

converting farm land to new towns

In his State of the Union Message kicking off the 1970's, President Nixon sounded this warning:

"In the next 10 years the United States will increase its wealth by 50%. The profound question is: Does this mean we will be 50% richer in a real sense, 50% better off, 50% happier?

"Or does it mean that in the year 1980, the President, standing in this place will look back on a decade in which 70% of our people lived in metropolitan areas choked by traffic, suffocated by smog, poisoned by water, deafened by noise and terrorized by crime?"

The purpose of this article is to explore some of the ways our real estate business can contribute to a healthy national growth.

It seems increasingly clear to me that from now on the big winners in real estate will be the men and women who recognize that de-polluting our nation and upgrading our environment is where the action will be in the future. And where the action is, is also where the big rewards will accrue.

The route that I personally have taken to upgrade the environment is through new towns. Because new towns are receiving so much publicity these days more and more real estate men are getting interested in the subject. It may, therefore, be an opportune time to share with you some of the trials and tribulations of a new town builder as he gropes with the big idea of environmental improvement.

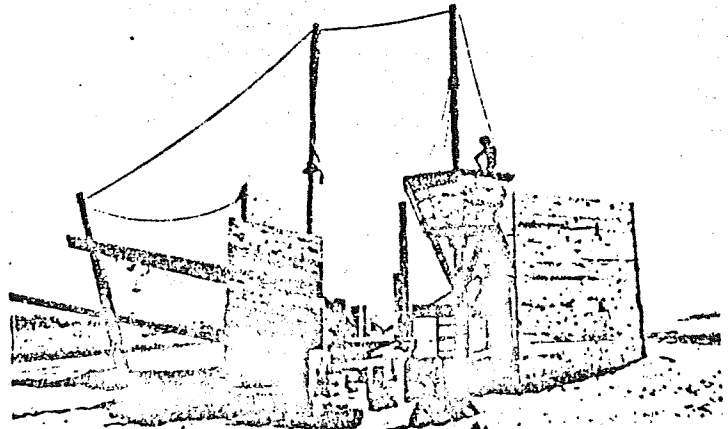
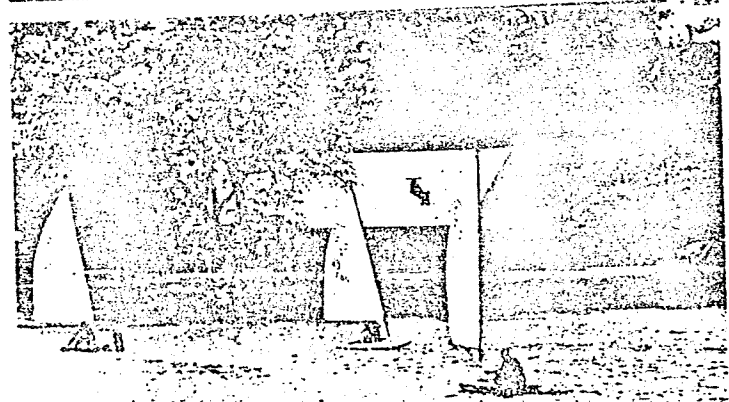
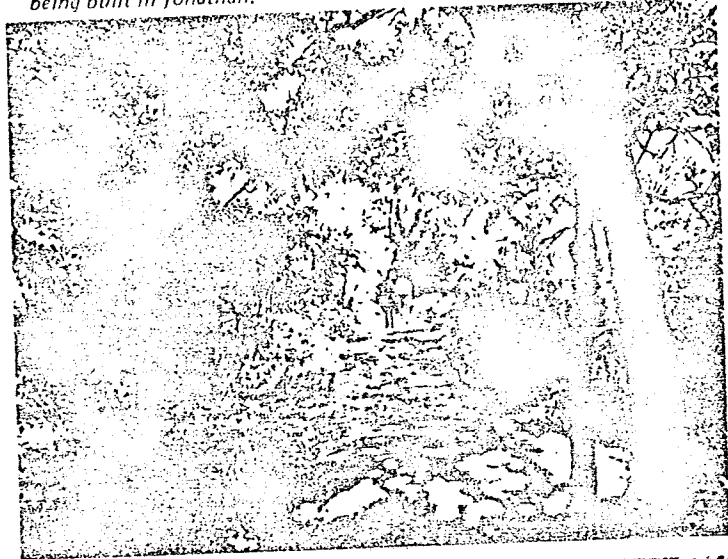
My own interest in new towns developed about the same time I became a state senator when I was especially concerned with conservation matters. What interested me then, and still does, is the relationship between land and people. Each year more and more millions of people are demanding more and more land for living, working and recreation. This, from an ever decreasing supply of land that is being chomped up by freeways, industry and suburban sprawl.

The trick is to accommodate the living needs of millions of people in such ways as to minimize land waste and still provide what has come to be called a "quality of life" the people now want. Put another way, we must learn to optimize the use of the natural resources we still have left. One man worth listening to is Jay Forrester, whose new book *WORLD DYNAMICS* tells us that our earth is finite and thus can support only limited growth. In testimony before a congressional sub-committee last year, Forrester made an eloquent plea for confining present U.S. cities rather than accepting the continued growth of American population as pre-ordained.

He said: "Our greatest challenge now is how to handle the transition from growth into equilibrium. Our society has behind it a thousand years of tradition that has encouraged and rewarded growth. The folklore and the success stories praise growth and expansion. But that is not the path of the future."

Another environmentalist, Dennis Meadows, of M.I.T.'s Sloan School of Management, expressed sentiments when he said: "Growth cannot continue indefinitely on a finite planet. We are faced with an inevitable transition from world-wide growth to global ecological equilibrium. Because of the time

(top) Greenway paths interconnect all areas of Jonathan: residential neighborhoods, parks, shopping center, lakes, woods, recreational facilities. (center) Grace Lake, with pavilion, is available to all residents. It is one of six lakes within the Jonathan boundaries. (bottom) "Pirate Ship" playground is typical of the innovative recreational facilities being built in Jonathan.



delays inherent in social system change, decisions made now are already influencing the nature of that future equilibrium. Will it be an equilibrium of poisoned lakes, of oppressive crowding, of food shortage and a declining standard of living? Or will we choose a different mode of equilibrium characterized by a more desirable set of conditions?"

So we have strong voices speaking out for equilibrium—a non-growing, balanced condition for the ecological system. According to a report just released by the U.S. Bureau of the Census, our birthrate is now declining. However, even if births in this country were to decline so that families were barely replacing themselves within the next ten years, it would still take another 60 years before the population would really stop growing.

The point is that you can't close your eyes and wish away further growth. Growth is here to stay for at least another 60 years. We have to be able to cope with it until that magic word equilibrium takes over in its place.

New towns are considered by many of us as the best way of using our land resources as we transition from growth to equilibrium and beyond.

Because new towns are started from scratch they can be planned to accommodate the whole range of modern living requirements in a proper environmental setting. Actually, we used to build our cities this way.

An editor of the American Institute of Architects once said: "The American dream is beautifully expressed in many early American towns and villages. In such communities, social and personal needs intersected; there was a design for living and working on a human scale, with full respect for the individual and for nature. The keen observer looking at these towns and villages today notes that it isn't clapboard or salt-box architecture that gives them their charm, but the simple strength of the original plan that brought homes, church, public buildings, common, and places of work in close harmony with each other.

"Yet," continues this unknown editor, "as we look around us in suburbia, we see that the American dream has become the American dilemma. Trading the advantages of the city for the advantages of the country, we have lost both. We have houses—the majority of them comfortable and livable. But we do not have what early Americans enjoyed as a matter of course—livable communities."

Before we go any further we must ask if our new towns really work. Do they make financial sense to their owners and developers as well as to the people who live in them and to the larger community they must be part of? It's still too early to tell in the case of Jonathan, just outside of Minneapolis, and Cedar-Riverside in downtown Minneapolis—the two new towns with which I am directly connected—but there are encouraging signs. What is abundantly clear is that neither of these large scale efforts could ever have gotten off the ground without government help.

Postwar Britain provided the first opportunity to test the new idea on a large scale. Under Sir Winston Churchill the decision was made to rebuild bombed out England, not on the

slum areas of London and Liverpool, but instead to blossom out from the central cities in a series of new towns specifically designed—self contained communities for work, for housing, for recreation, for cultural activity, for shopping and for the full scope of man's endeavor.

The 30 or so English new towns were 100% government financed. Before we put the first shovel to the ground for Jonathan, I visited as many of these English new towns as I could, and talked to many residents. I came home with the feeling that the success of a new town depends not upon the brilliance of its architecture, nor upon the boldness of the concept of its master plan, but simply how livable it was and how much people enjoyed it, which is probably something I should have known anyway.

The other idea I brought home is that in the future, builders should not be thinking in terms of just houses, or just apartments, or subdivisions, or just industrial parks, but that they should be thinking in terms of building whole new cities that would incorporate all of these activities, plus recreation, education, health care, and cultural facilities.

Since starting Jonathan we have been pleased to learn from a Harris Poll published in January, 1970 that these are the six top wants of Americans in their living:

- Green grass and trees around me
- Neighbors with whom I feel comfortable
- A church of my faith nearby
- A first-rate shopping area nearby
- A kitchen with all modern conveniences
- Good schools nearby

All of these dreams can be designed into a new town.

The "Wall Street Journal" quotes a Westinghouse Corporation official as saying he believes that building new communities will be one of the great new growth industries of the '70's. I feel the same way for a number of reasons—principally because new towns respond to the environmental upgrading trend we talked about earlier. At present there are about 50 new towns, either in the advanced planning stages or actually under development. What a challenge for these 50 developers to become champions of the environmental cause!

Because building cities requires so much capital to get started, many people shy away from the opportunity. After we had decided to try the Jonathan idea we made every mistake it's possible to make. It's a fact that the members of our Jonathan management group now spend quite a bit of time helping other new town developers avoid our early mistakes.

Basically, a new town requires you must have patient investors for the front-end investment. One of Jonathan's earliest subscribers called his investment a "grandchildren investment"—something neither he nor his children would benefit from financially. But if Jonathan became a success, his grandchildren would compliment his long-range sagacity. To which I added . . . "and if Jonathan flops your grandchildren will own some of the highest priced farm land in the whole state."

With our original invested capital, plus our local banker who liked to swing a little, we were able to purchase enough land and put in enough utilities to provide a sample of what our new town would look like. The land we purchased was almost 100% farm land in Carver County, 25 miles southwest of Minneapolis. Now, at this point, the script calls for the entrance of a party known as "major institutional investor" who is supposed to want a small piece of the project so much that he will pay almost any price to get it. This, you will recognize as being the developer's dream which has never yet come true.

As for Jonathan, we had several large institutional investors in mind, several of whom were represented by good friends—and home based to boot. But, as you will recall, in 1967 and 1968, those large institutional investors were not very apt to be interested in anything as far out as a new town located 'way out in the sticks. We manfully presented our dream again and again, always to be told that we were way ahead of our time—come back to see us in 10 years. But for us, the meter was going—our time would not wait. Fortunately, fate took a hand.

In August, 1968, the Congress passed a new Housing Act contained a section dedicated to the development of new communities. In essence, the Housing Act of 1968 says that if you are ready to go with the development of a total community—one that can be self-supporting with its own industry and commerce, with a full range of housing for all income groups—the Federal Government will guarantee your bonds to help you sell them on the market. In other words, they will back your bonds with the full faith and credit of the United States Government. As soon as we heard about the new Bill, we made an application for Jonathan. The result was that after a further 15 months' of sweat Jonathan became the first community to qualify anywhere in the United States.

What exactly does this particular Federal program mean to a new town developer? It means that you get financing for front-end expenses: land acquisition and installation of utilities—things that are almost impossible to finance on the private market.

It means you get long term financing to carry you through the five or six years of negative cash flow that a project as big as a new town requires.

And it also gives your project *credibility*. This serves to help your position with the governmental units you must deal with at all levels, as well as with the financial people.

A corollary benefit is that the local government in which your new town is located—whether an existing municipality or a county—becomes eligible for supplementary grants which can add as much as 20% to the value of the original approval—for sewers, water systems, parks and open spaces.

It does not hurt your position one bit in dealing with local governmental units.

Most of all, a HUD grant—such as the \$21 million for Jonathan, or \$24 million for Cedar-Riverside—gives a developer and his stockholders a new kind of peace of mind that allows them to concentrate on building a better

environment instead of worrying themselves out of their minds over heady debt service. In effect, our HUD guarantee took the place of our "large institutional investor" who, in the case of both of our new towns, never did appear.

It can probably be said that HUD is to Jonathan what Connecticut General is to Columbia, Maryland, except that HUD didn't demand a piece of the action. The original Jonathan investors enjoy the same percentage of ownership today that they did when they originally invested.

So today at Jonathan we are about to greet our thousandth new resident. There are over 400 people working at the industries located in the Jonathan Industrial Center. Our first Village is well on its way, and its Village One shopping center is fully rented enough so that plans for expanding it are already on the drawing board. The walkway system now connects 7 neighborhoods, 2 of which are almost completely sold out.

Jonathan is providing a wide range of low and moderate income housing varieties including FHA, 235's and 236's, townhouses in all shapes and sizes, a single family dwelling that has appeared on the covers of national magazines, and a few houses that are pretty horrible—these being the early efforts that came into being ahead of our present quality standard.

At Jonathan today you will see innovative boxes stacked up to form an apartment called "Tree Loft" and filled with young swingers. We are also a quiet community where you can take a walk and relax, where you can swim in a lake, catch a fish, ride a horse, ski cross country—take life as easy as you wish or be as creative as you wish.

For fun I sometimes wonder what my grandfather would think of this white hat I am wearing as an environmentalist. He made his mark in the world as a lumberman in northern Minnesota and Michigan. By today's standards he was an anti-environmentalist if there ever was one, chopping down those virgin forests to provide the lumber for the growth of the midwest. He salted away his extra cash in parcels of Minneapolis real estate.

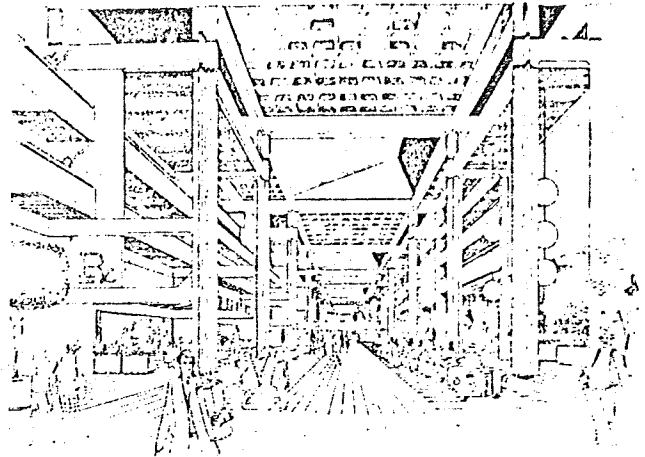
My father later covered this downtown land with office buildings and spent *his* extra time and cash on such pursuits as civic betterment and politics creating more growth—and enjoying it to the hilt.

Both of these men were very much in tune with their times—were "right on" as the kids say. They were doing what came naturally to them. When I follow along and say that where today's action is, in de-polluting and upgrading the environment, I recognize that I'd better be right or they will do some major turning over in their graves.

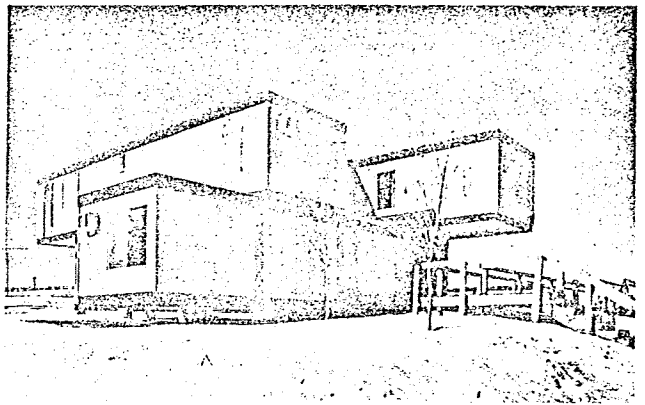
I'm happily stuck with this conviction of mine that new towns will be an important factor in the future growth of our nation. What's more—my banker and I are friends again. I think I have him convinced that there's nothing the matter with turning farm land into a new town as long as you remember that your aim should be to improve the environment rather than destroy it.



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



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



Stacked-up housing will use modules in unconventional arrangement.

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

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

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

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

Now that they have a federal guarantee, the owners have been able to bring in \$7 million—all they need for the moment—through a bond issue, (subject

to HUD approval). The town can continue at its original projected pace, and McKnight and his associates have had to give up no equity.

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

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

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

The general concept of the town calls for five small villages of 7,000 residents each. Shopping areas and other facilities will be located in each village.

The remaining 15,000 residents will live in high-density housing near the town center, and at a proposed 300-acre learning center that will include a university branch.

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

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

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

2. *A flexible house.* Made up

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

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

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