About Real Estate

U.S. Re-evaluating 'New Towns' Program

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WASHINGTON — Within the Department of Housing and Urban Development a detailed re-evaluation of the "new towns" program is in progress. This is the program under which the Government has guaranteed $280 million in loans since 1970 to help build large new residential and commercial clusters throughout the nation.

Already the $21 million loan guarantee for one project — Gananda, outside Rochester—has been written off as a total loss. And the total liquidation of one or two more of the 13 projects throughout the country has not been ruled out.

For 11 of the projects, H.U.D. has been picking up the interest payments on the bonds since July 1. A few of these projects could meet the costs themselves, but the object is not to drain them of cash. In six cases, however, cash resources are exhausted and the projects cannot pay.

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New developers are emerging for some of the projects. In at least one case—Flower Mound in Texas—there is a possibility that the Government will form a joint venture with a private developer.

These and other facets of the state of the new-towns program were reported by H.U.D.'s administrator for new communities, James A. Dausch, in an interview. He said that the Community Development Corporation—whose board is headed by Carla A. Hills, the Secretary of Housing and Urban Development, and includes development experts drawn from the private sector—"will not ditch good projects."

"The new-communities idea is well conceived, but we haven't yet figured out a way in this country to apportion costs between the public and private sectors, though it's possible," Mr. Dausch said.

United Press International

Carla A. Hills

The French, he noted, "lost a bundle" in learning the art.

The basic idea of Title VII of the Housing and Urban Development Act of 1970 is that the Federal Government would guarantee debentures up to a maximum of $50 million per project to help long-term "new towns" get started. These were usually conceived as new population centers with a mixture of residential, commercial, office and manufacturing uses.

Often the time for full development was planned as 20 or 30 years or more, with populations varying from 23,000 to 150,000. In some cases construction has begun and people are living in the prospective towns.

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So lengthy and costly is the planning and development process that, even with the Federal backing that assures early financing, great staying power by the development organization is essential. Numerous management, legal, fiscal, environmental and market problems have ensnared the projects, not excluding the economic downturn of the early 1970's.

At Cedar-Riverside in Minneapolis, progress has been held up since 1973 by an environmental suit on the ground that the original environmental impact statement was inadequate. While the litigation grinds on, H.U.D. is paying out $1.7 million a year in interest.

At Riverton, southwest of Rochester, a potential new owner, the Arlen Realty and Development Corporation, is negotiating to assume the developer's role. Howard Samuels, former head of the state's Offtrack Betting Corporation, is Riverton's current manager.

At St. Charles, Md., southeast of Washington, D.C., the developer brought in new investment money and is negotiating for additional loan guarantees.

It was at a meeting in June that the Community Development Corporation's board adopted the strategy of restudying all the projects to determine which ones, given adequate budgets and good management, still have a potential for long-term success, Mr. Dausch said. For these, interest payments have been temporarily deferred as an aid.

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Those projects with the cash to make the interest payments are obliged to place the money in an escrow account and spend it in accordance with a budget plan under Federal control. Meanwhile, the Government makes payments to the bondholders.

The fact thatat many of the vital decisions affecting these new communities are made by local jurisdictions with no financial stake in the communities has proved to be a fundamental handicap in successful new-town development, Mr. Dausch said.

Then there is the question of how many private organizations have the staying power to carry such huge quantities of land over development periods that run from 20 to 30 years.

One critical question may be how much the continuing interest costs are going to add to the cost of the projects and whether it will be possible in the end to build these costs into the rents charged. The total interest burden on all the bonds amounts to about $20 million a year.

As of the end of March, the Government had paid out $11 million in interest.

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"We're looking at substantial losses in all the projects," Mr. Dausch said. "On many it will be more than 50 percent." But there is always a possibility of recouping if the project can be made successful.

Besides Cedar-Riverside, Flower Mound, Riverton and Gananda, the Title VII projects are Jonathan, south of Minneapolis; St. Charles, near Washington; Park Forest South, in Illinois; Newfields, near Dayton, Ohio; Soul City, N. C. (the only "free-standing" new town as opposed to the usual satellites of urban areas); Harbison, near Columbia, S. C.; Shenandoah, near Atlanta; Maumelle, outside Little Rock, Ark., and the Woodlands, outside Houston (where the ownership is held by the Mitchell Energy and Development Company).

A "white paper" on the Title VII Program is in preparation and is expected to be ready by the end of the year.