in the field discussing every detail and accomplishing nothing.

"So we split the responsibilities. I handle financing, leasing and management. Tom (Pariseleti) oversees construction.

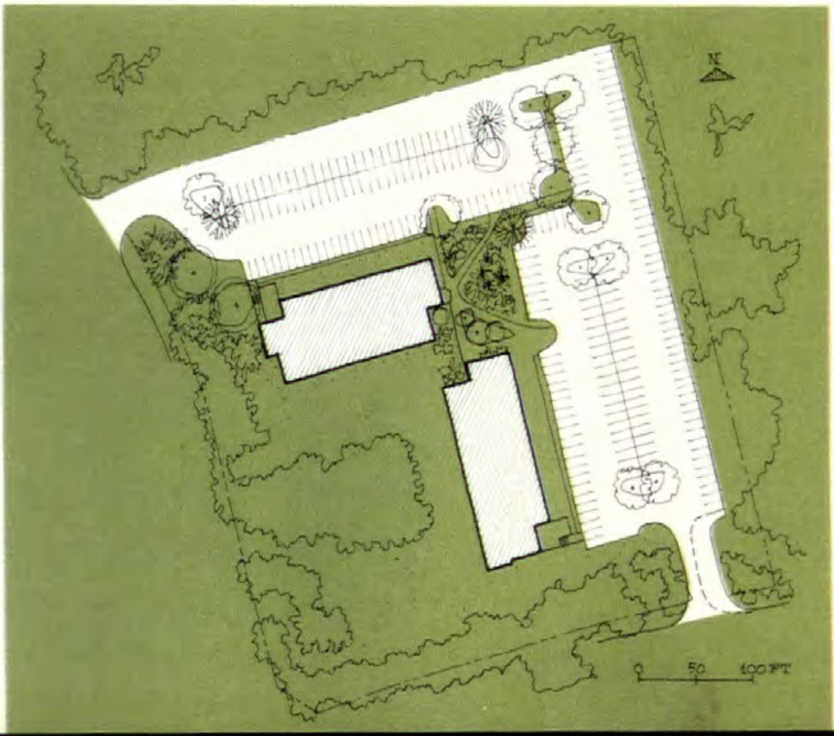
"No decision is made without both of us agreeing. But we don't interfere with each other in dealing with other people."

Wooded site *(plan right)* was master-planned so that a maximum number of its mature trees would remain when all work is completed. Scaffolding for the second building, scheduled for completion this month, can be seen at right in the photo above. Architect: Associated Architects.

INITIAL FEASIBILITY STUDY

TOTAL COSTS		$890,333
Hard costs	$710,090	
Soft costs	180,243	
MORTGAGE - 9¼% - 27 years		750,000
EQUITY IN PROJECT (cash, builders' profit, overhead)		$140,333
ANNUAL GROSS INCOME (25,000 sq. ft. @ $7)		$175,000
Less 5% vacancy factor		8,750
		$166,250
ANNUAL EXPENSES		$137,622
Management, taxes, maintenance, insurance, utilities, miscellaneous and reserve	$ 61,947	
Mortgage	75,675	
CASH FLOW		$ 28,628

RETURN ON INVESTMENT—Cash flow divided by equity = 20.4%



Upgraded warehouse with an R.O.I. of 25.9%

Smaller users' industrial buildings seldom look like this warehouse/office. They are usually square or rectangular, have sterile facades and are built to minimum standards with low-cost materials.

This building is L shaped; its stucco facade is relieved by deeply recessed entrances that are roofed with Spanish mission tile; glass is bronze tinted; and both walls and roof are insulated.

These extras, says custom builder Gil Tanzer of Phoenix, are the reason this spec building was an instant money-maker.

Despite a glut of industrial space, it took Tanzer only two weeks to rent his new building to a single tenant at rent well above the market.

"The lease throws off a very good profit on the building as well as being a nice tax shelter," Tanzer says.

The lessee is an electronics manufacturer that deals with foreign dignitaries. The company was willing to pay high rent for an impressive headquarters that would enhance its marketing position.

In the following sections, Tanzer discusses his program for building this warehouse/office with extras. He also tells of mistakes he made.

In upgraded design, key word is livability

Tanzer had one other non-res project under his belt before he started this one—a similar building constructed for his homebuilder brother. His criteria for commercial construction are the same he uses in his custom homebuilding business, where he limits himself to houses that cost $150,000 or more.

"I want to make the buildings livable—attractive places to work," Tanzer says. "So I don't look at non-res the way most commercial builders do—that is, what is the cheapest, most cost-effective way to build?"

Tanzer admits the market for high-quality warehouse/offices is limited. "It's like the auto business. You don't find as many Mercedes as Chevies because you couldn't sell them," he says.

Entrance elevation of warehouse/office faces a landscaped driveway, an "oasis" in the desert location.

FINANCIAL ANALYSIS

TOTAL COSTS		$415,400
Building (including site work)	$260,000	
Land	60,000	
Tenant improvements	70,000	
Financing (interim and permanent)	14,400	
Soft costs (landscaping, architectural fee, etc.)	11,000	
MORTGAGE - 9¾%		360,000
CASH IN PROJECT		$ 55,400
ANNUAL GROSS INCOME		$ 68,640
ANNUAL EXPENSES		49,200
Mortgage	$ 39,600	
Taxes	8,400	
Utilities	1,200	
CASH FLOW		$ 19,440
Less reserve for maintenance and operating expenses		5,040
		$ 14,400

RETURN ON INVESTMENT—Cash flow divided by equity = 25.9%

The type of tenants depends on your location

Tanzer's building is on a 1.7-acre site in Thunderbird Industrial Airpark at the Scottsdale (Ariz.) Airport.

"Industrial buildings, including small-user warehouse/offices, must be near a major transportation artery—rail, road or air," Tanzer says. "The type of transportation determines the kind of tenants you'll attract."

Tanzer chose the Scottsdale site for two reasons:

- Air transportation. "Our building is adjacent to an aircraft parking ramp, so executives can taxi right up."
- Market demand. "A lot of people were looking for space at the airpark. So it looked like a good spot for a spec job."

The market was so good when Tanzer started that he didn't try to pre-lease until construction was well under way.

"That was one mistake," he says. "When my building came on-stream in January 1976, there were over a million square feet of vacant industrial space in the greater Phoenix area."

Tanzer thinks upgraded buildings such as his will do well in industrial parks located near upper-middle-class bedroom communities that are beginning to sustain their own economic support.

"People first move to bedroom communities to get away from business areas," he says. "Then they realize they're commuting too far and start looking for industrial or commercial space near their homes."

Space, if flexible, suits a variety of tenants

Because Tanzer was not pre-leasing, he looked closely at the type of space occupied at the airpark. Most users seemed to need units of 1,200 or 2,400 square feet. So he developed a design module that would accommodate those sizes.

"We also wanted to be flexible enough to combine the modules," he says. "So our roof structure spans the entire building. It doesn't depend on any interior bearing walls. The only interior partitions in our basic building were those required for fire-code division."

For further flexibility, Tanzer limited interior improvements to A/C, sprinklers and roughed-in plumbing and electrical. So it was easy to convert the building to single usage.

Signing a single tenant has one major drawback, Tanzer says. "You're pretty well locked into a single-purpose building permanently. Removing improvements and converting back to multi-tenant use would be expensive."

Tanzer anticipated that problem, so he worked out a deal for his present tenant to buy the building at the end of the lease.

Tanzer had two investing partners who put up all cash. His input: time, overhead and supervision, for which he wasn't paid.

That was his second mistake, he says. "I would never do it that way again. A job like this is totally time consuming, and the builder deserves a fee."

PHOTOS: MARKOW PHOTOGRAPHY

Component assembly area *(above)* occupies about 60% of the building. Note the absence of interior partitions, which allowed the space to be designed as one open area.

Recessed entrance porches *(left)* are examples of the upgraded architectural detailing in the building design. Architect: Loren A. Dickenson Jr. AIA.

Neighborhood shopping center with an R.O.I. of 13.4%

Lakes Plaza is the first of several neighborhood centers scheduled for the Village of Pembroke Lakes, a 1,600-acre PUD in Pembroke Pines, Fla.

The developer, Pembroke Lakes Ltd., had planned to sell the shopping center site to a commercial builder. But no one could be found who would go along with tough, long-term usage standards set down by the developer.

"So we reluctantly took on the job of building it ourselves," says managing partner Morton Kalin, "even though that kind of work wasn't our ball game."

Now that Lakes Plaza is operating at a healthy profit, the company has reversed its policy on commercial sites. "The bottom line looks so good we'll probably build the rest of the centers," Kalin says.

Kalin is no novice at construction: His credentials include single-family houses, a golf course community and a couple of schools. But he knew nothing about shopping center construction, so he brought in Gerald Higier as a consultant.

Higier is a partner in Webster-Stone Inc., which develops small (60,000 to 100,000-sq.-ft.) centers and acts as a consultant to other developers.

In the following sections Kalin and Higier discuss some ways to bring in a successful center like this one.

A pro can be helpful from planning to rent-up

Lakes Center incorporates Higier's expertise on site layout, building and store dimensions and the parking setup.

Higier's expertise smoothed other paths for Kalin. The consultant negotiated the financing and developed a leasing format for Kalin's staff.

Kalin says that planning a center is much like planning an apartment project: "Rental builders know what mix they need—how many one, two or three-bedroom units their market can absorb. A shopping center works the same way; some merchants require 15′ × 60′ stores; others need shallower space.

FINANCIAL ANALYSIS

TOTAL COSTS		$966,800
Building A - 7,800 sq. ft. @ $18	$140,400	
Building B - 9,600 sq. ft. @ $18	172,800	
Building C - 9,600 sq. ft. @ $18	172,800	
Land	214,800	
Site work	150,000	
Financing - 12 months - 9%	46,000	
Soft costs (architectural fee, landscaping, permits, consulting fee)	70,000	
MORTGAGE - 9½% - 25 years		$750,000
EQUITY INVESTMENT		$216,800
ANNUAL GROSS INCOME		$170,740
Building A @ $6.54 to $8.00 per sq. ft. (bank, pharmacy, food store, knit shop, TV sales and service, restaurant)	$ 49,580	
Building B @ $6 per sq ft. (restaurant, dry cleaner, lawn and garden center, beauty parlor, plant store, pediatrician, dentist)	56,400	
Building C @ $6 to $7 per sq. ft. (three home-builders, doctor, real estate office)	58,500	
Covered Parking	960	
Common area maintenance - 26,500 sq. ft. @ $.20	5,300	
Less 5% Vacancy Factor		$ 8,537
		$162,203
ANNUAL EXPENSES		$132,951
Taxes	$ 10,500	
Insurance	5,400	
Utilities	3,840	
Repairs and maintenance	17,500	
Management and administration	17,075	
Mortgage	78,636	
NET CASH FLOW BEFORE DEPRECIATION		$ 29,252

RETURN ON INVESTMENT—Cash flow divided by equity = 13.5 (approx.)

The easiest leases: short-term, flat-rate

Rent rates in large shopping centers often include overages—a percentage of the retailer's sales. In a small neighborhood center, short-term leases with cost-of-living clauses work out better, Higier says.

"They're easier to police. You don't have to deal with monthly tenant reports or verify what the tenant tells you his volume was."

All but a few of Lakes Plaza's leases run from one to three years. The exceptions: those for tenants who make substantial capital investments in their stores, hence need time to amortize their equipment.

Rents are fixed for the first two years; then a cost-of-living clause takes effect. Another clause gives the owner an unsubordinated lien on tenant improvements if the tenant moves out owing rent. Kalin recently made use of the clause, taking over carpeting and partitions in $6-per-sq.-ft. space and re-renting it at $7 because it's improved.

Manager of the center should have track record

In Pembroke Lake's first center, Kalin is using a real estate firm that's one of his tenants. The company handles leasing and tenant complaints, and it checks on maintenance and garbage services.

"If you do the managing yourself, you haven't got time to do your other jobs properly," Kalin explains.

But Kalin visits the center every day. "Someone has to check on the checker," he says.

Location determines the kind of tenants you'll attract

The shopping-center sites are spotted in the Pembroke Lakes master plan, so Higier had no hand in site selection for Lakes Plaza. But he and Kalin agree that a good spot for this type of center is either an established area that shows no signs of going downhill or an emerging area where prospective tenants know they'll eventually have enough customers.

They also say that the number of people in the market area and their income level determine the kind of tenant that moves into a center. More specifically:

- Some retailers can survive on low volume, while others need a lot of people. "You won't get a full-line department store where population is limited," Higier says. "But hardware stores and dry cleaners, for example, know they can draw well from a relatively small trade area."
- If the income level allows for a fairly high proportion of discretionary spending, you'll attract tenants who operate on higher profit margins. "This can make the difference between having a discount type center and one directed to middle-income, middle-class customers," Higier says.

Higier and Kalin say that a good location draws tenants even before a center is under construction. That's what happened at Lakes Plaza.

"We planned to build our four buildings two at a time," Kalin says. "But interest was so great when we started that we began the third."

SMITH AERIAL SURVEYS & ASSOC.

Aerial view of Pembroke Lakes' first neighborhood center shows how it is buffered from both existing houses and future residential sites by broad landscaped malls. Anyone planning a center like this within a heavily populated area should include an above-minimum landscaping program, builder Kalin says. Otherwise homeowner associations may try to kill the project.

Close-up of several stores indicates how buildings are designed with deep setbacks so that shoppers are sheltered from hot sun and sudden storms that are endemic to southern Florida. Note also that trees and shrubs are spotted at close intervals to screen the shops from roads and parking areas. Architect: Frimet Design Associates.

Office building with an R.O.I. of 26.2%

The multi-tenant building was built on spec by the North Kansas City (Mo.) Development Co., which has 70 years, experience in residential and non-res construction.

As the financial analysis *(facing page)* shows, when the building came on stream in April 1976, the projected 26.2% return on investment was based on a vacancy factor of 5%—a figure used traditionally in office building feasibility studies. However, all space was rented soon after the building opened.

Russell V. Baltis Jr., the company's executive vice president, says one way to bring in profitable spec offices is to avoid design frills that run up construction costs:

"You can't afford too many frills at today's market rents."

Flexible design is key to long-term benefits

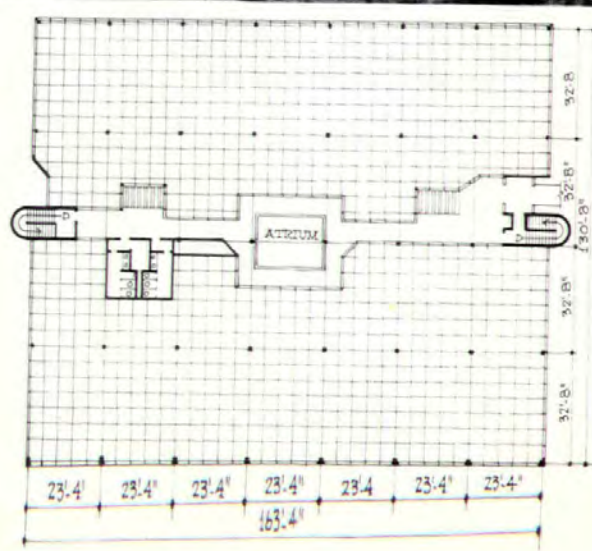
A spec office building usually has an economic life of about 50 years, Baltis says. And over that long a period there will be a lot of tenant turnover, hence a lot of space reallocation. Baltis has learned that it pays to use movable partitions.

"You'll pay over and over for tearing down and putting up walls," he explains. "Partitions are salvageable, and they let you make changes quickly with a minimum of mess and discomfort for tenants."

While the company keeps architectural frills to a minimum, it will spend money on amenities that can speed rent-up and keep the building occupied.

The central atrium in this building *(photo facing page)* is an example. "Aesthetically, it has been a good merchandising tool," Baltis says. "But more importantly, we were able to break up some space into interior offices that look out on the atrium."

The company also believes that money spent on above-average landscaping is another good investment.



Central atrium *(right)* and lush landscaping *(above)* are marketable amenities for what otherwise is an unadorned spec office building. The plan at left shows how most of the rentable space is laid out in standard 23′4″×32′8″ modules so that offices can be set up to accommodate both large and small firms. Architect: Peckham-Guyton Associates.

"If you skimp," it's a sign your project is in trouble," Baltis says.

Most people prefer to work near their homes

That's why it pays to build spec offices near a good residential suburb, Baltis says.

"The trend for companies to move their offices out of the inner city has a lot to do with being close to where the boss lives. But it's also because companies can now get competent local employees; so many wives have joined the labor force.

Baltis says an office building should also be near such support services as banks and stationery stores and restaurants.

"I would never put offices where there aren't eating facilities nearby," he warns.

Tenants want to see space before they sign

North Kansas City Development starts a new office building when its previous building is 50% rented.

"Our market is too small to prelease nonexistent space," Baltis says. "Tenants want to look over what they're getting and they want a guaranteed occupancy date."

The company gets tenants two ways—by personal visits and personalized correspondence.

"Over the years we've built a long referral list, so we do very little shotgun mailing, "Baltis says.

Writing to prospects draws some tenants, Baltis says. "But nothing gets results like knocking on doors.

"Sometimes we make an appointment, sometimes we walk in cold. We tell our story, leave a brochure, and find out when their present leases expire."

Tenants in this building include insurance companies, U.S. Customs, the Wildlife Commission, an architect, a computer service and a residential real estate broker.

All leases have rent-adjustment clauses based on increases in taxes, maintenance costs and utility bills. And all spell out exactly what tenant improvements are provided—"so many doors, lineal feet of partitions, electrical and telephone outlets, depending on the square footage involved," Baltis says.

Office size also determines length of lease—usually the smaller the space, the shorter the term.

Rents cover janitorial service, which is subbed out. But other management duties are handled by Baltis' company. Maintenance, for example, is taken care of by the crews that maintain the company's 1,300-odd apartments.

"Our maintenance vans have walkie-talkies and beepers," Baltis says. "We can send a repairman out as soon as we get a call."

There is no on-site management office. "You need a couple of hundred thousand square feet before you can afford that luxury," Baltis says.

FINANCIAL ANALYSIS April - 1976

TOTAL COSTS		$1,332,799
Building - 42,382 sq. ft. @ $18.66+	$791,137	
Tenant improvements	187,773	
Land	173,151	
Landscaping and sodding	8,444	
Architectural fee	35,790	
Interest during construction	62,758	
Operating expenses in excess of income through 3/31/76	58,092	
Title policy, legal fees, misc.	15,654	
MORTGAGE - 9% - 27 years		$1,200,000
NET INVESTMENT IN PROJECT (Land at appraisal value)		$ 132,799
ANNUAL GROSS INCOME (35,771 sq. ft. @ $6.50)		$ 233,097
Less 5% vacancy factor		11,655
		$ 221,442
ANNUAL EXPENSES		$ 68,036
Cleaning	$ 20,082	
Lighting	8,248	
HVAC	10,758	
Plumbing	1,076	
Atrium	2,510	
Repairs and maintenance	1,793	
Grounds maintenance	2,869	
Taxes	17,831	
Insurance	1,076	
Administration	1,793	
CASH FLOW BEFORE DEBT SERVICE		$ 153,406
ANNUAL DEBT SERVICE		118,560
NET CASH FLOW		$ 34,846

RETURN ON INVESTMENT—Cash flow divided by equity = 26.2%

Bare-bones warehouse with an R.O.I. of 38.9%

This no-frills warehouse/office is typical of thousands around the country. They usually earn a steady profit because they're relatively inexpensive to build, require little maintenance, rent quickly and stay full.

This building was constructed by North Kansas City (Mo.) Development Co., the same builder whose office building is shown on page 62. And as the financial analysis *(below)* shows, the return on investment when the building opened was 38.9%.

One reason for that handsome profit, says Executive Vice President Russell V. Baltis Jr., is the lack of construction frills.

Small-user warehouse, built of precast concrete, is column-free inside so that space can be divided to specific tenant requirements. Architect: Herman Scharhag.

FINANCIAL ANALYSIS
April - 1976

TOTAL COSTS		$290,000
Building - 19,097 sq. ft. @ $10.78	$205,946	
Tenant improvements	46,018	
Land	33,191	
Permanent financing fee	2,500	
Legal fees, title and closing costs	2,345	
MORTGAGE - 9½%		$250,000
EQUITY INVESTMENT (Land plus cash)		$ 40,000
ANNUAL GROSS INCOME		$47,726
8,497 sq. ft. @ $2.57	$21,881	
10,600 sq. ft. @ $2.44	25,845	
ANNUAL EXPENSES		$ 5,925
Insurance		575
Taxes		4,775
Maintenance		575
NET INCOME BEFORE DEBT SERVICE		$ 41,801
ANNUAL DEBT SERVICE		26,225
CASH FLOW		$ 15,576

RETURN ON INVESTMENT—
Cash flow
Divided by equity - 38.9%

"I've seen a lot of small-user buildings that have expensive storefronts, elaborate berming and landscaping to hide loading areas. They're priced out of the market. Where we get $2.50 a sq. ft., they must get $3.50 to $4, which is getting close to regular office rent."

Baltis says these buildings are attractive as an investment when you can get the kind of cash flow that this one returns.

"But if you want them to be profitable over the long haul, there are a few things you should watch for," he warns.

You have to be cautious with tenant improvements

Even though there's a ready market for this type of building, it's still a speculative venture, Baltis says.

"So the real test is whether you can continue to lease the tenant improvements you put in initially. If you had to demolish them after three or five years and redo them, it would be a poor investment."

To avoid this problem, Baltis' company provides basic tenant improvements—lavs, carpeting or floor tiles, prefinished walls and a suspended ceiling with fluorescent fixtures.

"Anything beyond that has to be paid for up front by the tenant," Baltis says, "even if he would prefer to amortize it over the lease. We don't want to use good equity money to finance strange or unusual improvements."

Build more than one building per site

This building is one of five that the company is building on a 12.8-acre site.

"It's better to put up buildings in groups because you get better usage from your land," Baltis says.

"You need a certain amount of depth for the building, and space in front for parking and truck maneuverability. So if you can face a couple of buildings towards each other, you gain the advantage of common maneuvering room for both."

Baltis says you're doing well if you get 50% land coverage on a small-user warehouse site.

"But of course in many instances your coverage ends up at 35% or 40% because of code requirements for setbacks and density," he explains.

Location should permit traffic to flow freely

That eliminates crowded inner-city locations—unless a substantial area is being redeveloped, Baltis says.

"But tenants for this type of space need to be near good truck and auto transportation."

Baltis has two other criteria for site selection.

- Stay away from deteriorating communities. "Choose a locale with stable city and county tax rates," he says.
- Look for land near similar buildings. "Tenants feed on each other in these industrial areas," he says. "So you want a certain amount of density."

Baltis says it's hard to identify potential tenants for small-user space; but typically, they're presently located in older downtown lofts. Most of his leads come from a two-line classified ad that says: Warehouse space for small users; 2,000 to 5,000 sq. ft. "Prospects just come out of the walls," Baltis says.

Management problems are virtually nil in these buildings. "Outside maintenance is handled by our apartment crew," Baltis says. "Tenants take care of everything else. It's a dream compared to managing apartments or a shopping center."

Offbeat retail center with a delayed payoff

This year the three-year-old center, known as The Creamery, will be in the black for the first time. And that's right on target.

The owners—homebuilder/designer John Korelich Jr. and his financial partner James Swift—expected it would take three years to get the project in the black. Here's why:

•The center's offbeat character. It was rebuilt from several 71-year-old buildings in San Luis Obispo, Calif. that used to be a milk processing plant. "Remodeled buildings have a certain amount of charm that new construction can't offer," Korelich says. "But you never can be sure they'll catch on."

•The difficulty of designing, financing, and remodeling old buildings like these. "We knew from the start we'd run into unexpected problems," Korelich says.

A remodeling job is harder to plan than a new project

When Korelich and Swift bought the old milk plant they had only a partial plan—to turn one building into a Mexican restaurant that they would own and operate.

Figuring out what to do with the rest of the buildings became a real problem because the city's building and planning departments kept turning down the partners' proposals.

These included 1) remodeling the buildings into a warehouse 2) turning parts of them into offices or 3) leveling them, then selling the land off for money to pay for remodeling the restaurant.

Throughout the dealings with the city, building department personnel kept saying they didn't think the old buildings could be remodeled to code standards.

"That was a big stumbling block," Korelich says. "So when we came up with our shopping center plan we studied the code to find out what could be done. After a lot of hassling, we finally got approval."

Banks want their money secured on such projects

Several questions were raised about The Creamery. Could the old build-

Remodeled center includes restaurants, service stores and craft shops like this one which sells handmade household items.

JOSHUA FREIWALD, COURTESY AMERICAN PLYWOOD ASSN ings be adapted to new use? Would the center catch on? As a consequence, Korelich and Swift found they could not get traditional interim financing. So they financed out of pocket, using securities Swift owned to secure a bank loan. "The bank insisted on collateral worth twice the amount of our loan," Korelich says.

The partners also had trouble obtaining permanent financing. The bank reneged on a verbal pledge to provide a permanent mortgage. Six months later an insurance company wrote a $440,000 mortage, but that didn't cover the project's debt structure. So the partners used Swift's securities again to borrow more money.

Remodeling costs always run higher than expected

Korelich's original construction cost estimate (including fees and overhead) was $150,000 for the Tortilla Flats restaurant and $250,000 for the balance of the space. The actual total was $626,000.

"You never know what you're getting into until you open up an old building," he says. "So it's difficult to predict costs accurately. Subs don't want to bid until they have an idea what work is involved."

Korelich tried to ease the bidding procedure by working out three sets of working drawings: 1) existing conditions, 2) what had to be demolished and 3) what the finished product was to look like.

But a lot of costly, unanticipated work was needed. This included extensive rewiring and replumbing, many new structural elements and some new footings and reinforcing.

"We spent too much time and effort trying to remodel everything," Korelich says. "It would have been cheaper to tear down sections and rebuild from ground up."

Korelich's experience convinced him that the feasibility study of a project like this must provide for a sizable contingency fund.

"As a rule of thumb, double whatever you think the job will cost," he says. "Then you'll probably be right on target."

Renting up special projects calls for special programs

From a merchandising standpoint, the partners had two things going for them at The Creamery.

First, the site is only a block from San Luis Obispo's main street. So it is convenient for both local residents and tourists.

Second, a survey showed that there was no vacant retail space in the area. The remodeled space would be a welcome addition.

Nevertheless, The Creamery's slightly offbeat character convinced the partners to plan a special rent-up program.

First, they decided to go for a special tenant mix to capitalize on the project's special physical character. "We didn't want a druggist or a bank or other typical neighborhood-center tenants," Korelich says. "But we didn't want a pure arts-and-crafts center either."

Next, they kept initial rents relatively low by having tenants do much of the remodeling themselves. Only a basic shell with stud walls, a space heater and electric service to each unit were provided.

Finally, they prepared renderings and plans, erected attractive signs and opened an on-site office so prospects could see what was going on.

"We rented out four months before completion," Korelich says.

Except for two restaurant tenants, all initial leases ran two years and called for flat rents. When they expired, tenants were offered three-year leases with options to renew up to nine years. These leases include cost-of-living.

"We wanted tenants who had invested in the center to recoup some of their investment in the first two years," Korelich says. "In the third, we wanted to start making money."

The restaurant tenants received five-year leases with renewal options at the start. "We gave them a sweet deal to put their major improvements into our property," Korelich explains.

Korelich and Swift also picked up all utility bills during the first two years. Now, tenants are supposed to pay their prorated shares.

"To save money up front, we installed a master meter," Korelich says. "That was a mistake. We're now having arguments about what each tenant's fair share is."

Korelich says that by trying to save money up front, he made other mistakes that are causing expensive maintenance problems.

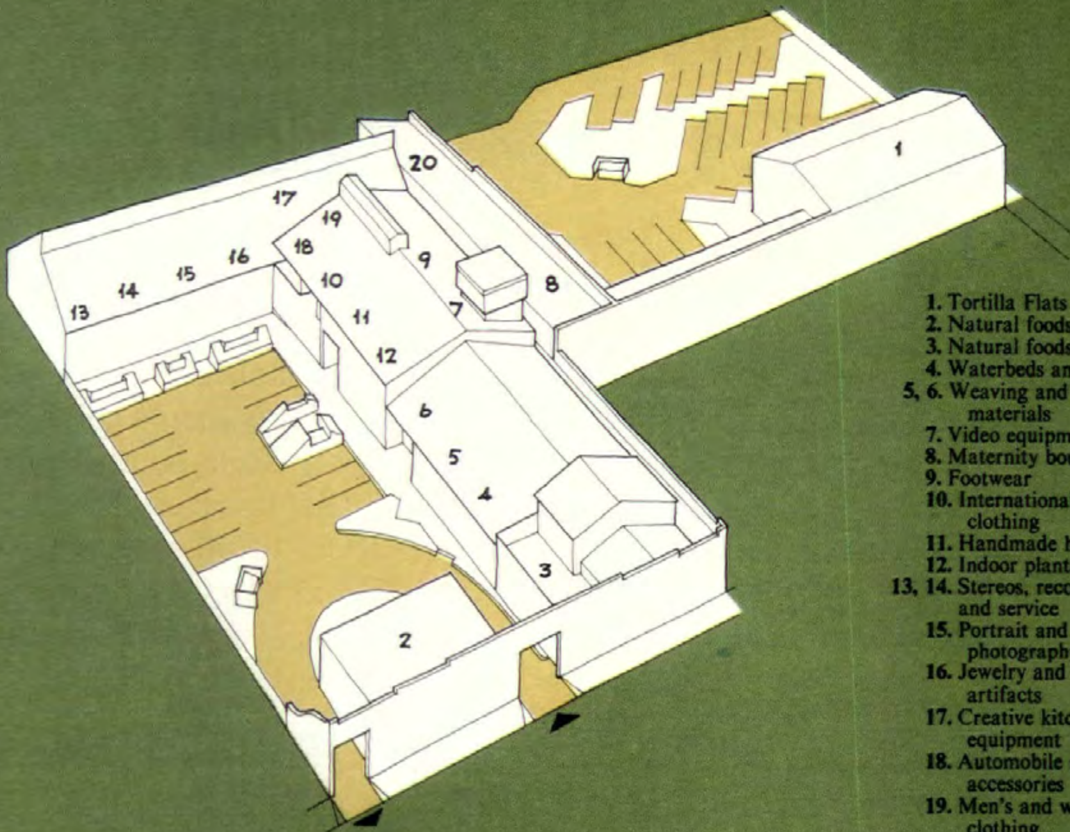
For one, he used residential hardware and toilets instead of those designed for the wear and tear they get in commercial property

For another, he installed sliding glass doors as storefronts. "We thought tenants would open them in good weather," he says. "But they're not being used much and they're difficult to secure."

FINANCIAL ANALYSIS

TOTAL COSTS			$773,000
Building		$464,000	
Mexican restaurant - 3,375 sq. ft.	$132,000		
Balance - 23,119 sq. ft.	332,000		
Land - 65,635 sq. ft.		125,000	
Former milk plant	90,000		
Parking lot space	35,000		
Miscellaneous		162,000	
Financing fees		22,000	
FINANCING			$750,000
Mortgage - 10% - 25 years		$440,000	
Additional financing (securities as collateral)		310,000	

				PROJECTED		
CASH FLOW	1975	1976	1977	1978	1979	1980
Income	$51,166	$81,432	$123,600	$140,000	$164,882	$184,667
Expenses (including depreciation)	39,665	70,927	42,420	47,500	52,250	57,475
Gross Profit	$11,501	$10,505	$81,180	$94,640	$112,632	$127,192
Mtge & Taxes	47,699	53,028	78,000	79,000	80,000	82,000
Net Income	($36,198)	($42,523)	$3,180	$15,640	$32,632	$45,192



1. Tortilla Flats restaurant
2. Natural foods restaurant
3. Natural foods store
4. Waterbeds and accessories
5, 6. Weaving and handcraft materials
7. Video equipment
8. Maternity boutique
9. Footwear
10. International gifts and clothing
11. Handmade household items
12. Indoor plants
13, 14. Stereos, records, tapes and service
15. Portrait and commercial photography
16. Jewelry and indian artifacts
17. Creative kitchen equipment
18. Automobile stereos and accessories
19. Men's and women's casual clothing
20. Middle-eastern and American restaurant

PHOTOS: JOSHUA FREIWALD, COURTESY AMERICAN PLYWOOD ASSN.

Bright awnings, red brick walks, extensive landscaping and stained plywood siding contribute to the cheerful ambience that pervades The Creamery *(left)*. In the multi-level Tortilla Flats restaurant *(above)*, the original trusses and 1×6 roof sheathing have been retained. The AC/heating vent was not covered for two reasons, the builder/designer says: 1) construction costs are reduced; 2) the architectural trend is to expose mechanical systems.

Housing in '78: Another big year but...

The housing boom, which peaked last year after a 30-month expansion run, still has plenty of steam left. Enough in fact to fuel another strong (albeit less frenzied) performance in '78. Main changes in the market: a slightly slower building pace, some decline in single-family activity and further gradual improvement for multis.

Total private starts should come in at 1.8 million, with single-family dipping to 1.2 or 1.3 million (just below this year's record). Partly offsetting this will be 500,000 or 600,000 apartment starts. All in all, close to $62 billion worth of new construction.

WHAT THEY'RE CALLING FOR IN 1978

Total (millions)	1.8-1.9	1.7	1.77
Single family (millions)	1.3	1.15	1.2
Multifamily (thousands)	500-600	550	575

George Hanc, senior vice president and chief economist, National Assn. of Mutual Savings Banks

Harry S. Schwartz, vice president and chief economist, FNMA

Albert G. Matamoros (Armstrong Cork Co.), vice president, National Assn. of Business Economists

Total (millions)	1.9	1.8	1.9
Single family (millions)	1.35	1.25	NA
Multifamily (thousands)	550	550	NA

Ken Thygerson, chief economist, U.S. League of Savings Assns.

George Christie, chief economist, McGraw-Hill Information Systems

Walter Heller, professor of economics, University of Minnesota

Realtors, meanwhile, expect to sell a record 3.7 million existing homes. Mobile-home shipments, targeted at 300,000 units, are also on the upswing. By all yardsticks, '78 promises to be a winner.

But . . . there's a catch. The big "D"—disintermediation—has once again reared its head, and that spells trouble for housing. How much? No one knows for sure, but the next six months should tell. One thing is certain, though. Even in the absence of a 1974-style, all-out credit crunch, mortgage money is going to be scarcer next year. And it will cost more. —BILL MULLIGAN

1.7	1.69	2.1	1.75-1.95
1.25	1.21	1.6	1.15-1.25
450	474	500	600-700

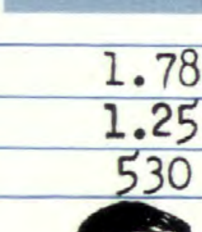
George Sternlieb, director, Center for Urban Policy Research, Rutgers University

Michael Sumichrast, chief economist, NAHB

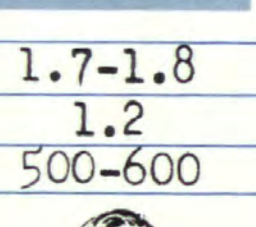
John Wetmore, chief economist, Mortgage Bankers Assn. of America

Anthony Downs, research fellow, Brookings Institution

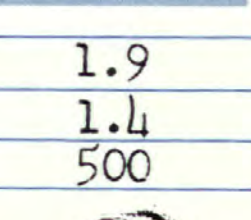
1.78	1.7-1.8	1.9	1.9
1.25	1.2	1.4	1.37
530	500-600	500	560



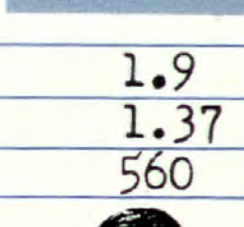
James J. O'Leary, vice chairman, U.S. Trust Co.



Richard Bove, research director, Wertheim & Co.



Kenneth T. Kirin, director of economics and research, National Assn. of Realtors



Thomas Stiles, first vice president, Smith Barney Harris Upham & Co.

The 1978 market: A little slower—and maybe a lot better

Coming off two big growth years, housing is headed for a cool-off period. Which isn't all that bad. Indeed, after last year's hectic activity, builders will probably welcome the change. Plus, there's a bonus. The expected slowdown should help to ease the pressure on materials and labor costs.

The reduced level of housing production, is, of course, part of a general growth slowdown for the overall construction industry.

It's estimated that the value of all construction in '78 will be $147 billion, a gain of only 8%. Housing's $62-billion share will be up even less, just 3%. In fact, reports McGraw-Hill Information Systems Co., non-residential building—due to grow 15% to $38.5 billion—will replace housing as the industry pacesetter.

Although the numbers may be down a bit, homebuilders should be very busy in '78. Most of the conditions that supported this year's strong market—i.e., a backlog of unsatisfied demand from the last recession, increases in the primary homebuying age group (25-34) and rising family incomes—are still present.

Less certain, though, is the assurance of readily available mortgage credit, a crucial ingredient.

Also propping up the market is a new kind of customer: the hedge buyer who's looking for price protection against inflation. Leery of the sagging stock market and/or too unsophisticated to dabble in gold, many investors have turned to housing. And, with inflation due to worsen and house values appreciating at a fast clip, these buyers won't be going anywhere for awhile.

"Builders should do well," says Michael Sumichrast, the National Association of Home Builders' top economist. "Many firms had record profits this year, and that should continue. My advice for '78: Don't get overextended. Just build what you can see ahead."

Next year should also bring some cost relief for building materials. With less production, prices and supplies of most materials—including lumber (now coming down) and drywall—are expected to soften. One exception is insulation, which will be in short supply all year.

New-home prices, meanwhile, will be hiked fairly sharply in the next few months to reflect late '77 increases in materials costs. "Prices should settle after that," says Sumichrast.

The NAHB economist wishes he could say the same for existing homes. "Resales are overpriced in many areas," he claims, "primarily because of tremendous demand. Sellers think they can get the money, so up goes the price. It's a very disturbing situation. At least there's some explanation for the rise in new-home prices."

According to Kenneth Kirin, chief economist of the National Realtors Association, the average price of '77 resales rose 10% to $43,900. Prices will go up another 10% next year, hitting $48,000. The latest average price for a new home: $54,000 (September).

Comments Kirin: "There's an inflation psychology working here. People expect prices to rise. Demand is strong because buyers want to get in on the appreciation of a house."

In any event, it appears that a more normal sales picture is emerging. Buyers simply aren't standing in line anymore. This is especially true in California, where the boom started. "We probably sold and delivered a lot of houses that should have been moved in '78," says Standard-Pacific

HOUSING MIX 1976–78 (000 units)

	Total U.S.
1976 Total Starts	**1,537**
Single-family	1,163
Detached	1,108
Fee-simple townhouses	24
Condo townhouse	31
Multifamily	374
Condo apartments	63
Rentals	311
1977*Total Starts	**1,937.6**
Single Family	1,415.6
Detached	1,335.4
Fee-simple townhouses	40.2
Condo townhouses	40
Multifamily	522
Condo apartments	98.2
Rentals	423.8
1978*Total Starts	**1,689.6**
Single Family	1,216
Detached	1,142
Fee-simple townhouses	37.3
Condo townhouses	36.4
Multifamily	473.6
Condo apartments	90.4
Rentals	383.2

*Projected. NOTE: Western region includes Alaska and Hawaii

President Ronald Foell. "Sales have slowed in California, so builders won't be starting their second stages quite so aggressively. From now on, starts will be paced according to absorption rates."

Many observers are convinced that single-family demand, in general, has run its course. Richard Bove, research director of Wertheim & Co., a New York investment banking house, makes the case that "something like 14 million new and existing homes have been sold in the last four years. You just can't continue to turn over at this pace."

But some builders see a silver lining in next year's slowdown. U.S. Home Corp., for example, figures it can increase its market penetration during a downturn. Says Guy Odom, the firm's new president and chief executive: "Our main advantage in a constricting market is that we have well-developed land and the expertise to convert it to finished lots. Going into '78, we have a six-month supply of finished lots."

Kaufman & Broad's Chairman Eli Broad is optimistic, too. "Even if total starts decline by 100,000 units, the dollar volume will be greater. Our indications are that '78 should be a record dollar year for housing."

Yet another slant comes from Anthony Downs, former chairman of Chicago-based Real Estate Research Corp. and now a Brookings Institution research fellow. He notes that many people are cut off from homeownership because so much high-quality product is being built. "However," he says, "builders are running through the buyers of high-priced housing. So we'll probably see the focus shift to lower-priced homes. You can forget about no-frill units, though; people won't buy them."

A new problem: lots. Builders will have to scramble next year to find suitable lots. Advance Mortgage Corp. of Detroit reports a shortage of lots in more than a third of the country's major markets. In many areas, subdivision lots are fetching a minimum of $20,000. The shortage could cost 50,000 single-family starts in '78, Advance warns.

Multis recovering. The apartment sector, mired in a four-year-old slump, shows signs of coming out of the doldrums. One of those who like multifamily's prospects is Smith Barney Harris Upham & Co., the New York investment banking firm.

Says Vice President Thomas Stiles: "It wouldn't take a large improvement in the private sector for starts to get up to the 600-700,000-unit level. Everybody seems to be waiting for something dramatic to happen, but that's not in the cards. Instead,

Northeast	North Central	South	West
169	**400**	**568**	**400**
127	295	464	277
119	283.9	447	257.9
6	7	8	3.1
2	4.1	9	16
42	105	104	123
13	10	18	22
29	95	86	101
208	**464.4**	**751.4**	**513.8**
162.4	335.4	565.5	352.3
152.7	319.6	537.2	326.0
4.9	10.1	14.6	10.6
4.9	5.7	13.7	15.8
45.6	129	185.9	161.5
11.3	20.6	37.2	29.1
34.3	108.4	148.7	132.4
204.4	**397.1**	**669..3**	**418.8**
148.7	285.9	497.5	283.9
139.5	271.0	470.2	261.3
4.7	9.3	14.1	9.2
4.5	5.5	13.1	13.3
55.7	111.2	171.8	134.9
13.7	17.7	34.5	24.5
42.0	93.5	137.3	110.4

Source: NAHB Econometric Forecasting Service there'll be steady progress and a gradual build-up of momentum. The important thing is that lenders are now willing to lend and, for the first time in years, apartments are beginning to make economic sense for developers."

Mack Pogue, president and chairman of Lincoln Property Co., a major builder of multifamily housing, agrees that things are looking up.

"The underwriting of apartment loans is definitely on an uptick," he says. "We're in 30 major metro areas and many of them have no vacancies. There's a tremendous amount of pent-up demand that builders haven't caught up with yet. In fact, there's never been such a need for multi-family housing."

The old problems remain, though: rent control, landlords' inability to get higher rents and the political clout of tenants. Although rents are starting to come up from a low level, "they'd have to be 25-30% higher to make rental housing a good investment," claims George Sternlieb, director of the Center for Urban Policy Research at Rutgers University.

"By all demographic laws—age groups, income, household formation—we should be in the midst of a multifamily boom. But two things are preventing it: rent control and profitability problems."

HUD, of course, could provide a stimulus, but the agency's main thrust these days seems to be in the rehab area. There were 88,000 Section 8 starts this year, with 150,000 scheduled for '78. (The figure includes some public housing.)

Encouraging, though, are reports that a number of successful California single-family builders are now turning to apartments. The start of another California trend?

Mobile-home business is improving, too, largely aided by recently increased ceilings and terms for FHA loans. In addition, GNMA has started buying mobile-home mortgages ($100,000 lots) in the secondary market. Some 30-35% of next year's shipments will be double-wides, which now fetch up to $30,000.

But...trouble is brewing in the money markets

And all the signs point to another bout with that old nemesis, disintermediation.

Savings flows to the thrift institutions have begun to drop—not steeply but enough to set off some alarm bells. The pressure should mount, however, once depositors tumble to the higher yields now being offered by other investment securities. Best guesses are that disintermediation, now building its base, will be in full bloom by next summer.

At stake: the availability of mortgage money.

Controlling the action, as usual, is the Federal Reserve. Alarmed about this year's rapid growth in the money supply and its potential for kicking off a new round of inflation, the Fed switched to a tighter monetary policy. To dampen borrowing, it raised the federal funds rate to 6½% and the discount rate to 6%.*

This action triggered a sharp rise in virtually all short-term interest rates. Since April, for example, the 90-day Treasury bill rate has jumped two full percentage points to about 6½%—well above the thrifts' 5¼% passbook rate. Commercial banks, which are now paying more for their money, lifted the prime rate from 6¼% to 7¾% in October.

However, because of strong public and private demand for credit (an estimated $400 billion in '78), it's almost certain that the money supply will start growing again—thus necessitating further tightening by the Fed. And, of course, more upward movement for short-term interest rates.

Not surprisingly, lenders are getting edgy. "We start worrying about disintermediation when the Treasury bill rate goes to 6½%-6¾%," says Kenneth Thygerson, chief economist for the U.S. League of Savings (Chicago).

This year S&Ls expect to match or slightly top the record inflows of $51 billion set in 1976. Mortgage lending volume, on the other hand, has risen to an all-time high of $95-100 billion (vs. last year's $79 billion). The bad news is that, even with loan repayments, S&Ls will wind up with a deficit cash flow for the first time in several years.

*The interest that Federal Reserve banks charge on loans to member banks.

Prospects for '78 aren't bright. In addition to a weaker liquidity position, inflows started to drop in September. The volume of new money coming in next year will drop to $40-$45 billion. To make ends meet, flows will have to be augmented by borrowings from the Federal Home Loan Bank. The S&Ls have been tapping the system since early '77).

"The strong momentum built up in the last two years will continue through the first half of '78," says Thygerson, "but the ability to get commitments and mortgage money will tighten in the second half. I'm betting, though, that the political situation won't warrant a credit crunch in '78."

The bottom line: It's going to be more difficult to buy a house next year.

Disintermediation is also seen in the $100-million net deposit outflow that savings banks experienced in September. Although seasonal factors probably accounted for some of the drain, it's reasonably certain that Big D was also at work.

According to George Hanc, chief economist for the National Association of Mutual Savings Banks, both flows and the banks' competitive edge over open-market instruments have been deteriorating since early '77. "However," he says, "it's still too early to put any weights on this. A lot depends on how depositors react." One thing he does see, though, is a rise in mortgage rates to 9½%.

The association is projecting total deposits (including interest) of $11.5 billion next year, compared with $11.1 billion in '77.

Chief economist Harry Schwartz of the Federal National Mortgage Association isn't overly concerned about the thrifts' money drain.

"When disintermediation comes," he notes, "it's the big, sophisticated buyers who pull out first. You need a big differential in interest rates to move the small depositors. As things stand, I just don't think there's enough pressure to get huge withdrawals."

He does, however, look for FHA/VA

mortgage rates to rise from 8½% to over 9% next year.

Fannie Mae, a backstop for home mortgaging when private lending sources falter, is expected to take a bigger share of the market in '78. The agency increased its buying activity this year, winding up with total mortgage purchases of about \$4.8-\$5.3 billion and commitments of over \$8 billion. Next year's purchases could reach \$7 billion, close to the record (\$7.1 billion) set in '74.

Still, as Schwartz points out, FNMA can't make up all of the gap.

Also slated to play a wider role when disintermediation develops are the nation's mortgage bankers. The industry, which accounts for 17% of all single-family mortgages, figures it can grab a bigger share now that FHA loan limits have been upped from \$45,000 to \$60,000.

"Our loan volume was \$30 billion this year and we should do close to \$40 billion in '78," says John Wetmore, the Mortgage Bankers Association's top economist. "This bulge will put us in good position to take up much of the slack caused by reduced flows to the thrifts."

Wetmore says most of next year's growth will come from heavy sales of GNMA mortgage-backed bonds, especially to insurance companies and pension funds. The industry closed \$20 billion in FHA/VA loans this year, with GNMA securities accounting for about 75% of the volume.

Boding well for the future, too, are indications that long-absent insurance companies are taking another look at conventional single-family mortgages. Reason: yields, which will be higher next year, are becoming more competitive with other long-term investments.

Henry Kaufman, general partner and resident monetary expert for Salomon Brothers, the New York investment banking partnership, says short-term interest rates will rise to 7½%-8¼%, with long-term rates edging up to 8¾%-9%. From an interest-rate standpoint, he adds, housing should have "somewhat better staying power," thanks to such tools as variable-rate mortgages and mortgage-backed bonds.

Housing also faces another potentially serious problem next year—namely, the rapid rise in consumer debt. Single-family mortgage debt, for example, is now increasing at an annual rate of \$80 billion, almost double the 1975 rate.

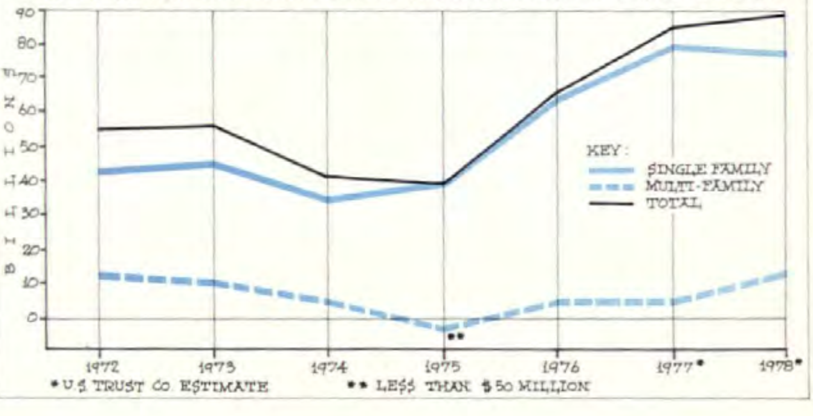
The danger, points out Vice Chairman James J. O'Leary of U.S. Trust Co. in New York, is that, if the economy slows enough to increase unemployment, it could trigger a serious rise in borrower delinquencies and foreclosures. "And that would be a shock to the market," he says.

O'Leary is betting that disintermediation will be on us by next summer. At its peak, he says, the federal funds rate will hit 7½%-7¾%. In addition, the 90-day Treasury bill rate will rise to 7¼%-7¾% and the prime rate will go to 8½%-8¾%. (In '74, by comparison, the federal funds rate hit 13¾% and the 90-day Treasury bill rate peaked at 9¾%).

"I don't expect severe disintermediation," he says. "However, in the face of continuing strong credit demand, long-term lenders will have considerably less money for mortgages."

So the outlook is for generally tighter and more costly mortgage credit in '78. Buying conditions—everything from appraisals to income requirements—will be tougher. Lenders may be saying: "Let's get a little more front-end buffer, down payments of say 20%-25%, in case the bloom is off the rose." It's also safe to say that lenders, especially those who got burned in '74, will pull in their horns a lot quicker this time around.

NET INCREASES IN OUTSTANDING MORTGAGE DEBT



The big hangup: Uncertainties about next year's economy

Henry Kaufman says disintermediation will come when the big banks have to start financing a lot of business loans for new plant and equipment. According to his scenario, increased credit demand from this area—when added to the huge money needs of housing and government—will put tremendous competitive pressure on the money markets. And probably to the detriment of housing.

Like so many other aspects of the economic situation, however, it's not certain when—and if—this surge in capital spending will take place. Corporations will increase their outlays in '78, of course, but not at a pace that's strong enough to give the economy a sustained forward thrust.

Latest polls, in fact, indicate that businessmen are losing confidence in the Carter administration. Much of the loss stems from their concerns—and uncertainties—about the government's tax and energy programs.

Consumers are also wary these days, especially about tax reformers's talk of dropping mortgage-interest deductions.

Walter Heller, University of Minnesota economics professor and chairman of the Council of Economic Advisers under Presidents Kennedy and

Johnson, doesn't think there's much to worry about, however.

"When we attempted to change mortgage-interest deductions in the early '60s," he says, "there was such an incredible barrage of criticism that Wilbur Mills finally had to back off. I think Congress is reluctant to take away tax privileges for housing."

Summing up the economic outlook, economist Milton Friedman of Stanford University (he left the University of Chicago a few months ago) sees real GNP growth of 4-5% next year, with inflation rising to 7% to 9%.

"Unemployment," he says, "will become a big factor when the current expansion peaks in '78 or '79. The Carter energy program, if adopted, would be a major setback because it would cause the expansion to decline in early '78 and result in recession. Fortunately, I don't think the program will be approved."

Friedman then throws out this zinger: "Everything, however, is subject to adjustment to energy, budgetary and monetary policies that are yet to be formulated."

And '78, it appears, is going to be some kind of a year.

FABIAN BACHRACH

Henry Kaufman
Confidence in housing

Milton Friedman
Concern over jobs

An obsolescent housing stock?

Energy-efficient houses will become the third major innovation to render the nation's existing housing stock obsolete in the last 50 years, according to economist Richard Bove of Wertheim & Co., a New York investment house.

The first, he claims, was the postwar Levitt product, "a very beautiful little house with a couple of bedrooms and baths on one-eighth of an acre. Very basic, it provided living space at moderate cost with some amenities."

Then, in the mid-60s, "we saw the California house, designed with more amenities and a freer style of life. It had cathedral ceilings and lots of glass, and it let its owners bring the outdoors into the house."

Now, the economist feels it's time for the energy-efficient house to make its mark, calling it the wave of the future.

Bove says high and/or rising utility costs all over the country virtually assure that these houses are going to have a "staggering" impact on the market.

"I don't think we'll ever get back to a mode of construction where energy considerations aren't in the forefront," he says. "Not because a law was passed, but because of consumers' demand for pleasurable esthetics, with assurances that their costs won't run wild. And that means an energy-efficient house."

Canada's forecast: Starts to dip in '78

Canada's ailing economy will turn housing downward in 1978, according to the Housing and Urban Development Association of Canada.

For 1977, HUDAC expects between 240,000 and 250,000 housing starts. Next year, the association predicts, starts will drop into the 225,000-235,000 range. The HUDAC forecast includes single-family houses, apartments and townhouses.

The drop will come, the organization says, despite an anticipated economic recovery.

A bright spot. On the plus side, Canadian lenders say that plenty of mortgage money is available and that mortgage interest rates—currently ranging between 10%-10.5%—will remain unchanged.

Canadian chartered banks report an increase in lending in 1977 and expect the trend to continue through 1978. Life insurance companies expanded their lending capacity by 60% during 1977—with 40% of that amount going into multifamily units and 60% into duplex units.

And HUDAC notes that market absorption of new housing is currently satisfactory, yet inventories of completed and unsold dwellings continue to rise due to the increased rate of new construction. However, HUDAC says, if the present demand for single-family detached units continues, the number of unsold units is expected to drop in 1978.

—WILLIAM CRICHTON
McGraw-Hill World News, Toronto

Redesigning problem projects

He asked the pros

In the fall of 1976, developer Camilo Padreda assembled a team to work on Marbella, a 48-acre single-family community in southern Miami. Marbella had opened a year earlier, only to be shut down by a six-month sewer moratorium. When it finally reopened, sales were slow in a fiercely competitive market.

The new development team—architect Joe Greenberg of Coconut Grove, interior designer Karen Butera of San Francisco and marketing consultant Andrew Greenman of Hollywood, Fla.—decided that a younger, fresher approach would give Marbella an edge over its competitors. Greenberg redesigned the four models, targeting each to a specific market segment. Greenman launched an ad campaign with the theme: "We're making home ownership less of a hardship." And in a final break with the older, conservative retirement image evoked by the name Marbella, the project was renamed Whistlewood.

The strategy worked. The new models opened in March, and in the first eight months 67 were sold—an impressive record in an area where there are five competing projects. For a look at the redesign, turn the page. —NATALIE GERARDI

He asked the public

Developer Jim Gammon knew that the previous owner of The Settlement Townhouses had encountered erratic sales and a high cancellation rate.

So when he was asked by new owners to take over the project (177 units when built out), he decided to ask buyers and almost-buyers what was wrong.

Gammon interviewed more than 75 people. He learned:

• Everyone liked the site—20.4 acres in the Ken-Caryl Ranch PUD near Denver—and the recreational package.

• Nearly everyone liked the traditional architecture *(photos, page 80)*.

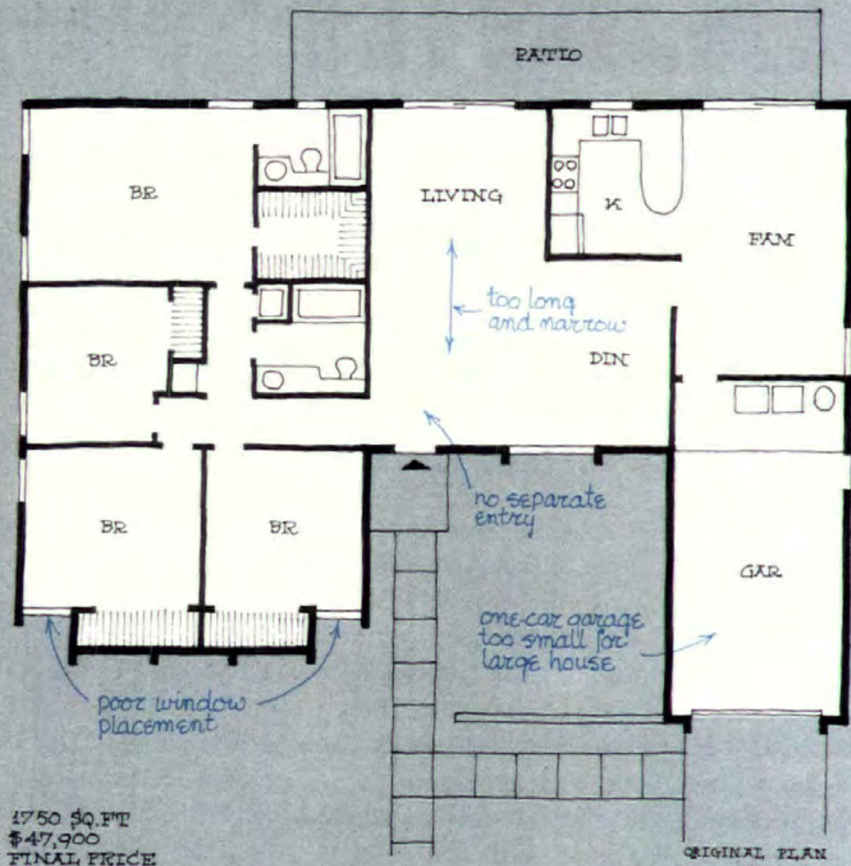
• But many found fault with the four floor plans offered.

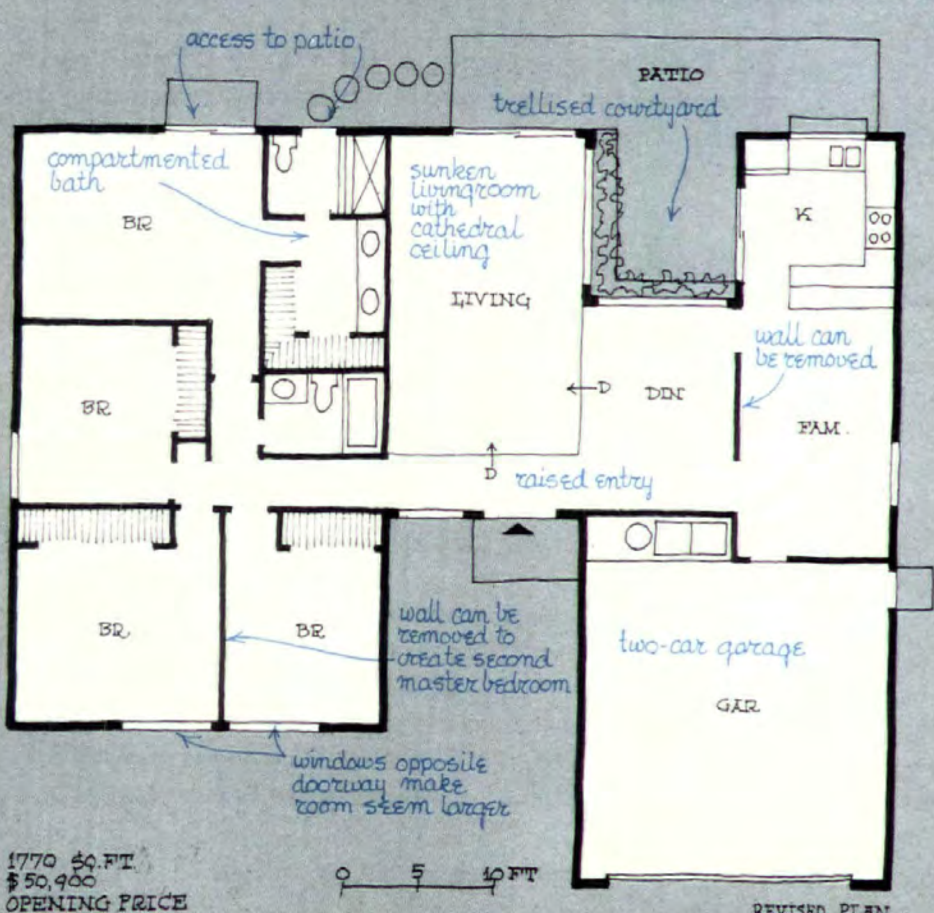
Gammon stood pat with his exteriors. But he made a number of floor-plan changes in the project's second phase to answer the more crucial complaints.

His new units have moved fast; of the first 25 second-phase homes released in July, 23 have been sold without models. And there is a waiting list for 17 more that go on market this month.

For a closer look at Gammon's changes, turn to page 80. —JOEL G. CAHN

Here's what the pros recommended





1 In all four models, they recommended changes that would:

- Make the houses seem larger without adding space.
- Improve traffic flow.
- Set off entries to create a sense of arrival.
- And eliminate side windows wherever possible, because side yards were small.

The plans at left show how this was done in the largest model, which was intended as a house for established families with several children.

In the original plan *(above)*, the distance from the front door to the living-room window made the room seem long and narrow. Even the added width of the dining area failed to create a sense of space, for it ended in a blank wall.

Also, traffic to and from the family room had to cut across the dining and living rooms.

The new plan *(below)* has a sunken living room, which defines the living, dining and entry areas without closing them in. The distance from front to back is about the same in both plans, but the narrowness was eliminated by bringing the patio into the house so that visually it becomes part of both the living and dining rooms.

Other improvements: a cathedral ceiling in the living room, better window placement in secondary bedrooms, a compartmented bath in the master bedroom with access to the patio/pool area, and a two-car garage.

A major sacrifice: the family room was made smaller and oriented away from the patio.

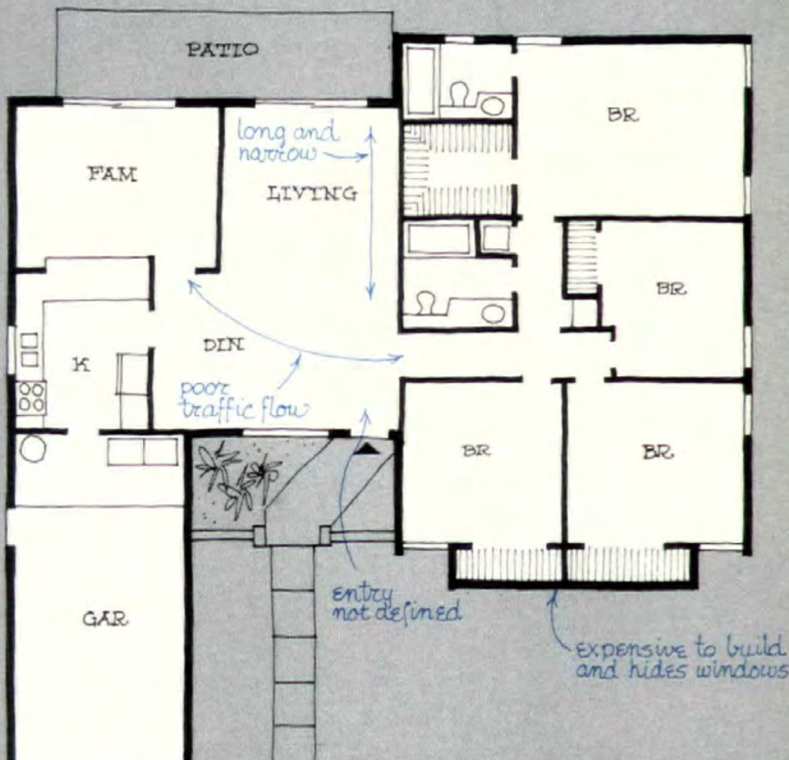
2 Originally, this model was virtually a duplicate of plan 1 *(opposite)*, the main differences being that it was somewhat smaller and the kitchen was at the front. It was redesigned for first-time buyers—couples and younger, smaller, less affluent families—and so one bedroom was dropped.

Again, a sunken living room is the key to defining living/dining/entry areas. But this time the house has a narrow core with a back wall that is virtually all glass, including sliders in the living room. Thus the eye is immediately drawn to the patio area, which both visually and practically expands the small (12′ × 16′) living room.

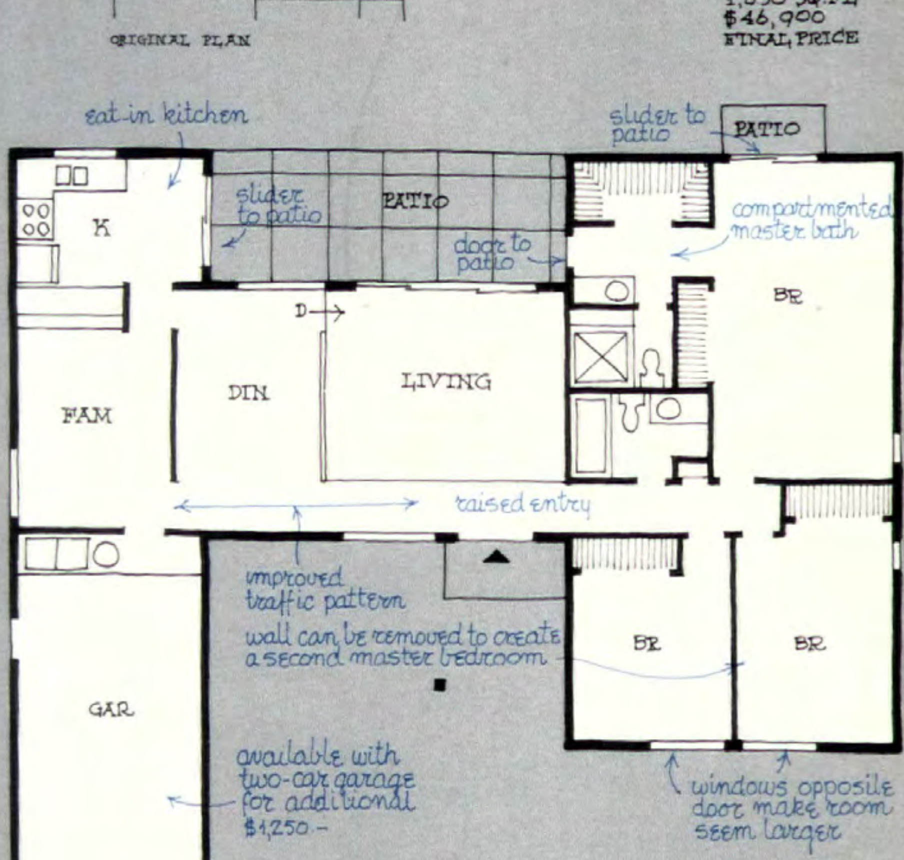
The kitchen, too, has been oriented to the back of the house. It has also been rearranged to allow space for a table—a marketing plus, even though counter space and separation between range and refrigerator were sacrificed.

Again, closets in the front bedrooms were relocated and the windows moved opposite the doorways to give the impression of greater space. And again, the master bath was compartmented and given an entrance from the patio/pool area. This time, however, the doorway is in the dressing area and a somewhat smaller walk-in closet could be retained.

The opening price of the smaller new model was $400 lower than the final price of the old. Old and new prices are not comparable, however. Hard costs had risen about 15% by the time the new models were built, but interest and marketing costs were lower.

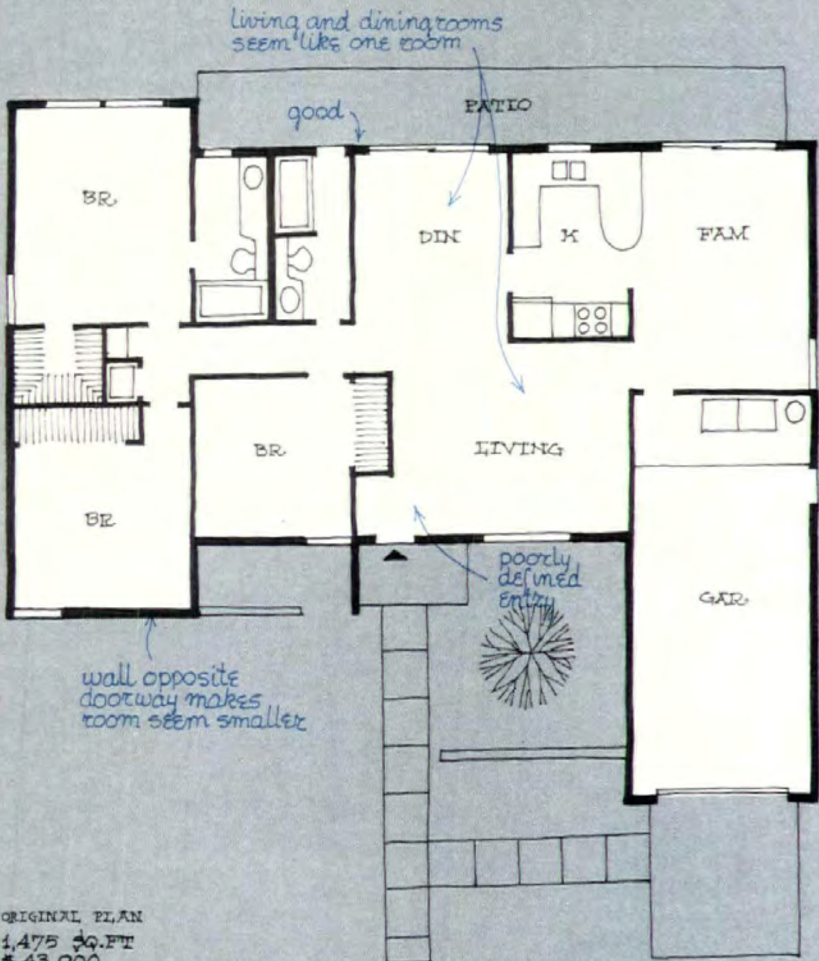


ORIGINAL PLAN

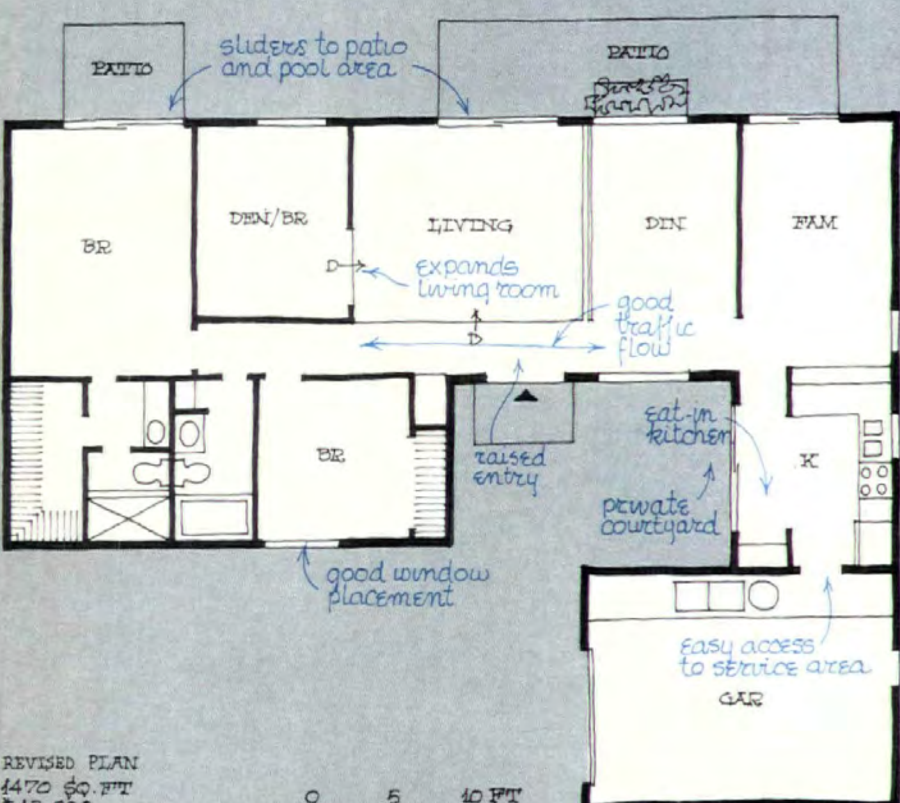


REVISED PLAN

And here is more from the pros



ORIGINAL PLAN
1,475 SQ.FT
$43,900
FINAL PRICE



REVISED PLAN
1470 SQ.FT
$43,900
OPENING PRICE

3 This smaller model was redesigned so that it could appeal to either empty nesters or young families. And although two entirely new, smaller and less expensive models were also added for empty nesters, this one has been the most popular. Its sales run second only to plan 1, the largest model.

A convertible secondary bedroom is one of the reasons for this popularity. The bedroom is located so that it can be a den with double doors leading to the living room, part of a master bedroom suite, or a standard secondary bedroom with a closet and a doorway to the hall.

To create this bedroom, the bathrooms had to be moved to the front of the house, sacrificing the entry to the patio/pool area. To compensate, the master bedroom was given sliders.

As in model 2, the house was designed with a narrow core and a sunken living room, creating more apparent space while defining the separate living areas.

The kitchen was redesigned to allow space for a pantry and a table, again at the sacrifice of counter space and appliance placement. A big improvement: It opens onto an entry courtyard that is private enough to serve as a breakfast area. This feature, which has great appeal to buyers, was added at no extra cost simply by turning the garage at right angles to the house.

PHOTOS: BUCK BALLAS

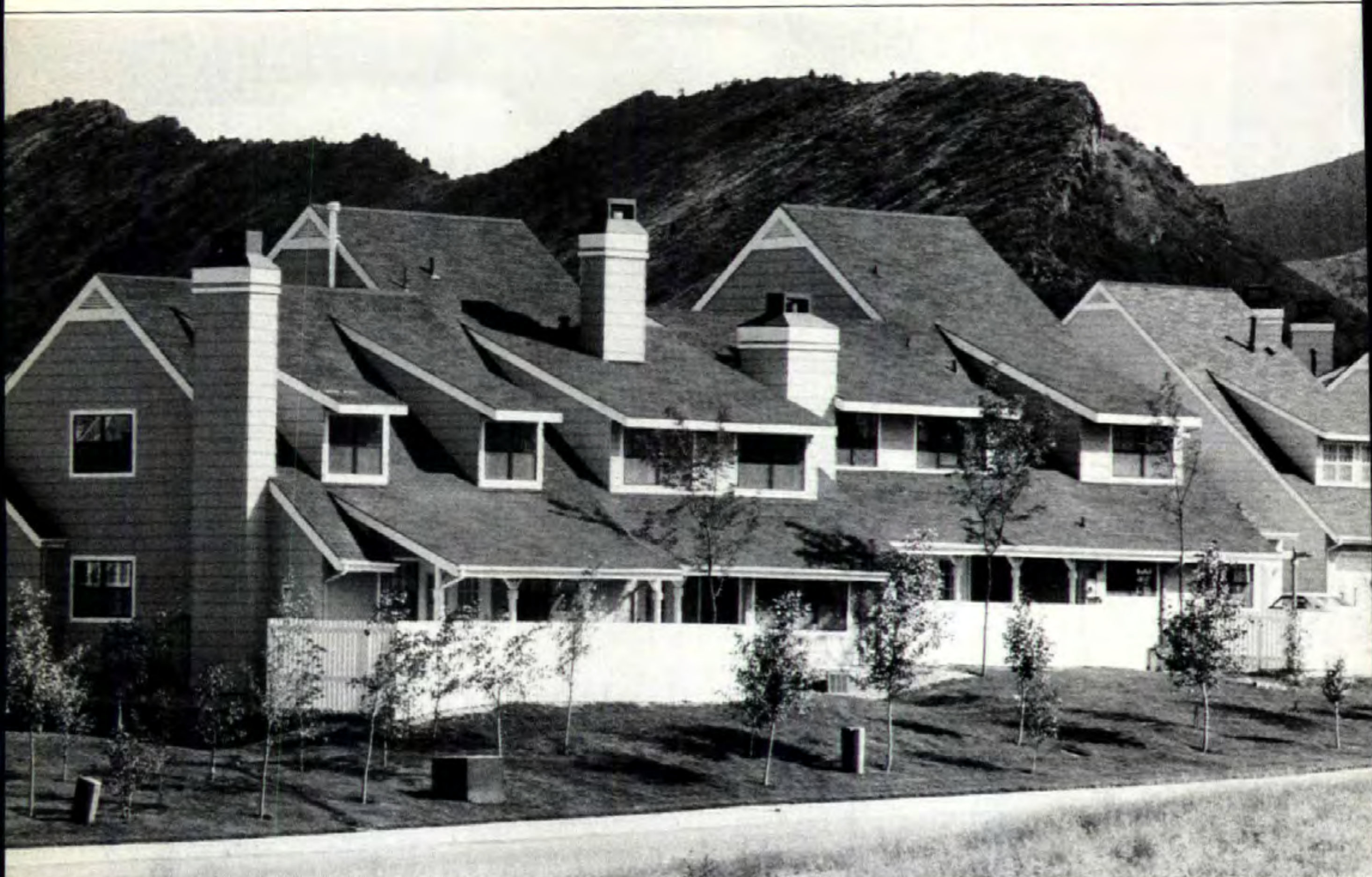
New exterior look was achieved with wood trim, which offers some contrast to stucco. Elevations were kept simple and horizontal lines were emphasized to make the houses feel larger and wider than 60 ft. Shown above is plan 1.

Dining room *(above)* in plan 3 *(opposite)* was decorated in a contemporary style with young, first-time buyers in mind. Rooms were kept simple and uncluttered to emphasize the feeling of space, and built-ins such as the cabinets and shelves shown above were used to give prospective buyers ideas they might copy. At the same time, the decorators took care to use furnishings that would be affordable so that prospective buyers would not feel the homes were beyond their means.

Garden home *(right)* shows how the small living room of plan 2 is opened up by the large windows and the raised dining area. It was decorated to emphasize the nearness of the patio area, which in the Miami climate will be attractive and livable most of the year.

He asked the public

Here's what the public recommended



Traditional architectural style is seen in clapboard siding, steep-pitched roofs, dormers, covered porches and picket fences of townhouse grouping pictured here. Strong appeal of exteriors enabled builder to sell out partially-completed, 60-unit first phase without any floor-plan changes (tighter qualifying, fewer options and a more realistic delivery schedule also helped). Rear-view photo at right shows walk-out basement designed for downhill siting. Architect: Lee & Klages.

PHOTOS: BILL SWARTZ

1 Total redesign resulted from serious objections to this four-bedroom plan *(right)*. The two major complaints: insufficient living area for families seeking four bedrooms, and difficulty in furnishing an awkwardly contoured living room.

The redesigned layout *(below right)* eliminates one bedroom and enlarges the other three. The relocated master bedroom now occupies space formerly taken by two bedrooms; the rearranged master bath is now 50% bigger and more rectangular to accommodate extra cabinets.

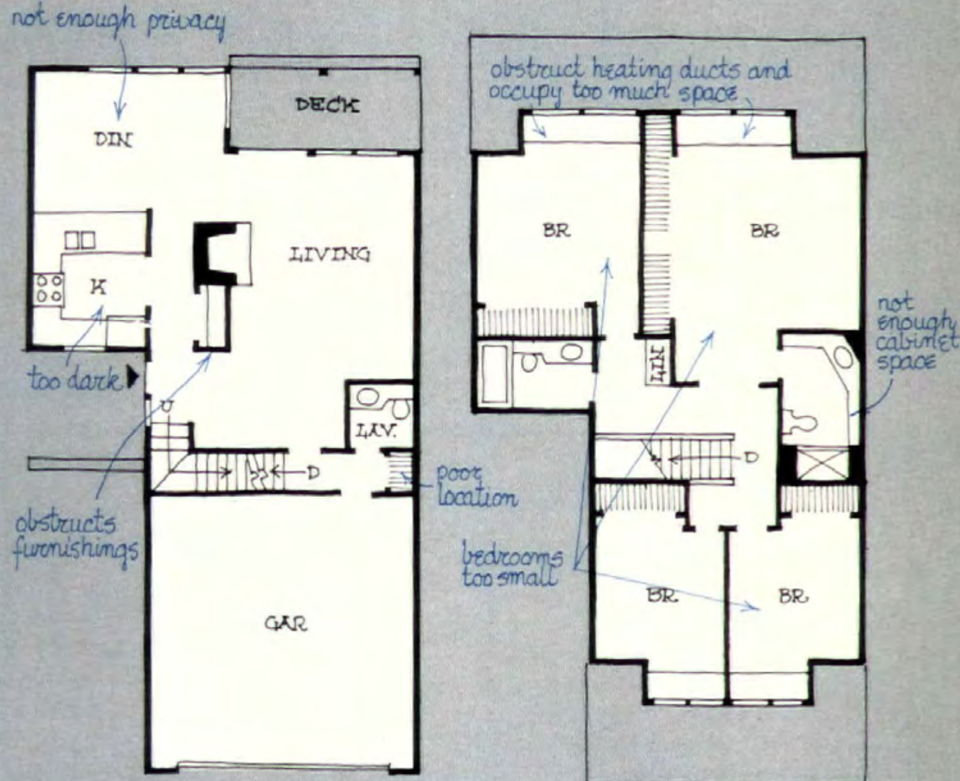
Additional bedroom space is gained by eliminating the former window seats. "Buyers felt they took up too much room," says Gammon, "and they also interfered with the heating ducts." Switching from louvered to sliding doors in bedroom closets improves pass-by traffic.

Downstairs, kitchen and dining room have been reversed, with the kitchen now more conveniently located between two eating areas. The new dining room is more private.

The former pantry, which backed into the living room and caused the furnishing problem, is now gone. So is a badly placed clothes closet that had separated the powder room and the garage wall.

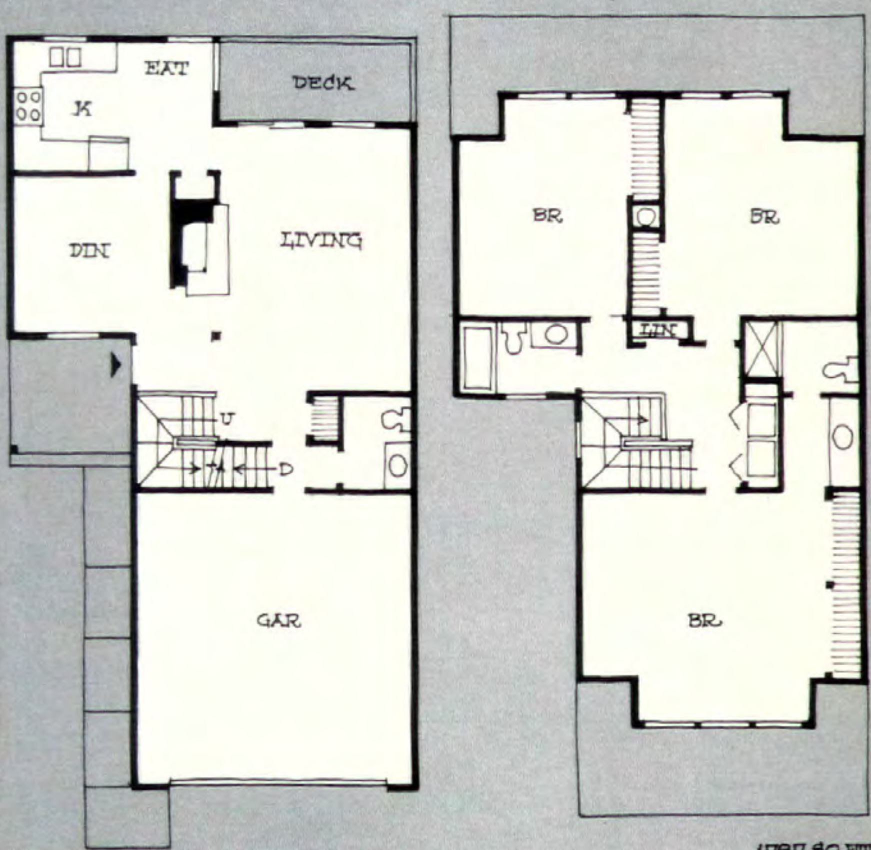
Other changes:

- The entry is widened by turning the stairs; open bannisters give the impression of more space.
- The utility room is moved from the basement to the second floor because buyers want an off-bedroom location.
- New windows in the upstairs secondary bath and stairwell offer more natural light.



LOWER LEVEL
0 5 10 FT

UPPER LEVEL
ORIGINAL PLAN



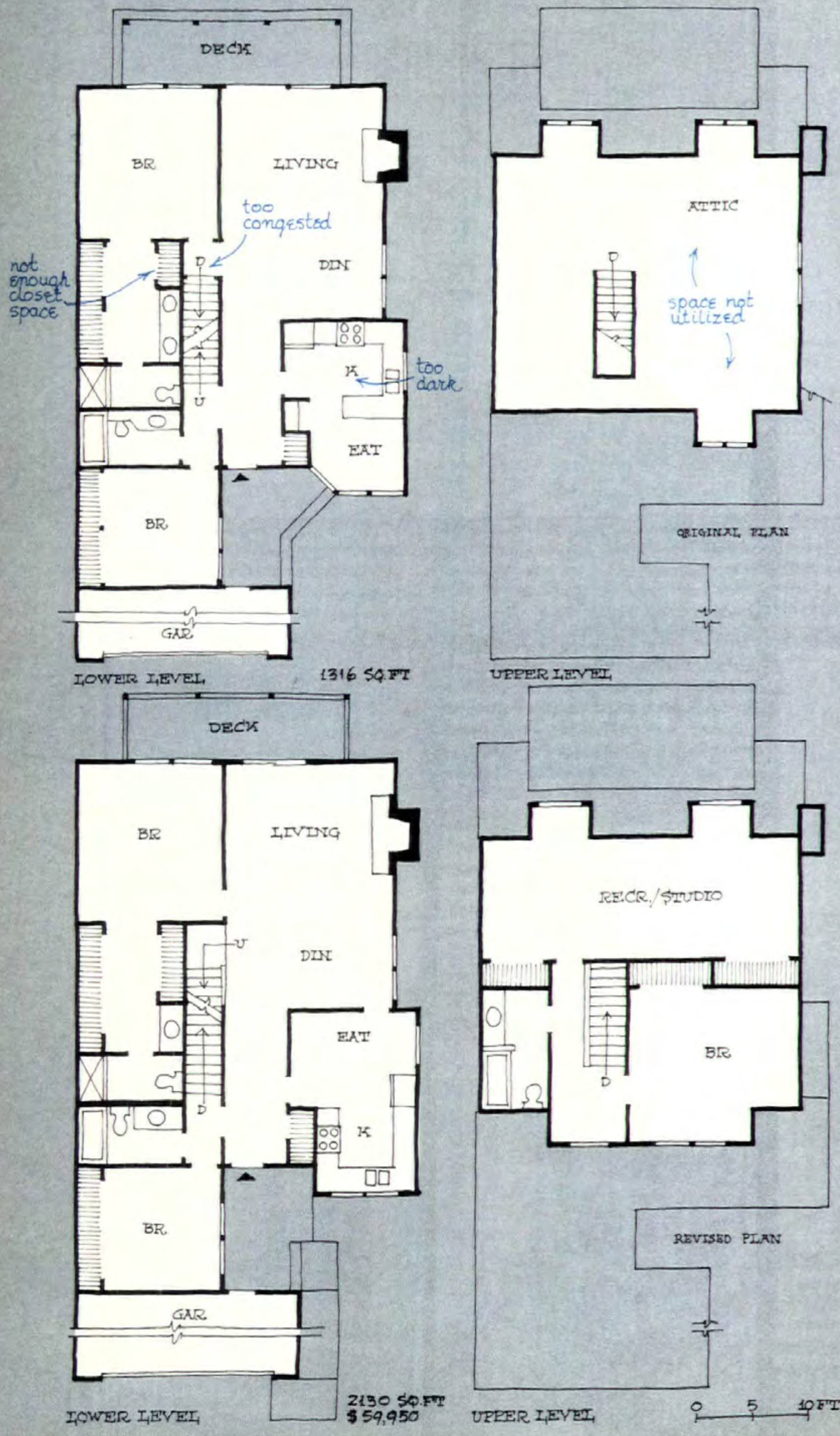
LOWER LEVEL

UPPER LEVEL
REVISED PLAN

1787 SQ.FT
$55,950.-

He asked the public

And here are more recommendations fro



2 A new second-floor loft is the principal change in this former one-story plan *(left)*. Finishing off the 814-sq.-ft. attic space was initially offered as an option; so many buyers wanted it that Gammon made it part of his standard package.

"Bigger-than-expected families were buying the unit," he says, "and they needed the fourth bedroom and the playroom."

In the redesigned plan *(below left)*, the kitchen and nook locations are switched to position the kitchen on a double-windowed wall. The change sacrifices some dining-room privacy because of the doorway needed for the new nook.

Extra master-suite closet space is provided by reducing the size of the dressing room. Sliding doors replace louvers in bedroom closets to ease pass-by traffic.

Other changes:

- The stairway is turned and open bannisters are used to add real and perceived space to the entry.
- The master bedroom door now faces the living room instead of the basement stairs to facilitate traffic flow to both areas.

Here's a typical cost breakdown for the plan on the facing page:

Land & interest	$3,700
Site improvements	4,500
Construction (including landscaping)	39,200
Professional fees	500
Financing	1,500
Closing costs (includes commissions)	2,300
Marketing	400
General conditions	1,200
Total costs	**$53,300**
Sales Price	**$59,950**
Net Profit	**$6,650**

3 An unworkable master bath was the prime objection to this three-bedroom plan *(right)*. The main culprit: an oversized shower that buyers said took too much room at the expense of needed shelf space.

In the redesigned plan *(below right)*, a standard shower allows for more cabinets and a bigger linen closet. It also leaves room for a new walk-in closet in the master bedroom.

As in the plan on page 81, Gammon has moved the utility room from the basement to the second floor. But here, he has sacrificed a walk-in closet in a secondary bedroom to get the necessary space.

"It was a good trade-off," he says, "because that closet was too large in the first place. Buyers told us they didn't need all that room."

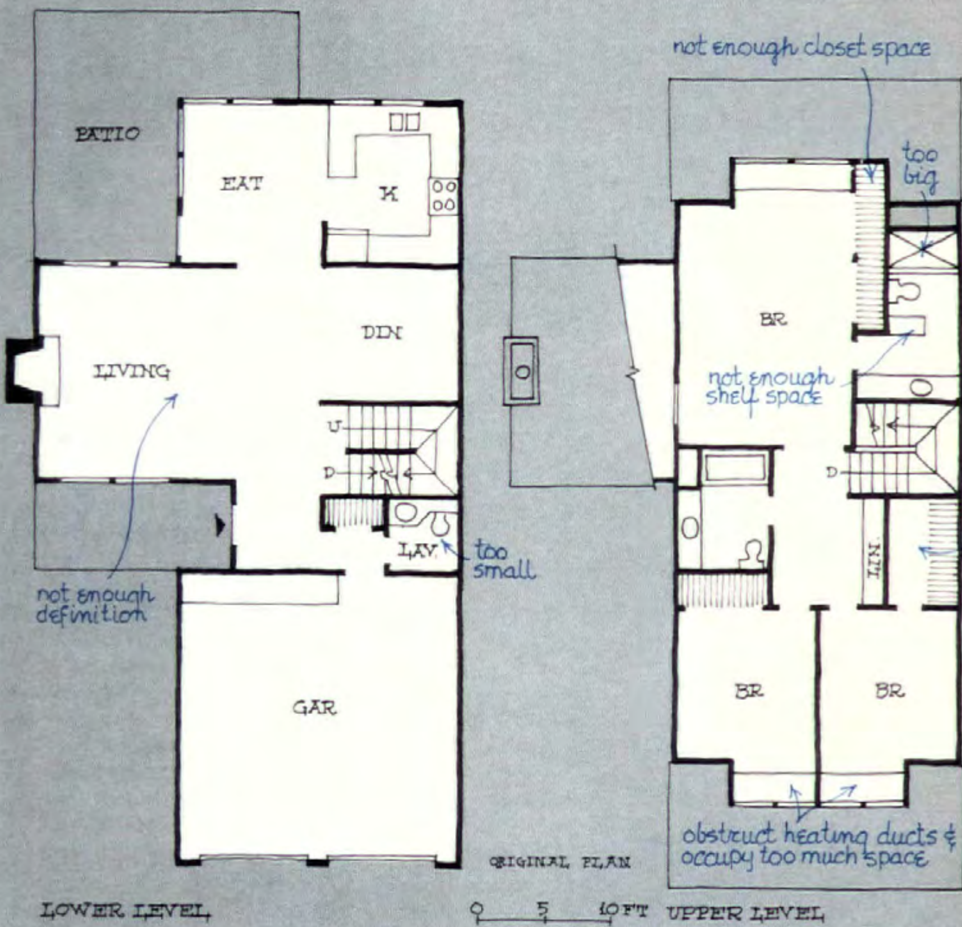
Downstairs, the living room—already vaulted—is now sunken to create more of an impression of size. A new railing between living and dining rooms emphasizes room definition.

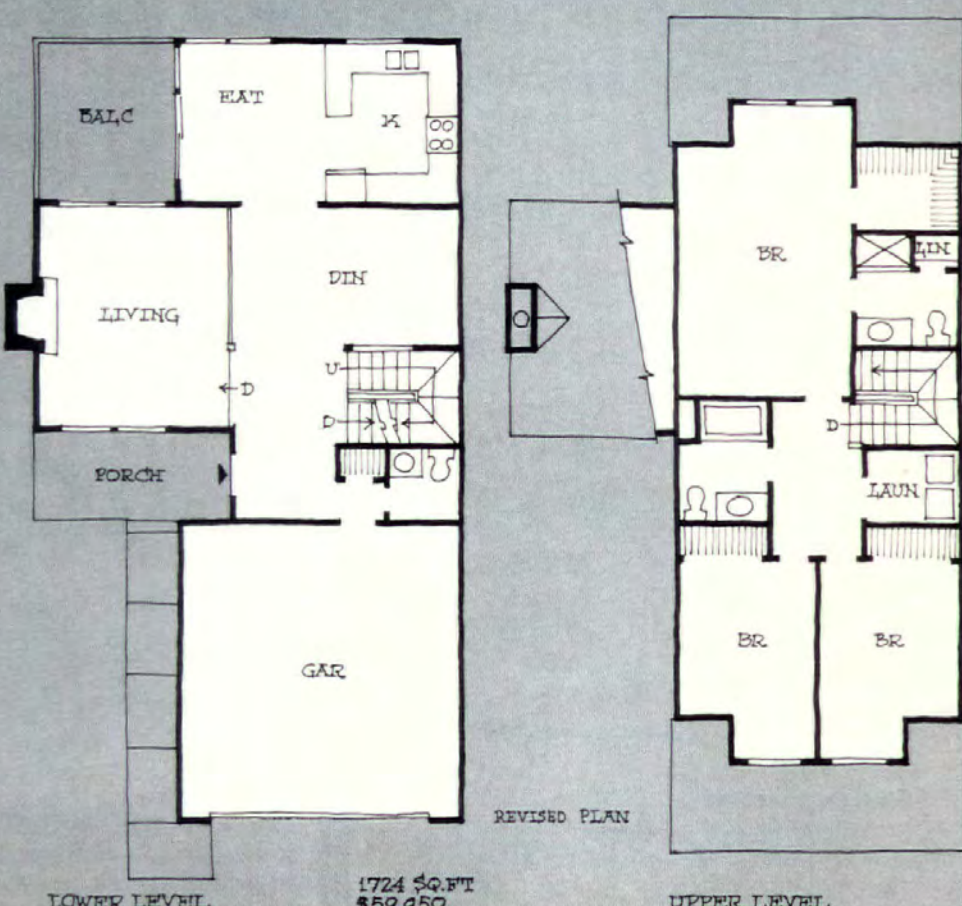
Other changes:

• The downstairs powder room has been enlarged by cutting back a clothes closet.

• As in the other plans, bedroom window seats are eliminated, sliding doors replace louvers in closets, and open stairway bannisters are used to add real or perceived space.

Not shown on these pages is the 1,312-sq.-ft. fourth plan (priced at $49,950) because its design changes are minimal.





Townhouses for rent?

Yes... here's why

Renting rather than selling townhouses provides a tax shelter for Techbilt Construction Corp. of San Diego. And it lets this building company take advantage of future appreciation.

What's more, townhouses command premium rents—particularly when the local rental market is strong and the project is well located. And that is the case with Two Parks, a complex of 145 units in north San Diego.

Rents are about 10% higher than the area average. (They range from $285 to $475 for 875 to 1,637 sq. ft.) Even so, tenants signed up at the rate of 14 a week when the project's 59-unit final phase opened in early August.

The fast rent-up at higher-than-average rates helped produce a net rate of return that's "better than 9%," according to a Techbilt spokesman who prefers not to be quoted.

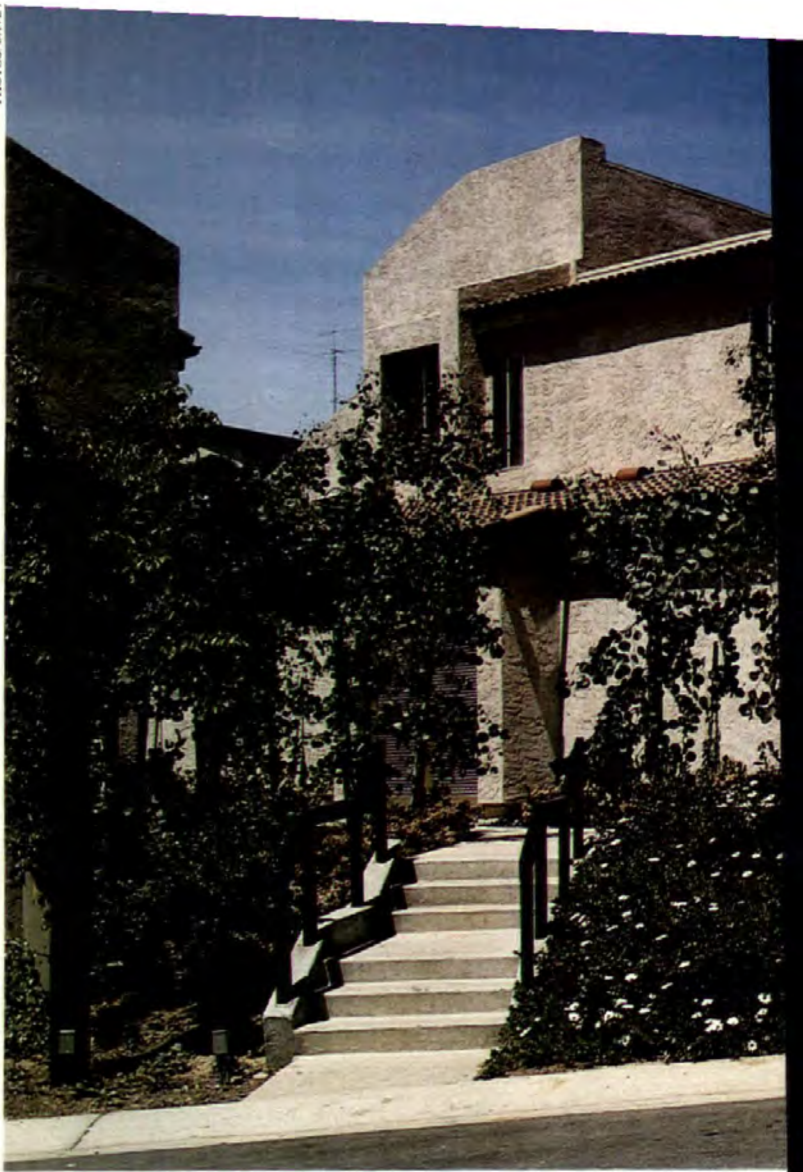
What's behind this success story in a period when most apartment builders proceed cautiously?

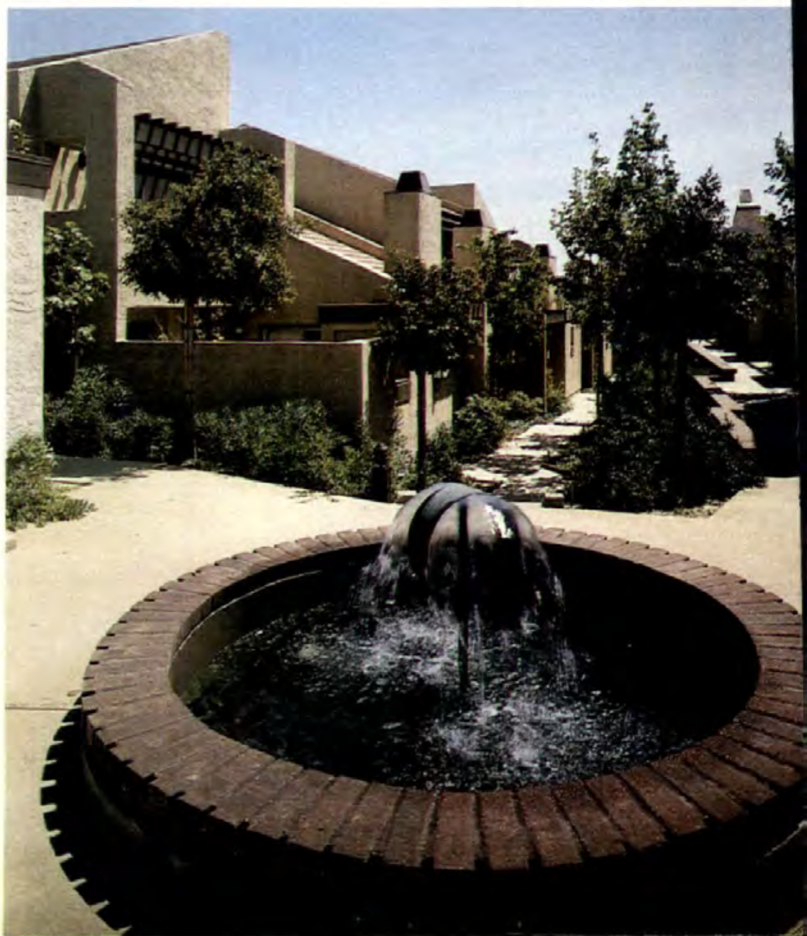
A pent-up demand. Techbilt's spokesman explains that interest rates in the 10% to 10½% range and local no-growth policies had discouraged apartment builders a couple of years ago. There's more money now—Techbilt's own borrowing is at less than 10%—but the apartment shortage is only beginning to ease.

While interest rates for builders have been dropping, prices of single-family houses have been going up. Many

TO PAGE 86

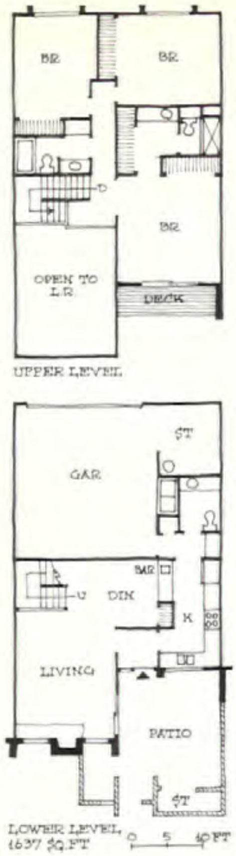
PHOTOS: DAVE

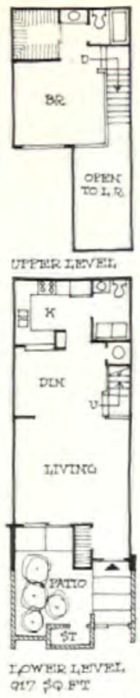




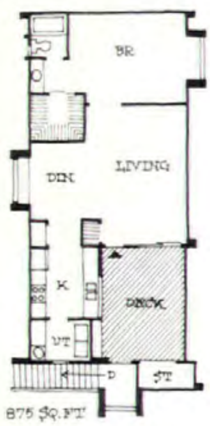
Back-to-back townhouses *(above)* are in groups of four to eight. At 1,356 sq. ft., they're one of the faster-renting units. Large, 1,637-sq.-ft. townhouses appear in the photo at left. They're side-by-side in twos, threes or fours. The units feature enclosed entry courts with storage space, and are entered from landscaped walkways. Since most townhouses are double-loaded, there are few rear elevations.

Irregular 11-acre site *(plan below)* fronts a busy street, but most of 145 units are shielded from traffic by ring of flats *(hatched in plan)* and a driveway. Some units include garages *(see plans, next page)*; other tenants park in spaces beneath flats. Driveway curves to break up monotony of row of facades. Architect: Richardson, Nagy, Martin of Newport Beach, Calif. Landscape architect: POD Inc., Orange, Calif.





1,637-sq.-ft. townhouse *(plan left, photo below)* has garage but has rented more slowly than 917-sq.-ft. unit *(plan above)*. Twenty-eight of larger were built; 50 of smaller.



1,356-sq.-ft. townhouse *(plan top, photo previous page)* has wraparound front patio and den/bedroom option. Project includes 38 of them, and 29 flats with 875 sq. ft. *(plan above)*. Flats are built above garages.

DAVE ROSS

Volume ceiling in living room *(left)* is typical of townhouse interiors. Model was decorated by Apartment Living, San Diego.

Two Parks renters are young working coupl who can't afford to buy. (The other maj group is older move-downs.)

"We anticipated this demand when Tw Parks was in the conceptual stage," says th company's spokesman, "and it was a factor i our decision to build a rental project rathe than the condo we originally envisioned."

A prime location. Two Parks is close t recreation and shopping, and it's only a stone' throw from a freeway. In fact, its name derive from its proximity to a 22-acre recreationa park and a 354-acre nature sanctuary.

Further, most other housing in the area i medium- to high-priced single-family, so th neighborhood lends itself to a high-ren market.

Unlike an apartment. Even with 13.2 dwelling units per acre, there's plenty of privacy at Two Parks.

A row of flats above garages buffers most townhouses from the heavily travelled road on which the project is located. Moreover, every unit is oriented to the project's parklike core, where there are heavily landscaped walkways and fountains *(see photo previous page)*. Hundreds of eucalyptus trees, sycamores and liquidambars were added by landscape architect POD Inc. of Orange, Calif.

The units themselves offer more privacy than conventional rental apartments. "Tenants especially like the fact that they don't have to live above or below anyone else," the spokesman says.

There's an enclosed outdoor area for every unit, and the largest has both a walled ground-floor patio and a second-floor deck *(see plan top left)*.

Inside, volume ceilings give a feeling of light and space to the townhouses *(see photo left)*.

Fireplaces in the two largest plans, individual laundry rooms and enclosed garages are other features usually found only in for-saie housing.

While renters like the single-family atmosphere at Two Parks, the builder benefits from the fact that it's a rental project. Specifically:

It's a tax shelter. This was a big incentive for Techbilt. In fact, its spokesman gives tax advantages first priority in explaining why the company decided to go into rentals. (In the past, Techbilt has concentrated on for-sale housing, and it is currently building $100,000-plus single-family houses in La Jolla, Calif. and Santa Fe, N.M.)

It's an investment. Appreciation is not a sure thing, but, the spokesman says, "In San Diego, real estate in good neighborhoods has consistently increased in value."

It's ideal for conversion. Because of the for-sale style of Two Parks, the townhouses and flats should sell well. So Techbilt has the flexibility to change its plans if renting becomes unprofitable.

—BARBARA BEHRENS GERS

PRODUCTS

Large living room *(above)* furnished in a rustic Mediterranean style, features 12'' square ceramic paver tiles. Use of the large squares gives an open room a more intimate look.

Country dining room *(right)* shows oversized 8''×16'' rectangular tiles laid in a traditional running course. These glazed tiles are easy to maintain.

Ceramic tile pavers provide a custom look

Used indoors and out for commercial or residential applications, "Normandie" ceramic tile pavers have a unique appearance in each installation. Natural variations in tone, coloring and surface textures as well as a range of conventional and extra large sizes permit design versatility. Some styles in the line are offered in 10″ × 20″ rectangles and 12″ squares.

Produced from high quality clays fired in open flame kilns, "Normandie" is a functional tile capable of enduring heavy traffic and extreme moisture and temperature changes. The hardness and abrasion resistance reduce maintenance.

The pavers come in two types—glazed and non-glazed. Two non-glazed designs—"Rustic blend," a dark version, and "Bronze blend," a lighter red-brown shade—are especially suitable for interior commercial use and all outdoor applications. They have been successfully installed where temperatures drop as low as -30°C. Two glazed designs also are available. "Satin blend" has a sandy-colored cast, and "Chablis" is a light shade highlighted with white. The glazed tiles, which can be used in vertical applications, need no waxing, sealing or polishing. Metropolitan Ceramics, Canton, Ohio. *Circle 275 on reader service card.*

Contemporary kitchen *(above left)* is visually enlarged by installing the 8″ × 16″ rectangles in a straight course. The resulting geometric pattern has an up-to-date appearance.

Modern den *(above)* is accented by rough-textured non-glazed 12″ squares. Contrasting grout color adds to symmetry of the floor.

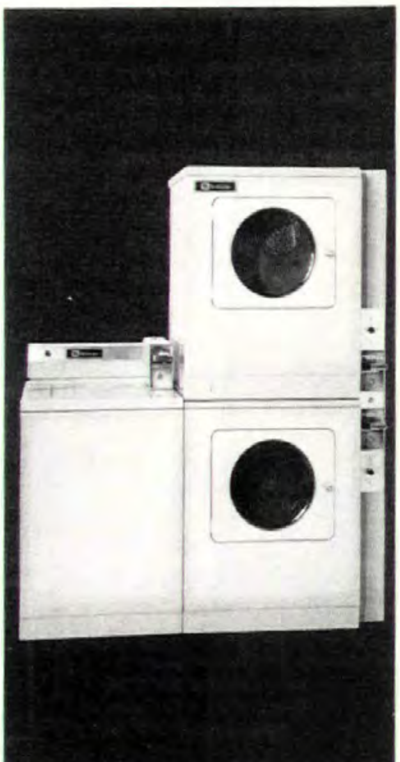
Outdoor courtyard *(left)* is paved in 4″ × 9″ non-glazed tiles that blend with the brick wall surround. Heavy-duty tiles endure harsh weather conditions.

Versatile cabinetry,"Windchime" *(above)*, features a rich brown finish on deeply sculpted oak with caneweave accents. Drawer and door pulls are in antique brass. Options include extra-wide-and-deep utensil drawer for pots and pans, a metal-lined bread drawer, stacked roller-mounted trays and a lazy susan unit. Brammer, Davenport, IA. *Circle 200 on reader service card*

Traditionally-styled cabinetry,"Gentry" *(above)*, features solid wood raised panel construction. Units have self-closing hinges. Home-Crest, Goshen, IN. *Circle 203 on reader service card*

Coal/wood burning range,"Innsbruck" *(left)*, features safe, cool external surfaces. Advanced air-tight double-draft system provides fast warm-up and fuel economy. Imported unit, available in white, brown or avocado, is of enamel cast iron and steel parts. Old Country, Vacaville, CA. *Circle 201 on reader service card*

Energy-saving built-in dishwasher *(below left)*) cleans up to 12 place settings at a time. Top rack adjusts to 16 positions and silverware basket has small items compartment *(below)*. Seven pushbuttons and a timer control provide 18 different cycle selections. White-Westinghouse, Pittsburgh, PA. *Circle 202 on reader service card*



Commercial washer and dryers *(above)* feature a variable coin slide that is adjustable to meet different price requirements of individual equipment owners. The coin slides are adjustable to accept 22 prices, from 5 cents to $1.10. The space-conserving dryer will dry two single-loads of clothes. Maytag, Newton, IA. *Circle 204 on reader service card*

Cooking center *(above)* has a microwave upper oven and self-cleaning conventional lower oven. Microwave unit offers three power levels, and a 60-minute timer. G.E., Louisville, KY. *Circle 205 on reader service card*

"Kitchen Mixer" faucet *(left)* is featured with hand spray. The swan-shaped swivel spout provides easy basin access and gives extra room for handling large pots and pans. Grohe, Elk Grove Village, IL. *Circle 206 on reader service card*

"All-A-Round Protection" coin vault *(above)* is for use on commercial washers and dryers. The unit can hold up to 40% more money than square-cornered conventional boxes. Coin chute and vault lock are of welded multi-layered steel. Whirlpool, Benton Harbor, MI. *Circle 208 on reader service card*

Pantry cabinet *(above)* offers maximum storage in minimum space. The 84''-high unit, divided into two main sections, is available in 18 or 24-inch models. Spacing between shelves is adjustable. Long Bell, International Paper, Portland, OR. *Circle 207 on reader service card*

Double-bowl sink *(above)* features 7''-deep and 10''-deep basins. Made of 18-gauge stainless steel, it is available in satin finish. Self-rimming sink measures 33''×22''. Royal Sink, Addison, IL. *Circle 209 on reader service card*

"Aqua-Pure Water Filter" *(left)* removes dirt, sand, bad tastes and odors from household water systems. Unit can be installed easily underneath the kitchen sink. AMF Cuno, Meriden, CT. *Circle 210 on reader service card*

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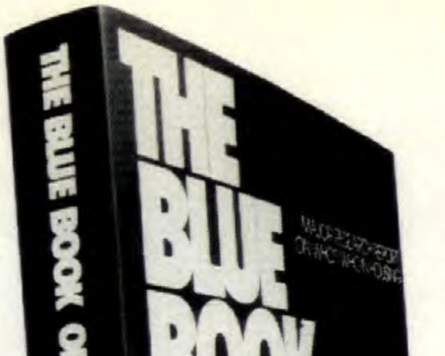

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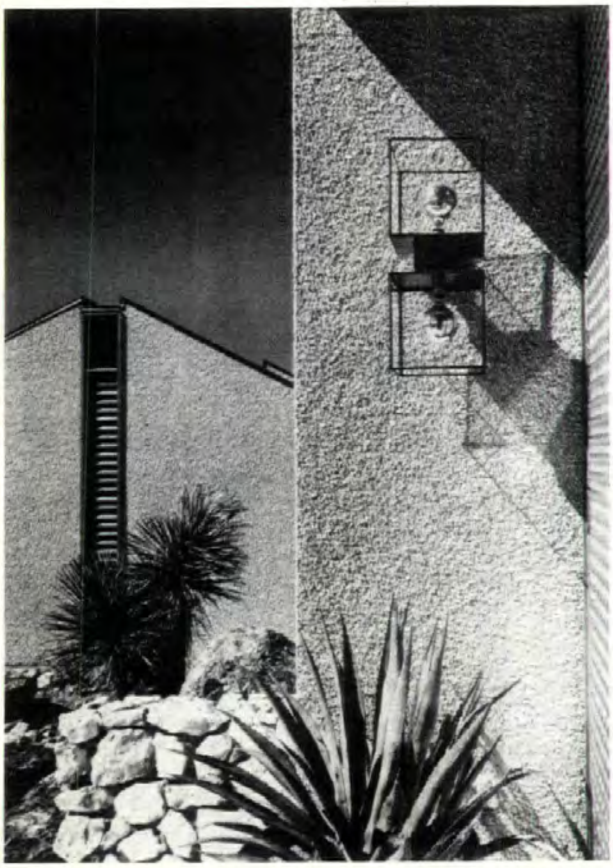
Solar-powered drain *(above)* provides low-cost, low-maintenance roof drainage. The compact 20-lb. unit pumps up to ½ gal. of water per minute from the roof. B. F. Goodrich, Akron, OH. *Circle 211 on reader service card*

Insulated aluminum siding *(left)* reduces heat loss. It comes in acrylic or vinyl finishes in a range of colors. Reynolds, New York City. *Circle 212 on reader service card*

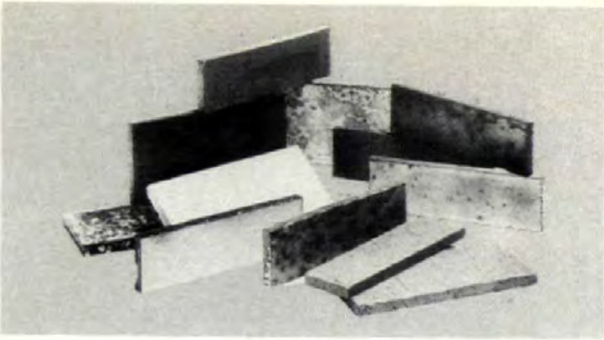
Cement base roof coating, "Thorotherm" *(above)*, protects against the elements, adds fire resistance and decreases heat loss. The coating is easy to repair and maintain. Standard Dry Wall, Miami, FL. *Circle 214 on reader service card*

Insulated wall and soffit system *(right)* can be applied to many types of materials. System has 2'' of rigid insulation. Finestone, Detroit, MI. *Circle 215 on reader service card*



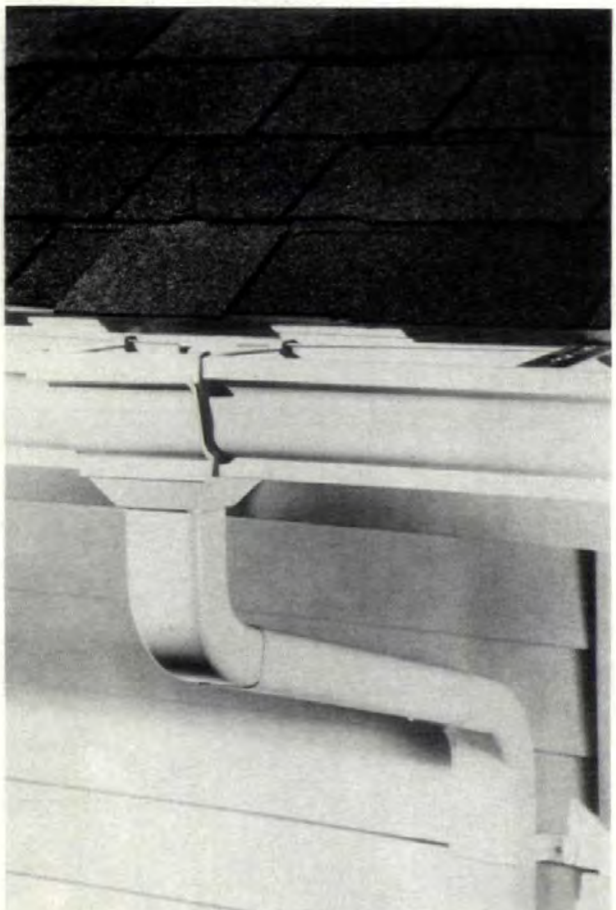
Battens and decking *(above)* in natural stone-on-plywood are both available in several colors and aggregate sizes. Maintenance-free material is easy to install. Standard sizes are 4×8, 4×10 and 4×12. Five-foot widths can be ordered. Sanspray, Santa Clara, CA. *Circle 213 on reader service card*

Roughsawn two-tone hardboard siding, "Forestex" *(above)*, is available in "Coffee-tone," a brown grain accent color over a light mocha tan base color. Simulated-cedar siding comes in 4×8 sheets. Five other colors are also offered. Forest Fiber, Forest Grove, OR. *Circle 216 on reader service card*



Slim clay "Mini-Bricks" *(above)* can be used in fascia or paver applications. The lightweight 7/16''-thick bricks come in two sizes and a wide range of colors and glazes. Pacific Clay, Santa Fe Springs, CA. *Circle 218 on reader service card*

Snap-on siding corner post *(right)* eliminates extensive repair jobs. Consisting of a base and exterior cap, the post is easy to install or replace. Alcan, Warren, IN. *Circle 217 on reader service card*



Solid vinyl gutter and downspout systems *(above)* are virtually maintenance-free. They cannot peel, blister, corrode, dent or stain. All components are double the thickness of ordinary metal units. Easy-to-intall gutters are available in 5'' width and in 10', 16', 21' and 32' lengths. Bird & Son, East Walpole, MA. *Circle 219 on reader service card*

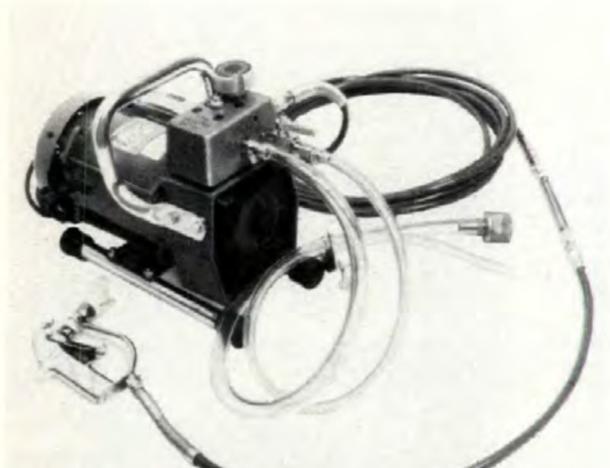
Contour T-Lok[R] solid vinyl siding *(above)* provides insulation against heat and cold. Available in several styles and colors, siding is maintenance-free and will not scratch or dent. Siding with integral color never needs painting or touch-ups. Pollution and salt spray cannot harm it. Mastic, South Bend, IN. *Circle 220 on reader service card*

"CypresSide" panel siding *(above)* is fabricated of durable hardboard. Available in 4×8 or 4×9 panels, siding comes in prestained brown or green as well as primed or unprimed. Masonite, Chicago. *Circle 221 on reader service card*

Simulated masonry facade *(above)* is for use over an all-weather wood foundation. Interlocking, pre-mortared brick and stone panels can be applied directly over plywood sheathing. Crushed stone provides a realistic look and texture and fiber glass adds strength and durability. Marlite, Dover, OH. *Circle 222 on reader service card*

High-lift *(above)*, with a hydraulically extending boom, is suitable for use on rough terrain. Unit has a maximum lifting capacity of 6,000 lbs. and a maximum working load of 2,150 lbs. The telescopic, self-leveling boom can reach out 20′10′′. Pettibone, Chicago. *Circle 233 on reader service card*

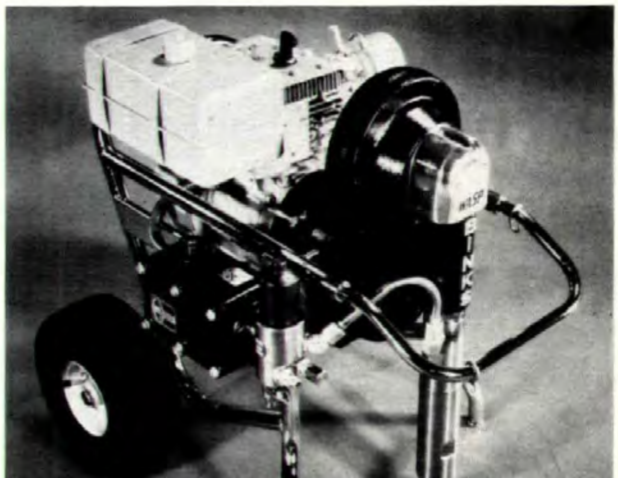
Sheet metal nibbler, "Model 1530" *(above)*, is designed for tight curved as well as straight cuts. The lightweight tool makes random forms and internal cutouts from steel, aluminum and plastic up to .047′′ thick. Robert Bosch, Broadview, IL. *Circle 234 on reader service card*



Portable airless electric paint sprayer, "ED-250" *(above)*, is designed for small or short-run jobs. To reduce wear and conserve power, unit automatically shifts into neutral when the gun is closed. Device supports a spray tip up to .017′′. Graco, Minneapolis, MN. *Circle 235 on reader service card*

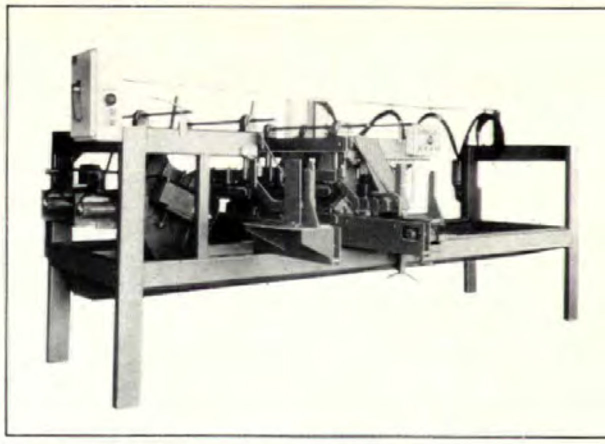
Portable electric saw *(above)* has strong nonconductive glass-filled nylon housing and handle. Heavy-duty, 7¼′′ device has one-knob height and angle adjustment and a trigger-switch control handle. Lightweight tool has 13 amp motor. Milwaukee, WI. *Circle 236 on reader service card*

Backhoe and prime mover, "Fleethoe 30" *(above)*, can be used for utility repairs and other operations where space is limited. The 56′′-wide unit has an overall transport length of 178′′ with blade and backhoe attached. Davis Manufacturing, Wichita, KS. *Circle 237 on reader service card*



Gas-powered airless spraying unit, "Wasp" *(above)*, operates for 3.5 hours on one gallon of gasoline. Portable unit delivers a gallon per minute at up to 3,000 psi pressure. Device can spray a range of materials including stains and lacquers. Binks, Franklin Park, IL. *Circle 238 on reader service card*

Crawler, "850B" *(above)*, is designed for tight-quarter maneuvering, multi-job utilization and ease of transport. Unit has high torque capability at low engine-saving rpms. Attachment options include a 14′ Case standard backhoe, integral arch design winch and parallelogram design five-shank ripper. The four-cylinder engine features direct injection fuel system. J.I. Case, Racine, WI. *Circle 239 on reader service card*



"Combi-Cut" component saw *(above)* is for high-volume cutting of roof and floor truss webs. Unit cuts 2×4s in upright or flat position. De Pauw, St. Charles, IL. *Circle 242 on reader service card*

Texturing machine *(left)* sprays acoustic plasters, waterproofing compounds and paint. Plastic hopper holds 1¾ gals. of material. Goldblatt, Kansas City, KS. *Circle 243 on reader service card*

Unlocking some new security concepts

Lock-and-cylinder combination is introduced on a catalog sheet. Photos show the Segal lock, cylinder and strike. Complete specifications, including case size, finish, cylinder and keys, are given. New England Lock & Hardware, South Norwalk, CT. *Circle 300 on reader service card*

Lockset catalog presents Harloc's full line of products for residential applications. The 20-page booklet includes descriptions and color photographs of "Pacemaker" locksets, deadbolts and decorative escutcheons. Entry door handle locksets and accessory hardware are also depicted. All are shown in a wide range of finishes and styles. Complete specifications are included. Harloc, West Haven, CT. *Circle 301 on reader service card*

Locking system, "Doublelock," is introduced in a color brochure. Illustrations show how a single turn of the inside knob provides instant release of two separate locks contained in the same housing. Also available is an eight-page lock installation guide which gives complete instructions on installation and jamb preparation, accompanied by detailed line drawings. Arrow Lock, Brooklyn, NY. *Circle 302 on reader service card*

Solid state security systems for industrial, commercial and residential protection are described in a short-form catalog. The eight-page publication gives the operating characteristics of four different control panels, along with descriptions of accessory products. REDCO, Pennsauken, NJ. *Circle 303 on reader service card*

Security systems brochure describes apartment house intercommunication systems, housing-for-the-elderly security systems and fire protection devices. Complete with black and white photographs, the pamphlet also includes information on intercommunication system accessories such as an electric door lock release. Exide Safety Systems, ESB, Randolph, MA. *Circle 304 on reader service card*

Security products are described in a 12-page booklet. Included in the publication is data on Lectro-Mac[R] door holders, designed to hold doors open until released by smoke detectors; Lectro-Close™ door closers for shutting doors when an emergency arises; fire alarm systems and thermal circuit breakers. Diagrams, photographs and specifications are presented. Special Products/Hardware, Emhart, Berlin, CT. *Circle 305 on reader service card*

Lobby communication system, "Dial 6" Apartment SecuriCom[R], is detailed in a color booklet. The system, which requires no wiring to individual apartments, uses existing telephone lines to carry signals between apartment and lobby. The unit is explained through diagrams and photographs. Nutone, Cincinnati, OH. *Circle 306 on reader service card*

Horizontal mail box data sheet describes the "Statesman" series. Illustrated are both front and rear loaded models of the mail box line. The double-walled aluminum construction and internal frame system are discussed. American Device, Steeleville, IL. *Circle 307 on reader service card*

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