The JOURNAL of Real Estate Management

Published Quarterly By
The Institute of Real Estate Management of the
National Association of Real Estate Boards

VOLUME III   NUMBER 1

IN THIS ISSUE

The High Cost of Cheap Management .............. 5
How Am I Doing? ................................... 13
How High Can Rents Go? ....... 21
An Objectively Drawn Apartment Lease Form .......... 26
Contracts .............................................. 33
Economic Factors Related to Residential Building .... 49
Landscape Planning and Real Estate Management .... 61
Some Complaints and How They Were Handled .... 67
Internal Social-Economic Structure of Urban Communities 77

$5.00 THE YEAR • May, 1937 • $1.25 THE COPY
Practical Courses in
REAL ESTATE APPRAISAL

For Men Who Wish to Qualify as Experts on The Value of Real Property

I. FUNDAMENTAL CONCEPTS AND PROCEDURE

What Value Is and How It Arises
The Appraisal Process
The Data Program
Diminishing and Increasing Returns
Location and Neighborhood Analysis
Treatment of Surplus Income
Conformity
Depreciation
Interest Rates and Risks to Capital
Mechanics of Capitalization
And twenty other fundamentals involved in all appraising

II. TYPICAL INCOME PROPERTIES

The Quantity Survey
Unit Prices
Building Equipment and Maintenance
Rehabilitation Estimates
Analysis and Reconstruction of Operating Statements
Analysis of Gross Income
Leasehold Valuation
Condemnation Appraisals
Correlation
And twenty other fundamentals of appraisal of income properties

Each member of the Faculty is an M. A. I. with a long record of creditable experience as an appraiser and with exceptional talent as an instructor.

At Columbia University
Appraisal I—June 7—June 19
Appraisal II—June 21—July 3

ENROLLMENT LIMITED TO 100 QUALIFIED STUDENTS

For detailed information address
AMERICAN INSTITUTE OF REAL ESTATE APPRAISERS
22 West Monroe Street • Chicago
COMPLETE YOUR LIBRARY

A few copies of the following issues of THE JOURNAL OF REAL ESTATE MANAGEMENT are available. Feature articles in these numbers include:

VOLUME TWO, NUMBER FOUR—
Creating New Values Through Rehabilitation, by Duerson Knight
Tenant Relations in a Rising Market, by Roy Hudenberg
Internal Physical Structure of Urban Communities, by Walter L. Greene
Relationship of Property Management to the Real Estate Business, by Morton G. Thalhimer
Property Management from the Client’s Point of View, by A. F. Mohl
Store Leases, by A. E. MacDougall
Building Sales Through Management, by E. Fred Kemner

VOLUME TWO, NUMBER THREE—
Population Changes, by William F. Ogbum
TenantIll-Will and How To Gain It, by Clement E. Merowit
The Functions of Management, by Harry Grant Atkinson
What About Federal Housing? by Arthur Bohnen
The Training and Supervision of Building Superintendents, by George W. Seiler, Jr.
Control of Utility Costs, by Irwin M. Ryan
Preparing Buildings for Winter, by Kendall Cady
The Management of Small Residential Units, by Harold Hobbs, Jr.
Neighborhood and Other Social-Economic Units, by Walter L. Greene

VOLUME TWO, NUMBER TWO—
Building a Management Business Through Advertising, by Jim Seaton
Trust Mortgages, by Samuel Goldenberg
Managing Homes for Sale, by H. W. Stembridge
Restoring Rental Properties to a Profitable Basis, by Chester A. Moores
What Is Depreciation? by Morton G. Thalhimer
Percentage Leasing, by George J. Beggs
How Many Forms? by Thomas J. Fleming
Financing and Managing Real Estate, by Robert C. Nordblom
Paint vs. Paper for Apartment Walls, by James A. Riner
The Estate Profession’s Code of Conduct, by John Stevenson
Inflation and Your Income—A Bibliography

VOLUME TWO, NUMBER ONE—
Office Tenant Selection vs. Price Cutting, by B. L. Lefler
The Conditioning and Maintenance of Floors, by Everett S. Cason
Testing the Rent Market, by James C. Downs, Jr.
Air Conditioning, by Deane E. Perham
Advertising an Apartment Hotel, by Dean U. Bakke
Specifications and Standard Volume Purchasing, by Oliver S. Turner
The Apartment Building of the Future, by Lucius W. Hilton
Unsecured Apartment Leases, by Earl B. Teckemeyer
Standards of Practice

Price: $1.25 the copy; $5.00 the year
Address Orders and Make Checks Payable to
THE JOURNAL OF REAL ESTATE MANAGEMENT
22 West Monroe Street, Chicago, Illinois
AUTHORS IN THIS ISSUE

Morris B. Ashton, Chicago, Illinois, is associated with the Great Lakes Mortgage Corporation and is Secretary of the Winton Realty Company.

Lowell J. Chawner, Washington, D. C., is Chief of the Construction Economics Section, Marketing Research Division, Bureau of Foreign and Domestic Commerce. Mr. Chawner is the author of various articles on the economic aspect of the construction industry and urban real property.

Jean Coman, Washington, D. C., is Associate Management Supervisor of the Management Branch of the Housing Division of the Public Works Administration.

Walter L. Greene, Birmingham, Alabama, is Executive Assistant to Robert Jemison, Jr. and former Sales Manager of the Jemison Companies.

Andrew C. Hamilton, Chicago, Illinois, is an attorney with the firm Kirkland, Fleming, Green, Martin and Ellis and a member of the Illinois Bar Association.

Clement E. Merowit, New York City, of the Clement E. Merowit Co., Inc., has erected and now owns and operates a number of large buildings in New York City.

E. A. Printz, Evanston, Illinois, is the Property Manager for McGuire and Orr, Inc.

Ralph Rodney Root, Chicago, Illinois, has been a member of the firm of Root and Hollister, Landscape Architects, for more than twenty years.

The JOURNAL of
REAL ESTATE MANAGEMENT

James C. Downs, Jr., Editor-in-Chief
C. M. Snyder, Assistant Editor
Harry Grant Atkinson, Associate Editor
H. C. Wenberg, Assistant Editor
C. M. Jones, Library Editor

Volume III May, 1937 Number 1

CONTENTS

<table>
<thead>
<tr>
<th>Title</th>
<th>Author</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>The High Cost of Cheap Management</td>
<td>W. G. Ruggles</td>
<td>5</td>
</tr>
<tr>
<td>How Am I Doing?</td>
<td>Morris B. Ashton</td>
<td>13</td>
</tr>
<tr>
<td>How High Can Rents Go?</td>
<td>E. A. Printz</td>
<td>21</td>
</tr>
<tr>
<td>An Objectively Drawn Apartment Lease Form</td>
<td>Clement E. Merowit</td>
<td>26</td>
</tr>
<tr>
<td>Contracts</td>
<td>Andrew C. Hamilton</td>
<td>33</td>
</tr>
<tr>
<td>Economic Factors Related to Residential Building</td>
<td>Lowell J. Chawner</td>
<td>49</td>
</tr>
<tr>
<td>Landscape Planning and Real Estate Management</td>
<td>Ralph Rodney Root</td>
<td>61</td>
</tr>
<tr>
<td>Some Complaints and How They Were Handled</td>
<td>Jean Coman</td>
<td>67</td>
</tr>
<tr>
<td>Internal Social-Economic Structure of Urban Communities</td>
<td>Walter L. Greene</td>
<td>77</td>
</tr>
<tr>
<td>What to Study.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of ‘Housing Management, Principles and Practices’</td>
<td>Arthur Bohnen</td>
<td>88</td>
</tr>
<tr>
<td>New Articles</td>
<td></td>
<td>89</td>
</tr>
<tr>
<td>By-Laws of The Institute of Real Estate Management</td>
<td></td>
<td>90</td>
</tr>
<tr>
<td>Officers and Committees</td>
<td></td>
<td>94</td>
</tr>
<tr>
<td>Membership Roster</td>
<td></td>
<td>95</td>
</tr>
</tbody>
</table>

The Institute of Real Estate Management is not responsible for statements made by authors of papers printed herein nor for other statements except as approved by its Governing Council.

Published quarterly by The Institute of Real Estate Management of the National Association of Real Estate Boards at 22 West Monroe Street, Chicago, Illinois. Copyright, 1937, by The Institute of Real Estate Management of the National Association of Real Estate Boards. All rights reserved.

Entry as second class matter applied for at the post office at Chicago, Illinois, under the Act of March 3, 1879. Subscription rates: $5.00 a year; $1.25 a copy. Remittances may be made by personal checks, drafts, or post office or express money orders payable to The Institute of Real Estate Management, 22 West Monroe Street, Chicago, Illinois. Printed in the United States of America.
A STRANGE characteristic of the average human is his almost constant feeling that the opportunities of the other fellow are broader than his own. Years ago a homely commentator coined a phrase for it—"The grass is always greener on the other side of the fence," said he.

In many an economic pasture today, property managers have stopped their fruitful grazing and are staring with bovine mien over the fences to "greener grass" in the fields of sales, building, and development. Some of the more fickle have already leaped to the other side.

Strangely enough, the grass of opportunity in the field of property management is presently as green as ever. Specific enlargement of the field is contemplated in many an important housing measure receiving serious consideration at the moment. The real rewards will go to those who waste no time in staring aimlessly over the fences.
The Journal of Real Estate Management

Volume III May, 1937

The High Cost of Cheap Management

By W. G. Ruggles

Cheap management costs owners of income-producing real estate properties millions of dollars annually! A surprising statement to make but, nevertheless, very true. Cheap management should be more correctly termed "low fee management," which is expensive management because of the tremendous losses incurred. The cheapest management, or I might say, the most inexpensive management, is the "high fee management," resulting in great savings as a result of efficient and modern management. However, for the purposes of clarity, I shall refer to low fee management as "cheap management" and high fee management as "efficient management," although high fees do not necessarily mean excellent management.

Real estate is the safest investment in the world; it is amazing that the owner does not consider the question of management more seriously. No one would think of turning over to an individual or an organization $500,000 worth of stocks and bonds and pay a fee of $150 a month, or $1,800 a year, to manage and guide their destinies. However, individuals and organizations think nothing at all of turning over income-producing real estate, valued at $500,000, to an agent to manage. He seems to think that the collection of rents is all that is to be considered, when, in fact, it is the least. So he employs a property management organization to handle his property, not investigating what its record has been, whether its employees have a thorough knowledge of his individual problem, or whether the firm specializes in the management of his particular type of property. He looks only to the fee they charge; the smaller the fee, the better bargain he believes he is getting.

Good Management a Business, Not a Side Line

I am sorry to say that management concerns have sprung up with little or no experience in the managing of property. Many real estate firms have created a property management department, operated as a side line to the general real estate business, producing, as a rule, sufficient income to cover the operating expenses of the entire organization. The mere statement that one is a property manager does not qualify one to manage property. A property manager must know more about renting, more about keeping tenants, and more about earning an income than the owner does, or his services are a liability instead of an asset. The so-called property manager goes through the routine of leasing the property, collecting the rents, doing the necessary decorating and repairing, and, if at the end of the month he can show a state-
ment that the rents are ninety to one hundred per cent collected and that the building is ninety to one hundred per cent occupied, he feels that he has done an excellent job. The question might be asked here: Why is ninety to one hundred per cent collection of the rents, ninety to one hundred per cent occupancy, and holding down the cost of maintenance not good management?—and it is in the eyes of the uninitiated.

Many real estate organizations, who consider property management as a necessary evil, place a man in charge who has had little or no experience in the handling of properties. He is an individual who knows only what he has learned in a general way; perhaps he has hopes of soon graduating from the property management department into the selling end of the business where large commissions are paid. In other words, property management is regarded as the first rung in the ladder, and, therefore, only those individuals who desire to enter the real estate business, or those lacking ability to sell, are employed by the organizations charging the low management fee.

The largest percentage of income-producing real estate is poorly managed by cheap managers. You, property manager or owner, are likely to take issue with that statement. However, just check these items of operation and ask yourself if you operate or your agent operates your properties by the following standards:

1. Make a rental survey of every unit within the radius of a mile.
2. Take pictures of the interior and the exterior of the building and, if there are no blue prints available, have floor plans made of the entire building.
3. Personally meet every tenant.
4. Personally inspect each rental unit.
5. Personally inspect the entire building for physical condition appraisal.
6. Determine fair return on investment after depreciation. (Your building should return at least six per cent on the fair market value of the land and at least ten per cent on the building.)
7. Make a breakdown survey of expenses, prepayments on mortgage, interest, and taxes.
8. Check building carefully to cut down operating expenses and unnecessarily high insurance premiums and see that necessary improvements are made for proper upkeep of the building.
9. Investigate every tenant's reference very carefully, preferably by written credit report.
10. Keep tenant's reference on record on rent collection card.
11. Keep rent delinquency card of each rental unit and check periodically with collecting attorney on all out of possession cases.
12. Politely educate tenants that the rent is to be paid on the first of each and every month.
13. Inspect entire building periodically.
14. Inspect each rental unit before any improvements are made.
15. Inspect each rental unit during the time improvements are made and afterward, and before contractor is paid for his work.
16. Secure at least three reliable estimates from creditable organizations before any work is let.
17. Give every request of the tenant immediate and courteous action and follow with a polite but definite answer.
18. Purchase coal scientifically and wisely and make tests as to contents regularly.
19. See that the employment, supervision, and payment of the janitor and other employees is intelligently done.
20. Employ, besides the bookkeeper of the management division, outside, reputable real estate accountants, who, besides checking the books every month, sends out notices at intervals, unknown to the bookkeeping department, to all tenants stating the condition of their accounts, and, upon any irregularity or difference, immediately checks and corrects the same.
21. Provide owner with monthly statement and paid vouchers and also a report of the condition of the property.
22. Keep all rents received in a separate bank account and not with the firm account. It is advisable to go further than this—have a separate account for each building and each account cleared every month by the auditor employed by the organization.
23. Employ competent legal and tax counsels to handle all legal and tax problems of the property.
24. Hold and maintain active membership in the local real estate board, which in turn should be a member of the National Association
of Real Estate Boards; also be a member of other civic organizations.

25. Cooperate in the leasing of the units of the building with all realtors on either the full Real Estate Board rate of commission or at least one-half of the Real Estate Board rate of commission, tending to keep the building full and at higher rentals.

26. Last but not least and by no means or in any way accept any money, commission, rebate, discount, or benefit in any way other than the stated management fee in connection with the management of the property.

Now, therefore, you can readily see that it is absolutely impossible for any management organization to give all of these services at a low fee—upon a cheap management basis—because, when it attempts to manage properties upon a low fee basis—manage the property in a routine fashion, rent the units, and collect the rents—it becomes expensive management.

COMPARISON OF MANAGEMENTS

To illustrate more fully, the following statement is an excellent example of the two types of management. On January 1, 1936, our organization was asked to take over the management of a property consisting of six stores, four offices, one three-room apartment, and five five-room apartments. The personnel of the managing agents who had managed the property up to January 1, 1936, consisted of men of excellent character and high standing in the community; however, they were not management experts, nor had they the facilities for the efficient management of property.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

January 1, 1936, to July 31, 1936

TOTAL RENTS $4,742.50

Operating Disbursements

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Janitor</td>
<td>$434.00</td>
</tr>
<tr>
<td>Supplies</td>
<td>86.00</td>
</tr>
<tr>
<td>Fuel</td>
<td>344.30</td>
</tr>
<tr>
<td>Ashes</td>
<td>35.00</td>
</tr>
<tr>
<td>Gas and electricity</td>
<td>122.06</td>
</tr>
<tr>
<td>Water</td>
<td>92.49</td>
</tr>
<tr>
<td>Decorating and painting</td>
<td>354.82</td>
</tr>
<tr>
<td>Window shades</td>
<td>18.71</td>
</tr>
<tr>
<td>Exterminating</td>
<td>28.60</td>
</tr>
<tr>
<td>Plumbing and heating</td>
<td>24.10</td>
</tr>
<tr>
<td>Carpenter repairs</td>
<td>31.00</td>
</tr>
<tr>
<td>Electrical repairs</td>
<td>16.60</td>
</tr>
<tr>
<td>Management</td>
<td>236.99</td>
</tr>
<tr>
<td>Advertising</td>
<td>11.90</td>
</tr>
<tr>
<td>Auburn stoker</td>
<td></td>
</tr>
<tr>
<td>Special assessments</td>
<td></td>
</tr>
<tr>
<td>Insurance renewal premiums</td>
<td>65.77</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>116.96</td>
</tr>
<tr>
<td>Tuckpointing building</td>
<td>130.50</td>
</tr>
<tr>
<td>Refrigerators</td>
<td>420.00</td>
</tr>
</tbody>
</table>

NET OPERATING DISBURSEMENTS $2,569.80

NET OPERATING INCOME $2,172.70

You will note in the period from January 1, 1936, to July 1, 1936, that there were two items of expense that were defi-
nite improvements in the building. You will note a $420 item for refrigerators. This building previously had plain ice boxes, and the installation of electric refrigerators greatly increased the rental value of the apartment units. Tuckpointing the building, in the amount of $130.50, was a necessary item, not only for maintenance but also for appearance. To help offset these expenditures, we collected, in addition to the collections shown above, $417.74 in back rents.

This practically doubling of the income in seven months' time was only possible as the result of carrying out the principles of excellent management. The so-called low-fee, high-cost, cheap management could not possibly have done this job.

To expatiate further on the duties and qualifications of property managers, it is very important, first of all, that the personnel has the ability to properly assimilate all angles of the property management work and to execute the work. Getting back to the building I am using as an illustration, you can readily see that during the year 1936 the property realized a much greater income. This was due to the fact that it was taken out of the hands of the inexperienced managing firm and placed with an organization of experts in the line of property management, who immediately made a detailed survey of all income-producing properties within the radius of a mile. As a result, it was found that the building was being rented at too low rentals. Knowing how much of an investment the building represented and by completing a breakdown chart showing income and expected operating expense, it was determined what income had to be secured in order to put the property back upon an income-producing basis. A goal was set and achieved by good management and foresight. In seven months' time, the gross income was practically doubled and the operating expenses decreased.

HOW GOOD MANAGEMENT INCREASES NET INCOME

Now, I shall explain just how the managing agent was able to secure the increase in income, but first let me say that property management is a science, so great are its responsibilities and so intricate its details. It consists of a great deal more than the mere collection of rents—it includes leasing, investigation of applicants for leases, inspection and supervision of the building, purchase of coal and other supplies, contracting for repairs and decorating, employment and supervision of the janitor and other employees, rendering of monthly statements to the owner of income received and disbursements made with vouchers for such disbursements; all of these require the greatest skill and ability of competent experts. The efficient, economic, and successful management of properties is definitely a profession in this day of keen competition, new ideas and problems, and ever-changing conditions; it requires much preparation and training, as well as constant study of national, in addition to local, conditions involving income-producing properties. A good manager keeps in touch with renting conditions in all parts of the city and knows the ups and downs of the renting business, the art of handling tenants, and what repairs to make.

Moreover, a property which represents a large amount of invested capital requires men who have acquired a reputation for sane and sensible judgment and a character worthy of trust and confidence. In the management of property, it is the question of saving pennies as well as dollars, as the true value of any building is determined by capitalizing the net income;
The High Cost of Cheap Management

and the one best qualified to analyze a building and determine its possible net income is the building manager who has had broad education and experience. It may be safely said that the value of improved property depends largely upon the maintenance costs. The cost of maintenance deducted from the gross income determines the net revenue of a property, upon which depends the sale value and loan value. Not only is the value of a building affected by the maintenance but also the amount of rent to be charged. If the maintenance cost is excessive, then the rents must be increased in proportion to overcome the increased maintenance costs.

The life of the average building depends largely upon how well it is built, but a good manager can make it be a big money producer for many years—provided, of course, that the location does not change too much and business does not encroach too fast—by keeping the building on a higher standard than the building that is poorly managed. Sooner or later, the building operated by an experienced, well-trained manager will be taking tenants from the unmanaged or poorly managed building.

A good property manager, first of all, is conscientious in the discharge of his duties and at no time allows his personal interest or advantage to conflict with his duty to the owner. In so doing, he maintains a separate bank account in the collection of rents for each building he manages, keeping the money apart from his own or other clients' funds. He is definitely a trustee of those funds and has no right to intermingle them with other monies.

A good property manager is alert to see that neither he nor any of his employees makes promises about which there can be any doubt of fulfillment, as the manager is acting in behalf of the owner, and every act done by him binds the owner.

Maintaining Character of Building

The character of any building is retained by rendering better than ordinary service. If the tenant feels that his comfort, interest, and demands are being looked after at all times, he will be reluctant to move into another building. A good manager recognizes the reasonable demands of tenants and carries out his promises to them; this good service is appreciated by the tenant and, I am confident, always pays. Likewise, the efficient manager treats each tenant alike, granting no special concessions nor favors to any, large or small. In securing tenants for a building, the well-trained manager never overreaches a prospective tenant nor takes advantage of his lack of judgment or experience, encouraging him to sign leases under terms that are plainly too onerous for him. True, it is his duty to keep the building occupied, but his duty is not to be construed as entitling him to conclude an unconscionable bargain but to keep the owner from difficulties which lead to risks and costs of litigation. The good manager also must look to the future; he realizes that a ninety per cent rented building at one hundred per cent rentals, with desirable tenants, is far more important and successful than a one hundred per cent rented building.

The successful manager is careful at all times to keep up the appearance of the property, no matter what kind of property it is, which not only makes it appealing and attractive to the public but also enhances the value of the property. When a tenant vacates a property, he repairs everything that needs it; he removes all
dirt and refuse from the premises; if necessary, he applies paint or varnish to the walls; and, above all, he keeps the windows clean and has only one “For Rent” sign and no advertising of any kind in the windows. Before any improvements are made, he thoroughly inspects the unit, secures at least three estimates from reliable firms on each phase of work to be done, supervises the work, and, upon completion and before the contractor is paid for his work, makes his final inspection. He maintains the neat appearance of the building by the above inexpensive improvements, not only to improve the character of the building but to attract prospective tenants, who always commend or condemn what they can see.

Thus, you see the duties and requirements of a good property manager. You will agree, it is hard to believe that a very small percentage of properties are being managed by people who fulfill these duties and requirements. You can easily realize that it is absolutely impossible for any management organization to give all the above services at a low fee; therefore, you must comprehend the high cost of cheap management—so, why allow property to be subjected to financial loss when there is a simple, practical, and permanent way to make it pay?

**GOOD MANAGEMENT INCREASES VALUE**

As explained in the preceding paragraphs, it is impossible to have a good economic setup on income-producing properties which are managed by low-fee, high-cost, cheap management. A good economic situation can be secured only upon property managed by good management. During the life of a building, appraisals for different purposes are needed. Appraising is no longer mere guesswork that can be done by anyone who calls himself a Realtor. In order to appraise a property, one has to study it just as one has to study property management. Property must be appraised from the following angles: sales, mortgages, physical, insurance, investment, income, and income tax.

Adequate maintenance has an important relation to value, for physical value in turn affects mortgage and insurance value. Property inadequately maintained has to have deductions made from the physical value, thus cutting down the mortgage and insurance value. Property inadequately rented with commensurate receipts and with costs of operation inadequately supervised affects the gross and net income and therefore affects the investment with its income and income tax values. Proper management maintains physical value, thus mortgage and insurance value and economic or investment value, with its effect on net income.

For an illustration of the value of good management from the above angles, we were given the management of another building consisting of seven stores and garage. The seven stores rented as follows: $50; $55; $60; $60; $65; $75; and $80; or a total of $445 per month. The management of the portion of the building used for garage purposes was in the hands of the owner because of a long term lease. After the present management took this building, leases were negotiated for these same seven stores at the following rentals: one at $90; two at $100; and four at $110; or a total of $730 per month, with only a loss of two weeks’ rent on one store in making the change. There was no increase in cost and operation maintenance. This additional income of $3,420, capitalized upon a six per cent basis, added $57,000 to the investment value of the property. It increased the mortgage value at least $35,000. The insurance value was
not altered inasmuch as it was based upon the physical value rather than the investment. The maintenance has been so improved that at any time an appraisal is made now, no deductions are necessary for rehabilitation, decorating, or repairs. Thus, it may be seen that adequate management increased the investment value $57,000, mortgage value $35,000, and net income $3,420 per year, without any increase in operating or maintenance costs. All new rentals as quoted do not take into consideration additional rental due to the percentage clause in each lease, which clauses are excellent protection against inflation. All computations are based upon minimum, guaranteed rental only. Prior to the assumption of management by us, the owner did not regard this property as a good investment and would have sold it had it not been that the price which could have been realized was too far from the amount of money invested in the property. The changes made justified the owner in holding the property as an investment. In other words, it changed the property held from force, because it could not be realized upon, to one held by choice, because of its income value.

**Owner's Viewpoint**

Therefore, you can understand that properly managed income-producing properties are a big asset to the owner and not a headache. Much of the grief of ownership of property comes from poor management. The result is the losing of the property; it is an endless and vicious circle. The tenants will pay much more than the extra cost of first-class maintenance over the lesser cost of the low-fee management. It has long been an ideal of mine and, I believe, of many other management men in this country that income-producing properties should be managed for owners so that no more trouble, and even less concern, is caused the owners than if they had invested in stocks and bonds. In other words, many investors who purchase stocks and bonds have refrained from buying income-producing property because of the multitude of troubles that they would step into the minute they made such a purchase. A good management organization, as I have previously mentioned, would handle the building completely and give to the owner his net income every month. There are many owners receiving anywhere from eight to nineteen per cent return today on their property. These owners, however, have their property properly managed. Too few real estate managers take the viewpoint of the owner as completely as they should. This has caused institutions and individuals to hire organizations or other individuals to act as owners and supervise the management of their property.

**How Can Proper Management Be Secured?**

Much of this problem is up to the owner. The owners themselves are responsible for high-cost, cheap management. They desire to secure the management of their property at as low a rate as possible. The majority of them are not willing to pay for good management. Not only that, but they do not place property management upon a business basis. By a “business basis,” I mean purely competitive standards, giving a complete setup of action and a goal to obtain on the management of a particular building. Only upon this basis can the owners secure the best results from a particular building. Instead many owners and controllers of property give the management of their buildings to people who do business with them or might be
induced to do business with them; or they give the management of buildings to many different management organizations in the community in order to create and maintain goodwill from all management organizations in that community. It is discouraging for an agent to give excellent management, thereby always showing unbelievably good results, then approach the owners for other buildings to manage for them and to be told—no, you cannot have my building to manage because of goodwill in the community or because of so-called necessary reciprocal relation with other organizations. They willingly realize that you have done a most remarkable job for them, but they have many other situations with which to contend, which means that it is impossible for them to give you the management of additional property.

As long as property management stands upon a reciprocal basis, owners will not secure the type of management to which they are entitled and should receive.

The agents, too, are responsible for poor management. They cut fees; they handle property management as a sideline—a necessary evil—for it brings steady income every month; they have a poor, low-salaried personnel. The owners and agents alike get exactly for what they pay. However, as I have said before, high fees do not necessarily mean good management, but it makes for good management; it is impossible for anyone to properly manage property upon a low-fee basis.

Every year sees the improvement of the property management business; especially is this true since the depression. This is due to the following factors of influence and help: to the National Association of Real Estate Boards, State Real Estate Associations, and Local Real Estate Boards; to life insurance companies; to banks; to statisticians; to schools and universities; and to lecturers and writers. One might say that the past seven years have been years of great improvement in property management and in the education and betterment of personnel in property management organizations. The Institute of Real Estate Management of the National Association of Real Estate Boards, through this publication—The Journal of Real Estate Management—, through the courses that it sponsors in property management, and through conventions of learning, has been of untold aid to the agents interested in property management today. The life insurance companies, with their thoroughness for detail and thoroughness for sticking to definite rules and regulations, combined with their intense study of property management, have aided every property manager. Many worthwhile and practical ideas have been received from these great institutions. The property management organizations owe them a deep debt of gratitude. The statisticians offer surveys as to trends of population, costs, booms, depressions, etc. which have naturally aided the intelligent property manager. The banks have also aided, especially in scientific phases of property management. Universities, lecturers, and writers have done their share in educating property managers by their excellent work.

With these aids and the improvements suggested in this article, there should no longer be any occasion to use the phrase, "The high cost of cheap management," which phrase is deplorable to hear in this day and age. Rather, the property manager would prefer to hear the ideal slogan of today, "The low cost of excellent management is available to every investor in real estate."
How Am I Doing?

By Morris B. Ashton

How am I doing? Apply this question to real estate management. The agent asks himself, "How efficient am I?"; the owner asks, "What is my property earning?"; and even the building can be imagined as asking, "How am I doing?" To this murmur of questions there are answers of two general types: the flippant, "Wouldn't you like to know?" and the serious, "Well, let's see." Let us take the latter attitude and see what answers we can find. To make our search a bit easier, we shall consider only the unfurnished apartment building.

Immediately, two sources of study material present themselves: management records and management publications. The records consist chiefly of the description of the property and the reports of operations. If we examine some of these records in an office selected at random, we are likely to find that monthly operating statements are made for each property. If we are fortunate, we may even find annual summaries of these monthly statements, divided as to the source of the income and as to the nature of the expenditures. This annual summary, with the records upon which it is based, is the first step toward finding the answer to our question.

Management Needs a Standard of Measure

As to any particular building, the record says what has been done; but how implies some comparison. Success and efficiency are only relative terms. How does building A compare with building B? Is either building doing as well as it might do under the direction of some other manager or management policy? In making comparisons, two more steps must be taken because no two buildings are exactly alike, though some may be similar in many respects. We must devise, first, some standard (or unit) by which we measure and, second, some uniform system by which we keep records of the "performance" of buildings. When we consider the adoption of these two devices we wonder what has been used as well as what should be used.

"Should" is another of those relative words; it relates the answer to the purpose. What "should" be depends upon what we "want" to be. For what purposes do we want to keep records at all? Of course, the general answer is that records are kept to account for the income, but there is little definite agreement as to why any given set of accounts is kept. If we ask the property manager why he uses his particular system of accounts, he will probably hesitate in answering because these accounting systems are seldom directly related to very definite objectives beyond the requests of property owners whose buildings the agent manages.

Similarly, if we seek to find what units (standards) of comparison are used by several managers, we get a variety of answers and a variety of reasons for each answer. Unless we have an unusually great amount of experience in management work, have given much thought to its problems, and are well informed in all its phases, we must admit that we cannot decide on the one best classification of accounts or standard of comparison until we
have at least first reviewed the work already done and being done by those who are experienced in the solution of these problems. Even with abundant experience and thought on the subject, this task is still very difficult.

Finding Standards to Measure Management

In the hope of finding some general agreement among managers on the use of classifications and standards, we consult publications and libraries. Even the best stocked libraries have surprisingly little on the management of apartment buildings. At the most there are only five or six books on management, contrasted with hosts of books on appraisals, sales, insurance, and other real estate activities. Real estate managers seem to have little time, or ambition, or other requisites to publish any lengthy literary efforts on their work and problems. There are two or three periodicals dealing with real estate management which devote some considerable space to apartment buildings. One of these is the Apartment House Experience Exchange Report of the Apartment House Section of the National Association of Building Owners and Managers.

A number of members of this Section started a national exchange of experience as far back as 1922. This annual report seems to be the only one to evidence any consistent national effort to collect experience on apartment building operations according to an agreed system of accounts and units of comparison. Crude as the accounts may now seem to some present-day managers, this collection, analysis, and publication of information, carried on year after year, arouses admiration for those whose interest and work have made this information available. Space is here too short to quote all items contained in the Experience Exchange Report but of special interest to us at present is that each building was reported, first, according to its general description (age, type, size, contents, and features), second, according to income and expense on a uniform classification, and, third, according to certain units of comparison. The classification was as follows:

INCOME:
- Apartments
- Stores
- Miscellaneous
- Total Income

EXPENDITURES:
- Administration
- Fuel
- Wages
- Supplies
- Electricity
- Water
- Miscellaneous
- Total Operating
- Paint and decorating
- Plumbing and Steamfitting
- Electric and Other Repairs
- Total repairs
- Property Taxes
- Other taxes
- Insurance
- Total Taxes and Insurance
- Total Expenditures

NET INCOME:

The operations of each building (with brief description), summaries of building operations grouped as to age and location, and a total summary of all buildings were published annually, as shown on the following page.

These annual reports also furnished comparisons between the current and the previous year on certain buildings, which were sufficient in number each year to furnish an index of the current trend in rents, vacancies, and expenses. For instance, vacancies increased noticeably after 1925, while rents increased but very slightly in 1926 and 1927 and then decreased in 1928 and subsequently. At the
## How Am I Doing?

### TABLE "A"—ALL CITIES—GENERAL AVERAGES

<table>
<thead>
<tr>
<th>Year</th>
<th>Total No. of Bldgs</th>
<th>Average Monthly Rent Per Room</th>
<th>Per Cent Net Return on Tax Value</th>
<th>Per Cent of Gross Income</th>
<th>Per Square Foot</th>
<th>Per Cent of Gross Income</th>
<th>Per Room Per Month</th>
<th>Per Cent of Gross Income</th>
<th>Per Bldg</th>
<th>No. of Vacancies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1922</td>
<td>87</td>
<td>18.62</td>
<td>15.63</td>
<td>8.03</td>
<td>.98</td>
<td>.07</td>
<td>.08</td>
<td>.12</td>
<td>.52</td>
<td>2.85</td>
</tr>
<tr>
<td>1923</td>
<td>76</td>
<td>19.61</td>
<td>18.81</td>
<td>7.37</td>
<td>1.00</td>
<td>.06</td>
<td>.10</td>
<td>.11</td>
<td>.61</td>
<td>5.47</td>
</tr>
<tr>
<td>1924</td>
<td>87</td>
<td>21.75</td>
<td>10.56</td>
<td>6.00</td>
<td>1.12</td>
<td>.09</td>
<td>.10</td>
<td>.11</td>
<td>.60</td>
<td>10.12</td>
</tr>
<tr>
<td>1925</td>
<td>87</td>
<td>21.72</td>
<td>8.64</td>
<td>5.05</td>
<td>1.21</td>
<td>.07</td>
<td>.12</td>
<td>.13</td>
<td>.63</td>
<td>9.76</td>
</tr>
<tr>
<td>1926</td>
<td>69</td>
<td>22.63</td>
<td>9.74</td>
<td>6.25</td>
<td>1.06</td>
<td>.07</td>
<td>.12</td>
<td>.12</td>
<td>.52</td>
<td>9.72</td>
</tr>
<tr>
<td>1927</td>
<td>63</td>
<td>23.72</td>
<td>9.73</td>
<td>5.02</td>
<td>1.05</td>
<td>.06</td>
<td>.10</td>
<td>.12</td>
<td>.52</td>
<td>10.73</td>
</tr>
<tr>
<td>1928</td>
<td>82</td>
<td>18.60</td>
<td>8.80</td>
<td>6.50</td>
<td>.95</td>
<td>.05</td>
<td>.14</td>
<td>.11</td>
<td>.42</td>
<td>11.20</td>
</tr>
<tr>
<td>1929</td>
<td>81</td>
<td>19.82</td>
<td>8.76</td>
<td>5.76</td>
<td>.95</td>
<td>.05</td>
<td>.11</td>
<td>.15</td>
<td>.44</td>
<td>14.75</td>
</tr>
<tr>
<td>1930</td>
<td>84</td>
<td>22.21</td>
<td>10.55</td>
<td>4.84</td>
<td>1.13</td>
<td>.06</td>
<td>.15</td>
<td>.15</td>
<td>.52</td>
<td>15.66</td>
</tr>
</tbody>
</table>

1931—Individual buildings reported with summaries.

1932—No publication.

1933—No publication.

<table>
<thead>
<tr>
<th>Year</th>
<th>Per Cent of Gross Rental</th>
<th>Per Cent of Gross Income</th>
<th>Per Room Per Month</th>
</tr>
</thead>
<tbody>
<tr>
<td>1934</td>
<td>4.9</td>
<td>6.00</td>
<td>15.00</td>
</tr>
<tr>
<td>1935*</td>
<td>9.5</td>
<td>8.05</td>
<td>15.15</td>
</tr>
<tr>
<td>1935#</td>
<td>5.1</td>
<td>6.28</td>
<td>25.20</td>
</tr>
</tbody>
</table>

2-3? The answer can be supplied only by the participants. We note, however, that in 1930 the publication was consolidated with the magazine "Skyscraper Management." In 1931 a new and more elaborate system of classification of accounts was introduced with disappointing results. The new system was claimed to be patterned after the Dewey System of Library Classification, using a uniform decimal code. The 1931 Chairman reported that only nineteen complete reports were turned in to the committee. Perhaps there were also other reasons for the cessation of this effort. This break in the chain of annual reports raises at least three questions in the minds of those interested in an exchange of experience: (1) What is required as a publication medium? (2)

---

*"Walk-up" type only.  
# Elevator type only.

Valuable Data Not Compiled 1930-1934

This Experience Exchange Report is one of the very few published indices of the rent cycle. It is regrettable that its publication did not continue regularly after 1930 through the years of rent depression to date to complete the picture of the cycle. Such an unbroken record would be invaluable to those studying real estate finance and housing.

Why was this effort dropped in 1931-
Should not the classification of accounts be as simple as possible? (3) It is very well to improve methods of reporting but, in doing so, should not arrangements be made to tie the new into the old so as not to lose whatever benefits have been started in the past?

The exchange was resumed in 1934, containing reports from a greatly increased number of buildings. The classification of accounts used in the 1934 summary was very similar to that used during the period 1922-1930, making simplified, interesting summaries of all buildings and also of “high buildings” and “low buildings,” each in groups according to approximate age and according to location. The 1935 report used the same summaries and classifications as to type and location but omitted the age grouping.

**UNITs FOR COMPARING MANAGEMENT**

The units of comparison used in 1922 were:

1. Rent per room.
2. Percentage of gross income.
3. Per square foot.
4. Percentage of net return on tax value.

In 1924 Committee Chairman Alfred C. Kennedy championed the square foot as the “best” unit. Mr. Charles P. Marks, later the 1925 Chairman, objected to this, stating that apartments were not leased upon the square foot basis as were offices. He also doubted the efficacy of the “per room” unit because rooms varied in size and lacked standards to indicate what space should be considered as a room. He advocated the use of the gross rental (100 per cent occupancy) because it fluctuated less than gross income. The 1928 report adopted the 100 per cent rental schedule basis, as well as the gross income basis and the rental area basis. This rentable area was fairly convenient to the reporting members because many of them managed larger buildings (offices) in connection with which this unit was in common use. The 1934 report was based upon the following:

1. Room per month.
2. Rentable square foot per year.
3. 100 per cent rental schedule.

The 1935 report was based upon only the per room per month basis.

The Apartment House Section is entitled to commendation for making the best effort of this type in the field of apartment building management. If we venture any criticism at all, it is that the classifications of accounts should have been more consistent year after year regardless of merit advocated for changes. The theoretical benefits of shifts from rental schedule to gross income and from square foot to rentable square foot or to per room per month or per year have been more than offset by the loss of continuity in the annual averages.

As to current practice of building managers and owners, especially institutional management, we do not need to go to many offices to find that there is no close agreement on either classifications or units. It seems unnecessary to enumerate individual practices at any length in demonstration of this statement. The following classifications are used by two of the largest life insurance companies, each with a large volume of real estate and mortgage investments:

**INCOME:**

<table>
<thead>
<tr>
<th>Rental Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Collections</td>
</tr>
</tbody>
</table>

**EXPENSES:**

| Taxes |
| Water |
| Insurance |
| Fuel |
| Electricity |
| Gas |
| Repairs and Maintenance |
Supplies
Elevator
Building
Boiler Room
Lighting
Tenants' Decorating
Sundries
Mechanical Refrigeration
Extraordinary
Management Fee
Broker's Commissions
Total Expenses

NET INCOME:
(2)

INCOME:
Rental Schedule
Gross Collections

EXPENSES:
Taxes
Insurance
Total Taxes and Insurance
Payroll
Fuel
Water, Gas, and Electricity
Miscellaneous
Commissions
Total Operating
Repairs
Building
Plumbing and Heating
Mechanical Equipment
Painting
Tenant
Main
Total Maintenance
Total Expenses

NET INCOME:

As to the actual analysis of building operations upon the basis of any standards, there has been amazingly little said or done by life insurance companies. An individual in some department may evidence interest in the subject or prepare analyses of particular buildings; but, seemingly, no standardization of practice nor statistical work has been done—this, in spite of the fact that these institutions have a tremendous following of management agents and are in possession of an abundance of research material.

STANDARDIZATION MUST CONSIDER PRINCIPALS ALSO

The agents who actually manage the buildings must report on forms and according to accounting requirements of their principals, and the very nature of the divergent requirements precludes a uniform system of agents' accounts. It is apparent that if uniform systems are to be formulated, they should be considered only as tentative recommendations until they have been submitted to representatives of the owner-institutions. This precaution should be taken before the recommendations are proposed for adoption by members of the institutions.

In attempting to achieve uniformity—itself an admirable characteristic—it is a serious question whether there is any single unit of comparison or set of accounts suitable for all buildings, just as it is doubtful whether there is any one definition of "value" suitable to all appraisal purposes. What interests and what purposes are served by these devices?

The principal interests are investors, managers, and appraisers. They are concerned respectively with earnings, efficiency, and value, though, of course, there is in practice much overlapping of interests.

The investor wants to know the results of management—the earnings. This information can be used to direct investments to or from any particular place and to or from real estate, as a field of investment opportunities. To him, an "experience exchange" should be very helpful. It may be short on detail but it must be long on consistency. Certain detail, however, seems advisable: under "income," he will want the rental schedule and actual income; under "expense," three or four groups of accounts, such as "fixed, operating, maintenance," and possibly "administration" (separated from "operating"). In order to
make comparisons, some standard such as square foot or room must be used. Exactly what is used is not very important as long as it has a definite base and is consistently used.

To the manager, detail is important. The manager wants to know the quantities and prices of coal, oil, gas, water, electricity, etc. He wants to know how one building compares with another as to each classification of income and expense. He needs to have the income and expense groups split into subaccounts to facilitate analyses conducive to increased efficiency. Where these subaccounts do not have accepted quantitative bases of analysis (such as tons of coal, gallons of water, etc.), the room or square foot or some other such unit must be imposed as a standard.

The appraiser has the interests of both the investor and the manager. He is here set up as an interested group largely because he considers himself as such and makes requests of management for information to facilitate estimates and special studies. Inasmuch as he has the important function of defining and finding value, he believes investors and managers should give his proposals audience. His work focuses the attention of the other two groups on the problems of comparison and analysis. As to the use of devices to solve these problems, his requirements are much like those of the manager, though not quite as exacting. He frequently seeks closer agreement on proper classifications and standards.

**Proposed Classification of Accounts**

If we were to attempt at this time a compromise of the minimum requirements of the above groups as to a classification of accounts, we would venture the following:

**InCOME:**
- Rental Schedule
- Income Collected
  - (1) Apartments
  - (2) Other

**Expense:**
- A. Fixed
  - (1) Taxes
  - (2) Insurance
- B. Operating
  - (3) Payroll
  - (4) Fuel
  - (5) Utilities
    - a. Water
    - b. Gas
    - c. Electricity
  - (6) Management
  - (7) Other Operating
- C. Maintenance
  - (8) Repairs
    - a. Building
    - b. Plumbing and Heating
    - c. Mechanical Equipment
  - (9) Painting and Decorating
    - a. Apartments (Tenants)
    - b. Building
  - (10) Supplies
  - (11) Miscellaneous
- Total Expense

**Net Income:**

These items are probably the ones most commonly used, especially for the walk-up type of building; payroll, other operating costs, and supplies acquire increased importance for the elevator type of building. Frequently, the above listed accounts are subclassified or regrouped for various purposes, or according to precedents.

**Selecting Units of Comparison**

It is not quite so simple to select the commonest unit of comparison. There are three general types:

1. Those which show relative importances (percentages).
2. Those which facilitate analysis (quantities and prices).
3. Those which facilitate comparison (rooms, square feet, cubic feet, etc.).

Type 1: Percentage of 100 per cent rental schedule has an advantage over percentage of income because it reports vacancies and collection losses.
Type 2: Prices are especially important because they show basic cost differences between different buildings and locations, also because each can be attacked individually. Frequently, a more favorable price or rate can be obtained by some slight alteration of building equipment. Prices are as of a given date—quantities, for a given duration of time. These two are of prime importance to the analysis of operations.

Type 3: Any of these has its own defects and advantages. Which is used in practice usually depends more upon the habits of the user (especially as to renting and appraising) than upon the merits of the unit. Much valuable statistical material has been damaged and much well-intended effort has been needlessly lost haggling over the mirage of the one "ideal" standard. Square foot, rentable square foot, and room bases have all been widely used. Recently the cubic foot basis (100 or 1000 cubic feet) has come into use for two reasons: first, many office records show the number of cubic feet as reported by the appraisal, and, second, an increasing number of institutions are using the cubic foot as a useful unit to report heating costs. To the manager and the appraiser, no one single unit is universally satisfactory.

One who estimates rents works upon a case basis without much regard to the square foot or room, except as incidental to the general desirability of and market for the particular apartment.

Many items of expense have generally accepted units: for example, (1) taxes are broken into assessed value, tax rate, and ratio of assessed value to full value; (2) insurance concerns principally rates, also insurable value for fire and windstorm, payroll for workmen's compensation, front footage for liability, area for plate glass etc.; (3) under payroll, the janitor is usually the main item—in some cities his pay is set by agreement with the Flat Janitors Union and is based upon the number of apartments, the scale of rents, and the availability of living quarters; (4) fuel and (5) water, gas, and electricity are based upon quantity consumed and rate per ton, per cubic foot, or per k.w.h.; and (6) management is usually a percentage of the collection plus some commissions on new leases.

The remaining items of (7) other operating, (8) repairs, (10) supplies, and (11) miscellaneous have no natural bases, nor has (9) painting and decorating. However, in the case of the latter, some comparisons have been made of exterior painting per opening, hallway and vestibule decorating per entrance (per entrance is also applied to cost of electricity for three-story walk-ups), and apartment decorating per room. Under miscellaneous are grouped unclassified items; however, fairly common practice includes some separate subclassifications for such items as purchases of equipment, stoves, refrigerators, in-a-door beds, stair carpets, etc. Occasionally, these purchases of equipment are set up as capital expenditures, with offsets of depreciation accounts.

Management, a Business—Not a Side Line

Investigation of practices and consideration of the issues involved in the selection of classifications of accounts and standards of comparison call attention to the paucity of statistics and research and to the lack of uniformity in analysis of apartment building operation. This comparative void seems partly due to the unorganized nature of the real estate "market," the past lack of professionalism in the real estate business, and to the
scarcity of offices equipped to act as general agents and to handle each phase of real estate agency with a high degree of competency. Also, few owners make their purchases of income property from the long-time investment point of view. The majority of purchases seem to have been made from primarily the speculative viewpoint, which rarely exacts much accurate history or analysis of operations. The opportunistic agents and the speculative owners so typical of the activity of the “twenties” were not much concerned with building a profession or keeping records. Management was usually a side line to bolster earnings when sales or loan commissions were slack. Neither were appraisal procedures nearly as intricate nor as critically scrutinized; nor were mortgage lenders well equipped to readily become real estate owners. New methods and records had to be devised to meet the emergencies. One wonders now whether the present real estate activity of ownership by institutional investors is going to be recorded and analyzed to better serve the next period of lending activity.

Of course, the above comments as to laxity in handling real estate does not apply to all managers or owners. There are many who are concerned with the problem of building a real estate profession of able, competent members. These leaders are also concerned with learning from past experience which counsels us to consider the various functions of real estate activity—selling, managing, lending, appraising, land developing, etc.—as vitally dependent parts of a unified service. Records should be kept to be of service to all the important activities related to the handling of the real estate. For this reason, if for no other, the classification of management accounts and the selection of analysis and comparison standards are important.

For the welfare of those whose funds are invested in real estate, for the preservation of the high standing of real estate as an investment, for a fuller appreciation of the value of his own services, the manager should be ready and able to answer his own question: “How am I doing?” It would seem that in devoting attention to the ways and means of answering this question management might render a timely and valuable contribution to the cause of real estate.
MR. Average Citizen is asking himself today what his rent is going to be next fall or next year, and Mr. Landlord is wondering how much rent Mr. Citizen can pay next fall or next year.

If Mr. Citizen is old enough to have experienced the flush of the peak from 1920 to 1929, then the five succeeding years, when year after year his landlord reduced his rent because of a decrease in his income, and now, for a year or two, with a gradual increase in his rent along with the price of commodities, he begins to wonder: “Will my rent be increased to what it was in 1926?” “How can I pay more rent unless my income is increased?” “Will I have to move to cheaper accommodations, and where can I find them?” Frankly, he feels he is facing a serious situation.

WHAT ABOUT THE LANDLORD?

But, for a moment, let us consider the landlord. What about him? In the first place he offers a place to live. Now, certain standards must be met. He must provide a desirable place for a man to make a home for his family. (We are talking about the average residence or apartment.) He must, in the first place, invest a certain amount of money, an amount which will provide the necessary conveniences for the modern standard of living. In order to justify any such expenditure, he must feel reasonably certain that an adequate, recognized return can be earned on this investment. So, he has established certain rentals, which will insure a fair return on his investment based upon the estimated cost of operating. Just so long as these operating costs, which include depreciation and interest, can be held down to a minimum fluctuation, can he continue to operate this building with the income originally scheduled.

If the cost of operation increases, he must, of necessity, increase the rentals in order to maintain the standard of his buildings. But, usually, if the cost of operation decreases, it has been preceded by a more appreciable decrease in the income of his tenants. Therefore, of necessity, he must reduce rents, and, if the situation persists, as in 1929, 1930, and 1931, the income will not be sufficient to maintain the necessary operating costs—but we all know too well what this means.

We go back to the man who is living in this building and paying rent within his income for a place to live and to maintain his home. How much can he pay? How much of an increase can he afford?

Let us go back twenty-one years. A man, who had been living in another city, came to Chicago to make his home. Being unfamiliar with Chicago and renting conditions in general, he walked into a northern real estate office and explained that he was looking for a four-room apartment. (Note: This is not a criticism of the agent’s procedure.) He was asked what he wished to pay and stated that he wanted an apartment renting at about $35.00 per month. The agent explained to him that he had a number of apartments of about this rental in the immediate vicinity, which he would be glad to show him. After looking at a few of them, the prospect decided on an apartment at $37.50 per month.

An application was made for this apart-
ment by the prospect, and after a few days' time a lease was presented to him with the request for his signature and the payment of the first month's rent. After fulfilling this requirement, the man was very much surprised to have the agent present him with an additional receipt for $30.00, the agent explaining that this was a concession. Well, of course, the man was very grateful as $37.50 was about $2.50 more than was provided in his budget.

He moved into the apartment and lived there for two years at the same rental. Shortly before the beginning of the third year, he was notified that his rent would be $40.00 per month. He protested that he could not pay $40.00 per month, as his income had not increased sufficiently to warrant increasing his rent. After some negotiation, it was agreed that he be permitted to retain the apartment at $37.50 per month provided he would sign a two-year lease.

As the man was somewhat unsettled in his business conditions and expected, sometime in the near future, that he might be required to move to another city, he told the agent that a two-year lease was out of the question. The agent, being reluctant to lose him since he had been very prompt in paying his rent, suggested that he insert a sixty-day cancellation clause in the lease, which would become operative sixty days after the tenant notified him of his intention to move during the second year.

This seemed to be a satisfactory arrangement to the tenant, and he signed the lease with this provision. Nothing happened until two months after the beginning of the second year of this lease, when his business required a change to another city. Taking advantage of his sixty-day cancellation clause, he notified his landlord of his intention to terminate the lease. The landlord's agent stated, "We do not wish to lose you as a tenant, as you have been a very desirable one, but since it is necessary for you to move, we shall be glad to accept the cancellation of your lease within thirty days instead of the sixty days provided by the lease, the reason being that we have several people who will take your apartment." The lessee was glad of the opportunity to be released in thirty days, but, knowing that apartment occupancy was increasing as well as rent schedules, he was curious to know for just how much the apartment was being rented. From reliable sources, he was amazed to learn that the apartment was being rented for $75.00 per month.

Is It the Dawn of a New Day in Rents?

Why? How could it be possible to increase the rent on his $37.50 per month apartment to $75.00 per month in fourteen months? The answer, it seems, is rather simple. Two things enter into it.

First, incomes had been increasing over a period of several years at an unprecedented rate. Second, with this increase had come a decided decrease in the number of vacant apartments—which takes us back to the fundamental law of supply and demand. With increased incomes, the simple law of human nature becomes operative—man seeks better living conditions, larger quarters; more young people marry; rural people seek the cities. Our present conditions are not comparable to those of fifteen years ago. Our incomes are not up to those of that day, but we have had a long "dry-spell," and more people are earning more money than they did four years ago. Those people, whose incomes were depreciated to the very minimum, are now beginning to see a better day.

True, their incomes may not be much
better, but they are on the upturn. People spend money more freely because they must. Commodity prices have advanced at a rapid rate, and while the average man may protest against these increases, he has the feeling of something better and will continue to pay just as long as his pocketbook provides the necessary cash and as long as he feels these increases are just.

RENTS MUST GO UP OR BUILDING COSTS GO DOWN

Attempting to predict where these increases will end presents a most difficult problem. We can deal only with known factors. If we continue to prosper, we can expect commodity prices to constantly fluctuate. When commodity prices cease to fluctuate or stand still, we drop back into depression.

With an upturn in business, we now have a greater demand for dwellings, a demand which seriously threatens the available supply. With continued better business conditions, we may expect a still greater demand for places to live, and, faced as we are with the cost of construction closely approaching that of the 1929 level, and with rents only about fifty-five to sixty per cent of that period, we seem to face something of an unknown situation for the next few years. Either rents must bound upward, or building costs must drop.

Suppose building costs do drop, can they drop sufficiently to warrant new construction without materially affecting the ability of the tenant to pay the present scale of rents? And, on the other hand, if rents do bound upward, will there then be a movement such as we had in 1931 and 1932, when two and three families will move into the same quarters and the occupancy drop to a point where the income is not sufficient to maintain the building? The answer appears to be “No” to the first and “Yes” to the second. Then, what can be done to overcome the present conditions?

TENANT ATTITUDE SUGGESTS HIGHER RENTS

A survey of conditions in this country of ours, over a period of a century, reveals a series of remarkably true cycles. We have had depressions before, and we have had long prosperous periods. In almost all cases, increases in commodity prices have preceded increases in incomes. True, increases in commodity prices are almost always a result of demand, whether that be natural or artificial, and with this demand comes competition. Then, the income of the average man begins to rise, slowly at first, but rise it will.

This is not a prediction that incomes are going to start right now on a long, upward climb, but faith in this great country of ours and in its past performances would lead the average man to feel that such a thing is about due. He does not expect a boom; nor does he expect his earnings to reach the level of 1926 in another year. But that old optimism, which inspires courage and the will to do, is in his blood. What did he say to his landlord about three or four months before his lease expired this year?—“How much are you going to increase my rent this spring?” Did he say that a year ago? No! What he said then was: “Are you going to raise my rent?” The year before that he was too much concerned with providing his “rent money” to even think about a raise.

But today he has a different attitude. He does not want to pay more than he can afford. He may be a little skeptical, as he had one experience with what he called
the “rent gouger,” but a number of these people are thinking about that little bond they purchased some years ago, maybe on the very building in which they live—that bond which they believed was a gilt-edged security and on which they “could not lose.” They know now that if they are to realize anything on this investment, the income of this building must increase to the point where it will not only be possible to maintain it but to pay its obligations.

So, how are we going to put this building on its feet? “Effect economies on its operation,” we say. “But, we have been doing that each year; but, each year, along come increases in taxes, fuel, decorating costs, and repairs.” These are items necessary to the operation of the building. How are you, a landlord, to meet these increases? If the landlord has operated his building in accordance with the best efficiency methods, there seems to be only one answer. He must increase the income sufficiently to meet the increased costs of operation.

TAXES, A CHECK ON RISING RENTS

Now, this seems to be a simple matter, because no business can survive without a sufficient income to maintain it and to pay a reasonable profit on its investment. Why then, is it not possible to increase the rentals on a building at all times to meet the costs of operation and to pay a reasonable return on the investment?

This may be done within certain limits. If these were normal times, and we were meeting with normal fluctuations, there could be no question but that rents could be increased sufficiently to meet increasing costs, but it seems that we are in unusual times. We have had a setback which has cost every individual in this country a serious amount of money, and, in order to overcome this setback, it has been necessary to put into effect unusual procedures.

These procedures involve large expenditures of money, which can be obtained only from one source, and that source is taxation—individual taxation. It is said that it would cost each individual in this country something over $235 to free the country of its national debt. Our national debt is increasing, and the only way to meet this demand for money is to increase the taxes which Mr. Average Citizen must pay. Therefore, it becomes a question of how great these taxes will be within the next few years. How much money will the individual have to contribute to the support of his government? If they become too burdensome, he cannot afford to pay as much money for a place to live as he could otherwise.

It would seem, eventually, that there must be some common meeting ground between expenditures and income. If the forces of government decide to appropriate sums of money sufficient to provide average-priced homes, then it may be possible to give to the earning classes a breathing spell in which to more closely approximate the demands which are placed upon them by the rising costs of commodities. If such a condition should exist within the near future, it seems reasonable to suppose that gradual increases in the incomes of properties can be effected.

At no time, within the next decade, does it seem probable that large increases in incomes will be possible, and it therefore resolves itself into a matter of graduating these increases within the means of the man who is paying the bill, provided, of course, operating expenses continue upward.
How High Can Rents Go?

Tenant's Income Hopes Determine Rent

A man came to me several years ago and said, "My income is sufficient to pay this rental and still provide for the payment of food, clothing, insurance, medical attention, and such necessities of life. If you propose to increase my rent by ten per cent for the coming year, it will not be possible for me to stay in this apartment. I am exerting every effort and effecting every economy so that I may be permitted to maintain my present standard of living, but any increase which you may choose to make will make it impossible for me to do so."

A year later, this same man said to me, "How much do you think my rent will be increased the coming year?" The point is this. While this man's income over the period of the past year had increased but slightly, his hopes had increased much more than that—for the previous four years his income had been declining, and now for the first time he saw a slight ray of hope and felt that better times were in store for him. A ten per cent increase in the rent of his apartment was acceptable by him, as was also a further ten per cent increase for the following year, which indicated that there was still a further increase in the matter of his income.

It was a fact that, of necessity, during the four-year period after 1929, he had effected every economy in his personal expenditures, and it was not possible for him to effect further economies without seriously lowering the standard of his living as well as his morale. Today, this man is not complaining about the price he is paying for his apartment, and it is reasonable to believe, if a further increase becomes necessary this next year, that he will not complain unless he has met with some reverses.

The facts seem to be that these individual incomes have at last started a slow climb upward, and if this fortunate condition exists for another few years, it will be possible to increase rents of apartments, similar to his, at a moderate rate and at a rate which will permit the continued operation of the building in which he lives, without lowering the standard of that building.

If, by that time, construction costs are such that the then schedule of incomes for building will provide a reasonable return on investment, we may expect a building program which will somewhat relieve the acute shortage which now seems inevitable. When that time comes, the law of economics should provide a balance between the income of the individual and the cost of operating the kind of a building in which he desires to live.

* * *
The Association of the Bar of the City of New York has drafted a new apartment lease form which has recently been referred to the real estate fraternity for consideration. The object is the retirement of the forms now generally in use and the ultimate, universal and voluntary adoption of the new one. The basis for this is recognition of the fact that few, if any, printed leases in existence have been drawn objectively; almost universally these have been developed by realty interests for their own protection and not as contracts should be, namely, for the mutual protection of both parties.

Ordinarily, much discussion should have resulted from this constructive work by the Bar Association. It was to have been expected that two schools of landlords would express themselves: those, possibly the more progressive, championing a change and the others insisting upon adherence to the use of agreements which are the product of the bitter experience of countless property owners over the last few decades. Unfortunately, little discussion has materialized. Protagonists are few indeed. The conservatives are loath to surrender any seeming protection which has been gained through practical experience. Unless shown a tangible compensation, it is not to be expected that they will budge.

That such a compensation exists is not too readily apparent; it is hardly tangible and certainly not to be immediately capitalized upon. Its compensation is public goodwill.

Any conceivable legal protection which the Realtor foregoes through the use of the new contract is compensated for many times over by the more friendly and sympathetic relationship which its proper employment makes possible. To understand this fully, we shall return to the subject of tenant-landlord relations after presentation of the form. Suffice it to say at this point that confidence and respect on the part of a consuming public are essential to the welfare of any business—real estate being no exception.

Having emphasized the point that tenant goodwill is profitable, let us ask ourselves what confidence the tenant can have in a landlord who, the minute a contractual relationship is established, "pulls a fast one," as he puts it, by obliging the tenant to sign a subjectively drawn agreement. It is the first breach of faith, and the landlord has made it. If the sequel runs counter to his best interests, he has only his short-sightedness to blame.

In the course of the accumulation of clauses designed to protect landlords against all the unusual situations which have arisen in the past twenty years, a legal document has been developed which the tenant, in most cases, neither understands nor reads. In many cases this document has created the impression that the agreement is a standard form which the tenant must sign, without correction or
change and without consideration to whatever individual rights may be his. It has thus been a natural consequence that the tenant resents this duress to which he has been subjected. This resentment often distills itself into pure determination to take a retaliating advantage when occasion arises. As for occasions, they simply cannot be avoided. There is always a day of reckoning, for leases do expire.

A RECOMMENDATION TO REALTORS

A general perusal of the new lease form discloses an attempt to phrase the provisions in simple language. For all basic relations between the landlord and the tenant, the proposed lease form affords ample protection to the landlord. An examination of the form gives the person reading it the sense that the rights of both parties to the agreement have been considered in its drafting. Unless contracts accomplish this, they, in the long run, defeat their purpose. It is the spirit back of the agreement that is of importance. No written contract, however carefully drawn, can compete with an understanding based upon mutual confidence. As a step in the right direction, the author earnestly urges the fraternity to adopt the new form without alteration.

If each property owner retains his attorney to examine the new form carefully, suggestions and changes will be recommended and, if accepted, will bring the new form back to the present "accepted agreement." The new lease form should be considered only upon the basis of protecting the landlord on his basic rights, with the intent of having agreements in which not only the landlord's rights have been considered in all possible legal contingencies but also the rights of the tenant. It is the author's belief that those who drafted the new lease form had this point in mind and that it is a fair and equitable expression of this principle.

WILL THE REAL ESTATE FRATERNITY ACCEPT?

Efforts have been made to persuade the New York realty field to adopt the "new lease." The form has been called to the attention of virtually all important figures in the fraternity, along with the suggestion of its broader implications. Those to whom realty looks for its cues are generally, at the moment, unsympathetic. They appear loath to give up a form upon which so much effort has been spent on behalf of the landlord. This is a worthy attitude, but there must come the realization that it is outmoded in an age which caters to the consumer, the public, the masses, or what you will.

There is also the objection of loss of prestige and revenue in using a contract with which the larger trade organizations are not clearly identified. As a practical matter, this loss need not take place. We must realize that little is sacrificed in giving the other fellow (in this case a Committee on Law Reform) credit for an idea or a piece of work which benefits us.

Thus far, responses to efforts on behalf of the form have been not too encouraging.

The new apartment lease form was drawn by the Committee of Law Reform (Mr. John G. Jackson, Chairman) of the Association of the Bar of the City of New York. Credit for the work goes largely to Raymond E. Burdick and Charles H. Meyer. It was approved on February 11, 1936, by the Bar Association. A period of grace was then allowed for submission of proposed amendments prior to formal "promulgation," and on April 13, 1936, the Law Journal published the lease in its
final form. Its reception was cool, and its exponents found it necessary to lay siege to the prejudices which blocked its adoption. There has been talk of a comprehensive conference to persuade the leading figures of New York realty to endorse and adopt the form, or at least to modify that which is presently in general use. Failing in this, the Association may press for legislation to eliminate clauses presently employed which it believes to be one-sided.

COMPARATIVE ANALYSIS

According to the authors of the new form, a comparison of some of the clauses appearing in the apartment lease form in general use in New York City with corresponding clauses in the Bar Association form discloses the following differences:

The common form of lease contains a clause exempting the landlord from all liability for damage to the person or property of the tenant, even where such damage is caused by the direct and affirmative negligence of the landlord or his agents.

The Bar form exempts the landlord from liability only where the injury or damage occurs within the apartment and where it appears that the landlord had no actual knowledge of the defect which caused the damage and did not affirmatively contribute to it.

The common form obligates the tenant, at his own expense, to make all needed repairs and decorations in his apartment.

The Bar form requires that the tenant take good care of the apartment and make only such repairs as are necessitated by the fault of himself or his family.

The common form provides that if the landlord shall deem the person or conduct of the tenant or his guests objectionable and shall give a three-day notice of termination to the tenant, or if the tenant fails to move into the apartment within fifteen days after the lease term commences, or if the apartment is vacated (of which fact the landlord is made sole judge), and in certain other events, the landlord may, without notice, re-enter and remove any property of the tenant therein and compel the tenant to pay rent for the balance of the lease term, together with the landlord's expenses.

The Bar form provides that when the tenant is deemed objectionable, the landlord must give the tenant notice thereof, and if the objectionable practices are not stopped in ten days, then the landlord may serve a five-day notice of termination, following which the landlord may re-enter and hold the tenant for the balance of the term.

The common form requires the tenant to comply with all orders of municipal departments requiring changes or alterations at his own expense.

The Bar form does not require the tenant to make changes at his own expense, except where the condition complained of was created by the fault of the tenant.

The common form provides that all additions and improvements made by the tenant become the property of the landlord.

The Bar form limits this to cases where the tenant's improvements cannot be removed without material injury to the premises.

The common form prohibits any assignment or subletting by the tenant without the written consent of the landlord.

The Bar form adds to this provision that such consent of the landlord will not be withheld unreasonably.

The common form provides that the parties will waive a jury trial in any action arising out of the lease.

The Bar form omits this waiver.

The common form provides that any attorney's fees incurred by the landlord in bringing or defending any action, instituted by reason of a default of the tenant, shall be deemed additional rent and be paid by the tenant on the first day of the next following month. No reciprocal provision as to payment of the attorney's fees incurred by the tenant is set forth.

The Bar form contains no provision as to payment of attorney's fees.

Following is the text of the contract under discussion:
Standard Form of Apartment Lease
Approved by the Association of the Bar
of the City of New York

LEASE, made the day of , 19
between
hereinafter called the Landlord, and
hereinafter called the Tenant.

WITNESSETH: The Landlord hereby leases to the Tenant, Apartment

City of New York, to be used as a private dwelling apartment, and not otherwise, for a term to commence , 19 , and to end , 19 , unless sooner terminated as hereinafter provided, at the annual rent of payable in equal monthly installments in advance on the first day of each calendar month during the term, the first of said installments to be paid on the signing of this lease.

The parties hereto further agree as follows:

1st. The Tenant will pay the rent as herein provided.

2nd. The Tenant will take good care of the leased premises, fixtures and appurtenances, and shall not cause or suffer any waste or injury to the leased premises, fixtures and appurtenances necessitated by the fault of the Tenant, his family, guests, servants, assignees or under-tenants; conform to all laws, orders and regulations of the Federal, State or Municipal government, or of any of their departments, and regulations of the new York Board of Fire Underwriters, applicable to the leased premises, but shall not be required to make any expenditure to comply therewith unless necessitated by his fault; and save harmless the Landlord from any liability arising from injury to person or property caused by any act or omission of the Tenant, his family, guests, servants, assignees or under-tenants; repair at or before the end of the term, all injury done by the installation or removal of furniture and other property; and at the end of the term, surrender the leased premises in as good condition as they were at the beginning of the term, reasonable wear and damage by the elements excepted.

3rd. The Tenant will not, without the Landlord's written consent, make any alteration in the leased premises, and will not deface or permit the defacing of any part of the leased premises; will not do or suffer anything to be done on the leased premises which will increase the rate of fire insurance on the building; will not use any shades, awnings or window guards, except such as shall be approved by the Landlord; will not keep or harbor any animal in the leased premises without first obtaining the written consent of the Landlord; will not permit the accumulation of waste or refuse matter; and will not assign this lease or underlet the leased premises or any part thereof without the landlord's written consent, which consent shall not unreasonably be withheld.

4th. The Tenant will observe and comply with such reasonable rules as the Landlord may prescribe on written notice to the Tenant for the safety, care and cleanliness of the building, and the comfort, quiet and convenience of the other occupants of the building.

5th. The Landlord shall have the privilege of furnishing the electric current consumed at the leased premises, and will not be liable for the rate charged for similar consumption by the local public utility company. If the Landlord furnishes the Tenant with telephone service the Tenant shall pay for each call as telephoned at the rate charged for such service shall be deemed additional rent, and for nonpayment of same the Landlord shall have the same remedies as for nonpayment of the fixed rent.

6th. In case of damage by fire to the building in which the leased premises are located, without the fault of the Tenant, if the damage is so extensive as to amount practically to the total destruction of the leased premises or of the building, or if the Landlord shall within a reasonable time decide to rebuild, this lease shall cease and come to an end, and the rent shall be apportioned to the time of the damage. In all other cases where the leased premises are damaged by fire without the fault of the Tenant, the Landlord shall repair the damage with reasonable dispatch, and if the damage has rendered the premises untenable, in whole or in part, there shall be an apportionment of the rent until the damage has been repaired. In determining what constitutes reasonable dispatch consideration shall be given to delays caused by strikes, adjustment of insurance and other causes beyond the Landlord's control.

7th. If the leased premises, or any part thereof, are taken by virtue of eminent domain, this lease shall expire on the date when the same shall be so taken, and the rent shall be apportioned as of said date. No part of any award, however, shall belong to the Tenant.

8th. If the Tenant defaults in the performance of any of the covenants or conditions hereinafter contained, other than the covenants to pay rent, or if any conduct of the Tenant or occupants of the leased premises shall be objectionable, the Landlord may give to the Tenant ten days' written notice thereof, and if such default has not been cured or the objectionable conduct stopped within said ten day period, then at the expiration of said ten days the Landlord may give the Tenant five days' notice of the termination of this Lease, and if the Tenant shall not have been given and the ten day period shall have elapsed without curing such default or stopping the objectionable conduct, and the five day notice above provided for shall have been given and the five day period shall have elapsed, or if the leased premises become vacant or deserted, the Landlord may at any time thereafter resume possession thereof by any lawful means, and remove the Tenant or other occupants, and their effects, by dispossess proceedings, or otherwise, without being liable to prosecution or damage therefor, and
hold the premises as if this lease had not been made. In any such case, the Landlord may at the Landlord's option relet the premises or any part thereof as agent of the Tenant or otherwise, and receive the rent therefor, applying the same first to the payment of such expenses as the Landlord may have incurred in connection with said resumption of possession and reletting, including brokerage, cleaning, repairs, and decorations, and then to the payment of rent and performance of the other covenants of the Tenant as herein provided; and the Tenant agrees, whether or not the Landlord has relet, to pay to the Landlord the rent and other sums herein agreed to be paid by the Tenant, less the proceeds of the reletting, if any, as accrued from time to time, and the same shall be payable by the Tenant on the several rent days above specified. The Tenant hereby waives all right of redemption to which the Tenant or any person claiming under the Tenant might be entitled by any law now or hereafter in force.

9th. The failure of either party to insist in any instance on strict performance of any covenant hereof, or to exercise any option herein contained, shall not be construed as a waiver of such covenant above specified. The Tenant hereby waives all right for its adoption. and its history, let us return to the reas-

10th. If this lease is assigned by the Tenant, or the leased premises are underlet or occupied by anybody other than the Tenant, the Landlord may collect rent from the assignee, under-tenant or occu-
cipant, and apply the net amount collected to the rent herein reserved, and no such collection shall be deemed a waiver of the covenant by the Tenant against assignment and underletting, or the acceptance of such assignee, under-tenant or occupant as Tenant, or a release of the Tenant from further performance of the covenants herein contained.

11th. This lease shall be subject and subordinate at all times to the lien of existing mortgages and of mortgages which hereafter may be made a lien on the premises. The Tenant will execute and deliver to the Landlord, or its assignee, upon demand, all assignments of rents and profits of the leased premises, and any and all assignments or transfers of the right of possession of the leased premises, other than those made at the Tenant's request, shall render the leased premises untenable for the Tenant, at the building in which the leased premises are located, and (b) if to the Landlord, at the address, if any, noted on the lease, or, if none, then to the leased premises, provided, however, that if either party admit, either in writing or under oath, the receipt of notice, evidence of serv-

12th. All improvements made by the Tenant to the leased premises which are so attached to the freehold that they cannot be removed without ma-
terial injury to the premises, shall become the property of the Landlord.

IN WITNESS WHEREOF, the parties hereto have signed and sealed this instrument, the day of possession and reletting, including brokerage, cleaning, repairs, and decorations, and then to the payment of rent and performance of the other covenants of the Tenant as herein provided, and the Tenant agrees, whether or not the Landlord has relet, to pay to the Landlord the rent and other sums herein agreed to be paid by the Tenant, less the proceeds of the reletting, if any, as accrued from time to time, and the same shall be payable by the Tenant on the several rent days above specified. The Tenant hereby waives all right of redemption to which the Tenant or any person claiming under the Tenant might be entitled by any law now or hereafter in force.

9th. The failure of either party to insist in any instance on strict performance of any covenant hereof, or to exercise any option herein contained, shall not be construed as a waiver of such covenant above specified. The Tenant hereby waives all right for its adoption. and its history, let us return to the reas-

10th. If this lease is assigned by the Tenant, or the leased premises are underlet or occupied by anybody other than the Tenant, the Landlord may collect rent from the assignee, under-tenant or occu-
cipant, and apply the net amount collected to the rent herein reserved, and no such collection shall be deemed a waiver of the covenant by the Tenant against assignment and underletting, or the acceptance of such assignee, under-tenant or occupant as Tenant, or a release of the Tenant from further performance of the covenants herein contained.

11th. This lease shall be subject and subordinate at all times to the lien of existing mortgages and of mortgages which hereafter may be made a lien on the premises. The Tenant will execute and deliver to the Landlord, or its assignee, upon demand, all assignments of rents and profits of the leased premises, and any and all assignments or transfers of the right of possession of the leased premises, other than those made at the Tenant's request, shall render the leased premises untenable for the Tenant, at the building in which the leased premises are located, and (b) if to the Landlord, at the address, if any, noted on the lease, or, if none, then to the leased premises, provided, however, that if either party admit, either in writing or under oath, the receipt of notice, evidence of serv-

13th. Any notice by either party to the other shall be in writing and shall be deemed to be duly given only if delivered personally or mailed by registered mail in a postage paid, registered, addressed (a) if to the Tenant, at the building in which the leased premises are located, (b) if to the Landlord, at the address, if any, noted on the lease, or, if none, then to the leased premises, provided, however, that if either party admit, either in writing or under oath, the receipt of notice, evidence of serv-

14th. The Landlord shall not be liable for dam-
age or injury to person or property occurring within the leased premises, unless the Landlord had knowledge of the condition causing such damage or injury a sufficient time before the occurrence of such damage or injury reasonably to have en-
abled the Landlord to correct such condition, or unless such damage or injury is due to the Land-

15th. If the making of repairs or improvements to the building or its appliances, or to the leased premises, other than those made at the Tenant's request, shall render the leased premises untenable in whole or in part, there shall be a proportionate abatement of the rent during the period of such untenability.

16th. During the four months prior to the ex-
piration of the term, applicants shall be admitted at all reasonable hours of the day to view the premises until rented; and the Landlord and its agents shall be permitted at any time during the term to examine the leased premises at any reason-
ably approved hour; and workmen may enter at any time when authorized by the Landlord to facilitate re-
pairs in any part of the building; and if the Tenant shall not be personally present to permit any such permissible entry into the premises, the Landlord may enter same by a master key, or forcibly, with-
out being liable in damages therefor and without affecting the obligations of the Tenant hereunder.

17th. Neither party has made any representa-
tions or promises, except as contained herein, or in some further writing signed by the party mak-
ing such representation or promise.

18th. The Landlord covenants that the Tenant, on paying the rent and performing the covenants hereof, shall and may lawfully and quietly hold and enjoy the leased premises for the term herein mentioned.

19th. The provisions of this lease shall bind and enure to the benefit of the Landlord and the Ten-
ant, and their respective successors, legal representa-
tives and assigns.

having presented the new lease form and its history, let us return to the rea-
sons for its adoption.

Relinquishing a selfish, apparent advan-
tage in favor of a just principle is sounder policy in the long run than perpetuating an absence of confidence and lack of regard by one's consuming public. This is axio-

In the presence of:
matic. Yet the real estate field seems not as yet to have grasped this commercial truth. It is not that realty is more backward than other industry, but that the forces making for reform have not as yet been felt with the same pressure as elsewhere. This is due in part to an absence of alert competition and partly to inertia in the case of the public.

There are indications, however, that this situation will not long prevail. The more enterprising owners and agents are coming gradually to recognize that an understanding of public reaction is a specialty with which they are but superficially acquainted and are seeking the counsel of experts in the art of obtaining the most favorable monetary response from the consumer. This development is taking place particularly where the policies of operation are intimately bound up with those of the basic nature of the business at large, as in the case of insurance companies, financial institutions, church groups, and so forth, who today are large holders of property. An equally important influence toward change is the education of the masses in the power of solidarity and group action and the trend toward a more gracious mode of living.

With an administration committed to a "new deal" for the benefit of the public at large, little doubt should be left in the minds of forward-looking Realtors as to the hazard growing out of deep-rooted animus and the imposition of precipitous rental increases. The situation is fraught with danger, and initiative must be taken by the more enlightened Realtors to correct it.

The time has long since passed when we may ape the railroad policy with its classic, "The public be damned!" We must take a cue from the costly experience of the Vanderbilt interests before it is too late and actively engage the sympathetic understanding of our "public." The landlord must do much of a positive nature to correct the discredit in which he presently stands in some communities. He must cease to incite the ill-will of those who support his business and must invite their friendliness. The voluntary adoption by real estate at large of a form of lease known to have been drawn by a disinterested group seeking to avoid useless friction appears to the author to be the first step in what should be an organized campaign to raise tenant treatment to a level consistent with the present-day policy in industry at large of currying the favor of the consumer.

Employed with a suitable rider which might be appended to the tenant's copy, the lease becomes an ambassador of good will, and it is not difficult to envisage the glow of confidence which must result to the benefit of the landlord. Here is such a rider, emphasizing the spirit in which the landlord embarks on the new contractual relationship:

**Suggested Rider:**

This lease form which we present to you for your signature is not ordinary. It has been drawn with the purpose of simplifying the written understanding between tenant and landlord and to supply an agreement which would, in so far as possible, be objective and equitable to both parties.

The employment of this form is a source of gratification to us. It is an evidence of our friendly attitude toward those we are privileged to number amongst our tenants.

You may sign this lease with confidence. There are no "jokers" obscurely buried within it.
This might appear a rather lengthy argument over the language of a contract. It must be looked upon, however, as of far greater significance. It is an appeal for enlightened self-interest by real estate. It is the author's hope that this new lease form will be embraced by reality with proper appreciation extended to the Bar Association and that this will constitute the first constructive step in an organized program to capture and hold public regard by a conscientious attitude and by performance.

* * *
Contracts

By Andrew C. Hamilton

Each morning you catch the train at the accustomed time, knowing that upon presenting your commutation ticket to the guard you will be transported safely and quickly to the city in accordance with the published schedule of the railroad. You step into your office, confident that you can carry on the work of the day in these quarters, for you have paid the rent, and the term of your lease has not yet expired. You examine and approve the acceptance of bids for supplying coal and fuel oil for the properties you are managing, for decorating apartments, for altering store fronts—with confidence that the coal and oil will be supplied, the apartments decorated, the store fronts altered. Your commutation ticket and the train schedule, your office lease, the accepted bids for furnishing you with material and services—each is a contract, a promise, to which the law attaches legal obligation, for the performance of which the law recognizes a duty, for the breach of which the law gives you a remedy.

Just try to visualize a business world in which you could not rely upon this enforceability of certain kinds of promises—in which you could not look ahead with some degree of security as to the future. The so-called "sanctity" of contracts is not an antiquated legalistic concept—it is an indispensable basis for every business activity above the level of barter in an African market place.

Moreover, the laws of agency, suretyship, sales, negotiable instruments, corporations, partnerships, landlord and tenant, and conveyancing are all, in a sense, specialized fields of contract law—they relate to particular kinds of enforceable agreements concerning which there have been developed laws adapted to the peculiar conditions surrounding them.

A contract has been defined as "an agreement enforceable by law." A more complete definition would be "an agreement between two or more competent persons having for its purpose a legal object, wherein both persons agree to act or to refrain from acting in a certain manner." This definition involves four elements, all of which are essential in every contract:
1. Agreement—offer and acceptance.
2. Competent parties.
3. Legal object.

AGREEMENT—OFFER AND ACCEPTANCE

The first step in the formation of any contract is quite obviously an agreement between the contracting parties, a "meeting of the minds." It can be reached only after one of the parties, called the offeror, has made a definite proposal—an offer—to the other party, who is called the offeree. An offer cannot become effective until it has been communicated by the offeror, or his duly authorized agent or agency, to the offeree. If the offeree learns of the offeror's intentions from some other source, no effective offer results.

Thus, suppose Allen, having the Jarvis Building listed with him for renting, wrote a letter to Brown offering to lease him the building upon certain specified terms. Allen failed to mail the letter, but his stenographer, who knew Brown, told Brown about the proposition contained in the unsent letter. Brown immediately telephoned Allen that he (Brown) accepted the proposition. There was no contract; the offer had not been properly communicated.

This article is one of a series adapted from the material developed for the Case-Study Courses in Real Estate Management offered at the University of Chicago in the Summer of 1936.
Neither will an offer clearly made in jest or under the stress of unusual excitement or emotional strain result in a contract if accepted—because the offeree is not reasonably justified in relying upon it.

An offer to the public may be announced through the newspapers and periodicals or the posting of notices. It is not effective, however, as to any particular individual until he actually learns that the offer has been made. Many communications that invite future business dealings are not offers, nor are they intended as such; they are made for the purpose of inducing offers from others. Most advertisements, catalogues, and circulars are of this nature.

For example, a listing of an apartment in the classified advertisements of the Sunday paper as being of a certain description and for rent at a stated rental does not constitute an offer to the public—it is merely a solicitation for offers from prospective tenants to rent the described apartment at the stipulated price. The offer comes from the prospective tenant, as an offeror, to the landlord, or his rental agent, as offeree—and may or may not be accepted by the landlord. The objections to making an advertisement so definite that it constitutes an offer which may be accepted by any prospective tenant who likes the apartment are quite apparent.

A mere statement of price, an inquiry for additional information, an announcement of availability of goods at a quoted figure—none of these ordinarily constitutes an offer. Suppose Allen sent this telegram to Brown, “Will you sell Jones estate? If so please state lowest cash price.” Brown replied with the telegram, “Lowest cash price twenty thousand dollars.” Neither the inquiry nor the reply constitutes an offer. An offer must be definite as to all terms essential to the deal, and it must be of such a character as to indicate an intention to enter into a contract.

When property is sold at public auction, the offer is made by the bidder and accepted by the seller when the auctioneer’s hammer falls. It follows that the seller may withdraw his property from sale or the bidder may withdraw his bid at any time before the auctioneer has thus concluded the sale. In many states, when an auction is advertised as being held “without reserve” the seller cannot withdraw his property from sale, and a bidder cannot withdraw a bid when once made.

When an individual or a government agency solicits public bids for construction work, it is the bidder who makes the offer. The one advertising for bids may reject any of them or all of them. If statutes or regulations provide that public work must be let to the “lowest and best bidder,” the courts have generally held that the offer of the lowest responsible bidder must be accepted, or else all bids must be rejected.

Generally speaking, it can be said that an offer properly communicated is regarded as being continually renewed until it is revoked, rejected, or accepted, or until it lapses.

An offer may be revoked by the offeror at any time before it has been accepted. This remains true even though the offeror may have told the offeree that the offer would be held open for a specified time and even though the offer stipulates that it may not be revoked without the consent of the offeree. The only method of being certain that an offer will remain open and not be revoked is for the offeror to procure an option contract from the offeror. An option is actually a contract to hold an offer open and unretracted for a definite period.

Remember, the option must be a complete contract in itself, based upon a consideration paid by the offeree. The fact that in case of acceptance of the offer the consideration for the option agreement may apply on the consideration for the
principal contract does not make it any the less adequate consideration for the option. If, however, the offeror receives no compensation for his promise to keep the offer open, it may be revoked at any time before it is accepted, no matter how vehement and reassuring the offeror may have been. Of course, these statements all apply to offers to enter into leases just as they apply to an offer to enter into any other kind of contract.

Revocation of an offer likewise becomes effective only when it has been actually communicated to the offeree. It must be received by the offeree. Any kind of notice is sufficient, no matter how it comes to the attention of the offeree, if and when the offeree actually learns that the offeror has revoked his offer. The leasing of a property to another person would be an effective revocation of an offer to lease the premises to the offeree if the offeree learned of the signing of the lease with the other person before the offeree had legally accepted the offer.

An offer to the public may be revoked by giving the same publicity, in general, to the revocation as was given to the offer.

When an offer is rejected by the offeree, it automatically lapses. Any attempt of the offeree to make an acceptance which changes the terms of the offer is legally a rejection of the offer, and the attempted acceptance constitutes a counter offer made by the original offeree to the original offeror.

If Allen offers Brown $75.00 per apartment to decorate certain apartments, according to specifications, and Brown replies that he will do the work for $85.00 per apartment, then Brown's reply is impliedly a rejection of Allen's offer and a counter offer to Allen to enter into the contract upon the basis of $85.00 per apartment. Suppose Allen rejects the counter offer—Brown cannot then accept the original offer of $75.00 per apartment unless Allen sees fit to renew it, for the $75.00 offer was rejected by the making of a counter offer.

An offer communicated in lawful manner which has not been revoked, rejected, or accepted does not remain open indefinitely. If the offer itself provides the period during which it is to continue, it automatically lapses at the end of the period. If the offeree attempts to accept the offer after that period has passed, the attempted acceptance is merely a new offer by the offeree. If the offer provides no definite period during which it is to continue, it is held to remain open for a reasonable time. The facts and circumstances which must be considered in determining what is a reasonable time are: the nature of the property involved, the situation in which the offer is made, the relationship and previous dealings of the parties, and the means used to transmit the offer.

It is obvious that at the time the contract is consummated both the offeror and the offeree must be capable of making an agreement—hence the death or insanity of the offeror or offeree at any time before the contract is consummated by the acceptance of the offer causes the offer to lapse.

Acceptance of an offer is the communication to the offeror by the offeree of the offeree's willingness to do that which the offeror proposes—to be bound by the terms of the offer. In order to create a contract, the acceptance must be unconditional and must comply strictly with the terms of the offer. If the offer stipulates the manner in which the acceptance is to be made, then the acceptance must be made in that manner. However, mere silence of itself does not amount to an acceptance, even though the offeror may have stated in his offer that a failure to receive a reply from the offeree would be regarded as an acceptance of the offer. Only the person to whom the offer is
made can accept the offer. An offer cannot be assigned.

The acceptance of an offer becomes effective when it is communicated to the offeror. In almost all states an acceptance is regarded as having been communicated as soon as the offeree places his acceptance with the means of communication used by the offeror. The acceptance becomes effective as of that time whether or not it ever reaches its destination, provided the letter or message is properly addressed and ordinary precautions have been taken by the offeree to effect accurate transmission. Thus, if the offeror makes his offer by mail, he impliedly authorizes the use of the post office as his agency to receive and transmit the acceptance, and the acceptance is effective as soon as it is mailed. Similarly, an offer communicated by telegram may be accepted by sending a telegraphic acceptance. Of course, if the offer stipulates the means to be used to communicate the acceptance, then the stipulated means must be employed.

What is the effect of attempting to communicate the acceptance by means other than that impliedly authorized by the terms of the offer? Such action merely places the risk of delay and failure of transmission upon the offeree—the acceptance does not become legally effective and is not regarded as having been communicated until it actually comes to the notice of the offeror.

Consider a few typical cases involving the time and validity of acceptance.

On June 15 Allen offered, by mail, to sell his store building to Brown for $10,000. On June 17 Brown mailed his acceptance which reached Allen's office on June 19. On June 18 Allen died. May Brown force specific performance of the contract by the administrator of Allen's estate? Surely. The acceptance was regarded as communicated on June 17, while Allen was still alive. Allen became a party to a binding and enforceable contract before he died. Suppose Brown had chosen to send his acceptance by telegram and the message had been delayed in transmission so that it did not reach Allen's office until June 19? Then, there would have been no contract—for at the time of Allen's death on June 18 the acceptance had not yet been communicated so as to become legally effective; there would have been merely an unaccepted offer, and the death of Allen would have caused that offer to lapse.

Allen ordered goods from the Brown Company and received in reply a card acknowledging the order and saying that the order would receive prompt and careful attention. Later the Brown Company refused to ship the goods. The court held that the card did not constitute an acceptance because its language was too indefinite.

Allen advertised for bids on a certain construction job. Brown submitted the lowest bid. Allen telegraphed Brown, "You are the lowest bidder. Come on down." This telegram was held by a court not to be an acceptance of the bid—merely an invitation to Brown to come down and discuss the bid.

The Four Oil Company offered to sell to the United Oil Producers crude petroleum of a guaranteed gravity of not less than fifteen degrees Beaume at a price of 52 ½ cents per barrel f.o.b. Bakersfield. In reply to the offer, the United Oil Producers wrote, "We accept your proposition. The gravity of the oil is to be fifteen degrees Beaume, as you state; but we wish this distinctly understood under this agreement to be fifteen degrees Beaume at a temperature of sixty degrees Fahrenheit." The Four Oil Company contended that there was no contract. The court sustained this contention for the reason that the attempted acceptance was conditional and demanded in the
contract a term not contained in the original offer. The attempted acceptance was a new offer by the United Oil Producers.

This discussion has been confined to bilateral offers and their acceptance. A bilateral offer is one which requires for its acceptance a promise on the part of the offeree.

A unilateral offer is one that calls for the completion of some act by the offeree before a contract is formed. For example, "I will give you $100 if you will swim across the Chicago river in your dress suit during the noon hour rush." No contract results from a promise to swim the river thus. There is a binding contract to pay the $100 only when the river has thus been swum; until then there is only a unilateral offer—which may be withdrawn at any time before the acceptance is made by the completion of the act, even though the swimmer may be at that moment in the middle of the river. The offeree may have spent time and money in partially performing the act before the offer is withdrawn; nevertheless, he has no recourse against the offeror unless his partial performance has in some way benefited the offeror, and even then he may recover only the reasonable value of the benefit conferred upon the offeror. The dangers inherent in dealing upon the basis of unilateral offers are such as to make it wise to avoid them except when necessary to protect an offeror.

**Mutuality—Consideration**

During the early history of contract law the only agreements which a court would enforce were those entered into under certain defined formalities. It was the writing, signed and under seal, that made the agreement enforceable—no seal, no remedy in court. Then, in the fifteenth century, the doctrine of consideration was developed, the idea that the substance rather than the form was the concern of the court. This doctrine made possible the enforcement of an oral promise. In a very few states the seal, usually only a scroll or the letters "L. S.," is still effective, but in the great majority of the states a seal is at the most merely presumptive evidence of consideration. Some state courts still hold that a contract concerning real estate, in order to be enforceable in court, must be under seal—hence, the letters "L. S." or the word "Seal" at the end of each line provided for signatures on most printed forms of real estate contracts.

Generally speaking, consideration is a requisite of all contracts. What is consideration? Ordinarily, it is the purchase price, or the property to be exchanged. Technically, the best definition is, "Consideration constitutes the waiving of, or a promise to waive, a legal right at the request of another."

The actual value of the stated consideration is usually unimportant. The courts do not attempt to pass upon the fairness of the bargain made by the parties to the contract, unless there is evidence of fraud. But there must be some consideration, no matter how great or how small its actual value.

There is one important exception to the general rule that the law is not concerned with the value of the consideration. If the payments are to be "in kind," that is, money for money or grain for grain, then the consideration must equal in value the promise made. The common statement of the rule is that an undisputed obligation to pay a larger sum cannot be discharged by the promise to pay or by the payment of a lesser amount. If the amount of the obligation is disputed, then the parties may, however, settle it for any agreed amount, provided the settlement price is not less than the amount which both parties recognize to be a valid claim.

Suppose Allen owed Brown $500 in delinquent rent under the terms of a lease. It
was agreed between them that if Allen would give Brown his note for $350, they would regard the entire claim for delinquent rent as being settled. The note was given. Later Brown sued Allen for the difference, amounting to $150, and recovered. The court held that the promise to pay $350 evidenced by the note was not adequate consideration for the discharge of the liquidated ( undisputed) claim for $500.

Suppose the situation had been that Brown claimed the obligation was $500 and Allen claimed it was $250 and they agreed upon $325 as a settlement. Then the promise to pay $325 would be adequate consideration for the settlement of the unliquidated ( disputed) claim. Of course, had the settlement price been $249, it would not have been adequate consideration.

Suppose Allen had given a mortgage or pledged collateral to secure payment of the note for $350 or had agreed to give a note for $350 and his fountain pen in settlement—in each case the consideration given by Allen would have been something more than just a lesser amount of money and would have been adequate consideration to make the settlement enforceable and prevent Brown from recovering the $150 balance.

A mere promise to make a gift is not a contract; there is no consideration. However, remember that once a gift has been completed, the property belongs to the donee; the donor cannot then get it back because of the lack of consideration.

A promise to do that which the party is already legally bound to do is not adequate consideration to support a contract. The courts will force performance anyhow, hence no legal right is waived. Allen contracted to build a garage for Brown at a cost of $1,000. Because of a sudden increase in the cost of labor and materials, Allen refused to perform the contract. Brown promised to pay Allen an additional $300 to complete the garage. Assume that the garage is then completed—may Allen recover the extra $300 from Brown? No. There was no consideration for that promise. Allen was already under a contractual duty to complete the garage.

But, suppose Brown had promised to pay Allen the additional $300 if he would complete the garage in ten days. Then, there is adequate consideration to make the promise to pay the extra $300 an enforceable contract when the garage has thus been completed in ten days, because Allen has done more than he was bound to do by the terms of the original contract.

A composition of creditors is an agreement by which all the creditors agree with each other and with their debtor to accept a certain percentage of their claims in full settlement. Such an agreement is binding; it is based upon the consideration of the creditors’ promises to each other as well as the promise of the debtor to pay the lesser sums.

Forbearance to prosecute any claim made in good faith is adequate consideration to support a contract. The performance of a duty imposed by statute does not constitute adequate consideration. Past consideration is insufficient to support a present promise. A moral duty, no matter how strong it may be, can never be adequate consideration. A mere gratuitous promise is not enforceable; it is not supported by any consideration. A promise to pay a debt which has been outlawed by the Statute of Limitations is enforceable even though no new consideration is given; so, also, is a promise by a debtor after his discharge in bankruptcy to pay his obligations.

Suppose Allen contracted to sell Brown a certain farm for $20 per acre. Later Allen refused to perform the contract,
using as his defense the fact that the farm was worth $75 per acre. Did these facts show failure of consideration? Of course not; and the courts are not interested in whether or not Allen made a bad bargain.

May a public officer sue to recover a reward offered for the apprehension of a criminal captured by him while on duty? No. He is already under statutory duty to catch the criminal, and his laudable act, therefore, is not adequate consideration for the promise to pay the reward.

Both parties to a contract must be bound or neither is bound; there must be mutuality of promises. If the promises of one party when analyzed are found not to impose upon the promisor any duty to act or to refrain from acting, then there is no contract—there is merely an illusory promise. Thus, a promise to supply all of an article that the offeree may want is an illusory promise—he may not want any. But where one party agrees to purchase his needs or requirements (as distinct from what he wants or orders), and he is in a business in which it is almost certain that he will need some of the goods involved, then there is mutuality of promises—and an enforceable contract.

**IMPLIED CONTRACTS**

There are two kinds of implied contracts: contracts implied in law and contracts implied in fact. Contracts implied in law are those which the law implies from the relation of the parties, without any agreement, in order that justice may be done. An example is the implied contract of a father to pay the reasonable value of necessaries furnished to his minor children. Contracts implied in fact are those which are implied from the conduct of the parties. An example is the implied contract to pay the reasonable value of a benefit or service knowingly received and accepted.

**VOID AND VOIDABLE CONTRACTS**

We commonly refer to attempted contracts which are so defective as to be unenforceable by either party as void contracts. As a matter of fact, they are, of course, not contracts at all. There are certain contracts, however, which may be avoided at the election of one of the parties. These contracts are called voidable contracts.

The definition of a contract requires that it be between competent parties.

A corporation is an artificial entity created by and pursuant to the corporation law of the state in which it is formed. It has only those powers granted to it by its charter and by the corporation act under which it is created—hence its power and authority to enter into contracts are limited to the scope of those powers and authorities thus granted to it. When entering into a contract with a corporation, always determine first whether it has corporate power to become a party to such a contract.

Under the common law a married woman has no contractual powers. Theoretically, "Husband and wife are one, and he is it." By statute in almost all states married women have been given full rights as competent parties to contracts.

By common law an infant is any person younger than twenty-one years. This is still the law in some states. In other states the age has been changed—particularly with regard to women. In Illinois, for example, it is twenty-one years for men and eighteen years for women.

A contract in which one of the contracting parties is an infant is voidable by the infant only. The adult party to such a contract may be forced to carry out the terms of the agreement, or be sued for damages by the infant unless the infant desires to disaffirm the contract. The law does not deprive an infant of the right to make a
contract; it merely confers upon him the legal power to ratify or disaffirm the contract as he chooses.

After the infant reaches the age of majority, but not before, he may ratify any voidable contract made by him during his infancy. Any manifestation of an intent to be bound by the contract is an adequate ratification or affirmation. No express declaration of affirmation is necessary. When once the infant has ratified a contract after becoming of age, he cannot thereafter disaffirm that contract.

Disaffirmance is a manifestation by an infant of his intent not to be bound by the terms of the contract. Disaffirmance likewise may be either by express words or by conduct evidencing an intent not to be bound.

Although both parties to the contract have fulfilled their promises and the contract is thus fully executed, the infant may, nevertheless, avoid the agreement and demand the return of the consideration given by him. This the infant may do under the laws of most states even though he may have spent or squandered whatever he received and thus be unable to return it. If, however, the infant is still in possession of the consideration which he received, he must return it to the other party.

A statement in the contract that the infant is of age does not take away the infant's right to rescind—neither does the fact that he may appear to be an adult, or have superior business judgment, or be engaged in the conduct of a business.

There are practically no limitations upon the right of an infant to disaffirm contracts to which he is a party. A contract cannot be partially affirmed and partially disaffirmed; it must be disaffirmed in its entirety or not at all.

An infant cannot disaffirm a sale of real estate until after he reaches his majority. He can disaffirm any other contract at any time during his minority and demand the return of the consideration he has given. The right of an infant to disaffirm any contract continues for a reasonable time after he reaches his majority.

It is commonly said that an infant is liable on his contracts for necessaries of life. This statement is not true. The infant is not liable on his contracts for necessaries; he is liable only “quasi-contractually” for the reasonable value of necessaries furnished to him—and then only if, in consideration of the infant’s station in life, the articles furnished can be regarded as necessaries. Thus, we have the basis of the widespread rule of law that even though an infant tenant may not be liable on a lease, he is nevertheless liable for the reasonable rental value of his use and occupancy of the property. Always remember that if the infant is adequately supplied with food, clothing, shelter, medical attention, an elementary amount of education, and any other necessary by a parent or guardian, then those articles furnished him by someone else are not classed as necessaries.

A parent is never liable on an infant’s contract unless the parent has in some way made the infant lawfully his agent. Of course, if the parent signs the contract with the infant, then the parent is liable as one of the actual parties to the contract. If a parent has failed or refused to supply necessaries for an infant, then the parent, being under a duty to supply the necessaries of life to his family, is liable quasi-contractually for any such necessaries furnished the infant. Naturally, a parent is also entitled legally to any compensation which an infant earns unless the infant has emancipated himself from the family relationship.

A parent is not liable for an infant’s torts (injuries to person or property) unless committed with the parent’s assent or at his direction. However, an infant is
liable for his own torts. Fraud may constitute a tort. Therefore, an infant, who, by misrepresentation of his age, induces an adult person to enter into a contract, may, of course, disaffirm the contract, but he thereupon becomes liable to the adult for any damages suffered because of his fraud upon the adult.

The contracts of insane persons are held to be voidable by most courts in much the same way as infants' contracts. However, the insane person ordinarily cannot disaffirm his contract unless he can return the consideration he received, provided no advantage has been taken of his insane condition.

If a conservator has been appointed for an insane person, the conservator thereupon takes full control of the insane person's property and business affairs, and any contracts made by an insane person after the appointment of a conservator are therefore void—not merely voidable.

A drunkard's contracts are also treated somewhat like those of an infant and are voidable if the drunkard was so far intoxicated as to be unable to understand the effect of his actions in entering into the contract. However, a drunkard cannot disaffirm a contract if the disaffirmance would injure an innocent third party. Drunkards are liable quasi-contractually for necessaries furnished to them.

**Fraud**

A fraud in the formation of a contract gives the injured party several remedies, one of which is the right to regard the contract as voidable—to rescind the contract. Fraud is an intentional misrepresentation of material, existing facts, which induces another to act to his damage in reliance thereon. All five of the elements of fraud stated in this definition must concur before any words or acts are legally a fraud. First, there must be a statement or statements which are proved to be untrue and which the party at the time of making them knew to be untrue. Silence of itself is generally not a misrepresentation. However, a failure of a seller to inform a purchaser of a latent or hidden defect in the property does constitute a misrepresentation. Also, any act, the ultimate purpose of which is the concealment of the true facts about the property involved in a contract, is a misrepresentation.

Second, the misrepresentation must be as to material, existing facts—facts that are a moving influence in the formation of the contract. Statements of opinion, unless made by one who holds himself out to be an expert, are not statements of fact. A promise to perform some act in the future is not a statement of a present fact unless the promisor at the time of making the promise never intends to keep it or knows it will be impossible for him to perform.

Third, the injured party must have relied upon the misrepresentation, rather than upon any investigation of his own. Fourth, the misrepresentation must have been made with intent to deceive. Fifth, there must have been damages resulting from the misrepresentation.

The existence of fraud in the formation of the contract gives the injured party a choice of the following remedies: he may (1) plead fraud as a defense in case action is brought against him to enforce the contract; he may (2) regard the contract as voidable by him, rescind the agreement, demand return of the consideration he has given, and return the consideration he has received; or, he may (3) carry out the contract and then sue the party who committed the fraud for the damages he has suffered from the fraud.

**Mistake**

A mistake upon the part of one of the parties to the contract does not give any right to either party to regard the contract as voidable. There is one exception to this
rule. Suppose Allen submitted a bid to Brown for the plumbing material in a large building to be erected. Being hurried in getting his bid ready, Allen figured the weight of certain items of pipe per foot instead of the price per foot. When the bid was received, Brown’s engineer called attention to the fact that the bidder was proposed to install the pipe for less than the pipe could possibly be purchased and that it was obviously a mistake. However, Brown being a bit sharp, notified Allen of his acceptance of the bid. Then Allen discovered his mistake. The courts have held that in such a case, where a mistake has been made in the calculation or transmission of figures which form the basis of a contract and the mistake is clearly evident to the other party, then the contract may be regarded as voidable by the party who made the mistake.

A contract entered into as a result of a mutual mistake concerning some material fact is voidable. For example, a mutual mistake as to the number of square feet in a space rented or as to the number of acres in a plot of ground will render the contract voidable. Frequently, contracts relate to property about which the parties admit they know nothing and about which they make no representations. If it later turns out to be different from what either thought it was, there is nevertheless no basis for avoiding the contract. The property, for example, was the Brown farm; if later a coal mine was found about which neither had any knowledge, it seems clear that there is no argument for holding the contract voidable.

**Duress**

If one of the parties is coerced through fear of the other into entering into the contract, then the contract is not a voluntary one and may be regarded as voidable by the party who was thus subjected to duress. Duress means fear from threat of bodily injury or criminal prosecution. The threat may concern either the party to the contract or some close relative. The threat of a civil suit does not constitute duress. The guilt or innocence of the party charged with a crime has no bearing upon the situation. The contract is voidable because one of the parties has not been free to enter into the agreement as his judgment dictated.

**Unenforceable Contracts**

Agreements which appear to satisfy all of the normal requirements for the formation of a contract may be unenforceable in court either because the object sought to be accomplished is illegal or because the parties have failed to meet the requirements of the Statute of Frauds.

An agreement may be illegal because it is specifically declared such by statute or because it is contrary to the best interests of society. Certain contracts are quite widely held to be for illegal objects and purposes. Among the most common are wagering contracts, contracts in restraint of trade, usurious contracts, Sunday contracts, contracts limiting liability of institutions of a semi-public nature, and contracts to influence governmental action.

In the majority of states wagering contracts are held to be illegal and unenforceable. The essence of a wagering contract is that one party wins at the expense of the other and the winner is picked principally by chance. Insurance contracts are enforceable if the person applying for the insurance has an insurable interest in the person or property insured. Otherwise, they are merely wagering contracts. Agreements dealing in futures on the grain or stock market are not regarded as wagering contracts where it is possible to call for delivery of the commodity involved.

Contracts which have for their purpose
the limitation of competition and the restraint of freedom of trade are illegal and unenforceable, except where the clause restricting competition is merely ancillary to the main purpose of the agreement.

Almost every state limits the amount of interest which may be charged upon borrowed money. Any contract by which the lender is to receive more than the lawful maximum interest rate is illegal and therefore unenforceable. Some states permit collection of the principal only; others permit collection of the legal rate of interest. The laws of the different states vary greatly. Likewise the legality of Sunday contracts is dependent upon the law of the state in which they are made—and the laws of the different states are not uniform.

Illegal contracts are not void—they simply cannot (with a few exceptions) be enforced by court action—the court leaves the parties just as it finds them.

STATUTE OF FRAUDS

As a general rule, contracts are enforceable even though not in writing. At an early date in English history there was enacted a law which is still known as the Statute of Frauds, and which is still part of the law of almost every state. This provides that certain contracts cannot be enforced by the courts unless they have been set forth in writing and signed by the parties sought to be bound thereby. The purpose of the Statute of Frauds was, and is, to prevent fraud on the part of those who might attempt to establish by the false testimony of their friends as witnesses certain kinds of contracts which seem peculiarly susceptible to such fraud.

The Statute of Frauds provides that contracts whereby one person becomes responsible for the debt, default, or miscarriage of a third person must, in order to be enforceable in a court of law, be in writing and signed by the party sought to be charged with liability. This means that any guaranty contract must be in writing and signed by the surety. Likewise, agreements entered into by those administering estates, whereby they agree to become personally liable for the debts of the estate, must meet the requirements of the Statute of Frauds to be enforceable. The same is true of contracts the consideration for which is the marriage of one of the parties and of contracts which by their terms must continue for a period longer than one year from the making thereof.

By far the most important provision of the Statute of Frauds for those engaged in the real estate profession is that which requires that an agreement for the sale of any interest in or concerning real estate greater than a leasehold of short duration (usually one year or less) must be in writing and signed by the parties sought to be held liable—otherwise such a contract is not enforceable. It is because of this provision of the Statute of Frauds that real estate sales contracts must be in writing and signed by the parties and their spouses and that leases for a term of more than one year must be in writing and signed by all parties.

Payments made in reliance upon an oral agreement for the purchase of real estate may always be recovered where performance is denied. The reasonable value of improvements placed upon property in reliance upon such an oral agreement may also be recovered if the grantor fails to perform. Anyone who, under an oral agreement to purchase property, moves on it and improves it to such an extent that he cannot be restored to his former position, may enforce such an agreement even though it is not evidenced by a writing. However, this is an exception to the general rule and is followed by the courts only when indispensable to do justice in a particular case.
The English Statute of Frauds provided that any contract for the sale of personal property involving more than ten pounds sterling should be in writing and signed in order to be enforceable. This has been adopted in every state, with many variations as to the amount of a sale which comes within the requirements of the Statute. Where the Statute of Frauds requires a contract for the sale of personal property to be in writing, the acceptance and receipt of a portion of the goods. Partial payment by the purchaser or the giving of something in earnest to bind the bargain will make a written contract unnecessary.

The Statute of Frauds does not require a formal written contract. All that is needed is that there be some note or memorandum in writing, setting forth the essential terms of the contract, including a description of the property and the names of the parties, and signed by the parties sought to be bound by the agreement. A signed letter or series of letters may be sufficient if they meet the requirements stated.

A contract which requires a writing because of the Statute of Frauds dates from the time of the oral agreement, but it is unenforceable until the necessary written evidence of it is available. Other evidence, no matter how convincing, cannot take the place of the memorandum in writing signed by the proper parties.

**Performance of Contracts**

Every breach of a contract, no matter how unimportant the provision violated, gives to the injured party a right to some relief. For a violation of minor importance the injured party has a right to recover damages. If it is an executory contract and the provision violated is one of vital importance and the breach is material, then a court may approve of or permit the rescission of the agreement by the injured party. Those terms of a contract, the breach of which justify rescission, are called conditions. There are three kinds: conditions precedent, conditions concurrent, and conditions subsequent.

Most contracts provide that one party must perform some duty before he obtains a right against the other party. For example, the broker must produce a customer ready and willing and able to enter into the sales contract upon the specified terms before the broker is entitled under his brokerage contract to collect a commission from his employer.

If a provision of a contract is relatively insignificant, its performance is not always required to precede recovery from the other party. In such a situation the party who was to receive performance merely deducts damages for the breach before performing himself. Other terms which impose a duty of performance are of sufficient importance to be regarded as conditions precedent.

Three tests are applied by the courts to determine whether any given terms of a contract shall be regarded as conditions precedent: (1) Is the breach of major or minor importance? (2) Will damages be an adequate remedy for the breach?—if so, the terms breached are probably not conditions precedent. (3) Does the failure to perform the particular provision change essentially the nature of the entire agreement?

Consider the provision usually contained in every contract calling for performance within a certain time. What is the effect of a failure to perform within the stipulated time? Will it result merely in a right to recover damages or in a right to rescind the contract? The answer depends upon the circumstances. The time set for the completion of a contract which involves principally the expenditure of labor and materials or the production of
Contracts

a commodity of little value to anyone other than the contracting party is normally not considered of such major significance as to constitute a condition precedent. But if the contract is for the sale of marketable goods, then the time of performance is usually held to be a condition precedent. By inserting an agreement in the contract that time of performance “is of the essence” of the contract, the parties to any contract may make time of performance a condition precedent.

Building contracts normally provide that payments to the contractor shall be made only upon presentation of the supervising architect’s certificate. Most courts regard the procuring of the certificate as a condition precedent to the contractor’s right to collect his pay—but excuse performance of the condition precedent in case the architect dies, becomes insane, or fraudulently or for no particular reason refuses to give the contractor the certificate.

Many contracts require that the parties perform certain acts simultaneously, conditions concurrent—for example, delivery of possession and the payment of the first installment of rent under the terms of a lease thus drawn. In case of such a contract, neither party is placed in default until the other party has offered to perform. Such an offer of performance is called a tender of performance. Brown could not successfully sue Allen for failure to deliver a deed called for under the terms of a sales contract until Brown had offered to make the payment to Allen required by the contract. Actual payment is not required unless Allen offered to deliver the deed; tender of payment is sufficient.

If one party to an agreement should inform the other that he will not perform when the time for performance arrives, then the latter may take him at his word and terminate the agreement. This is called anticipatory breach and may be immediately followed by an action to recover damages, although the time for performance has not yet arrived. The rule of anticipatory breach is not applicable to a promise to pay money which is evidenced by a note or bond.

Excuses for Nonperformance

After a contract has been entered into, certain situations may arise which excuse nonperformance of the contract. For example, when, after some default, the injured party to the contract evidences an intention not to hold the defaulting party accountable under the terms of the contract, then the injured party is said to have waived the breach and the nonperformance is excused. Likewise, any interference by one party with the efforts of the other party to perform his covenants under the contract will excuse nonperformance by the party thus interfered with.

The contracts of most careful manufacturers and builders provide that the performance by the manufacturer or builder shall be excused in case fire, strikes, difficulty in obtaining raw materials, or other incidents over which the parties have no control make performance more difficult or impossible. In the absence of such a provision in the contract, conditions arising to make performance more difficult or burdensome never afford reason for failure to perform or for rescission. Thus, if a building which has been nearly completed is swept into ruins by a tornado, the contractor is still under a duty to rebuild it. He should have protected himself by insurance during the period of construction or have shifted the burden to the owner by a suitable provision in the contract.

When a contract, as the result of its nature or the happening of some subsequent event, becomes legally or physically
impossible to perform, then the party is excused for nonperformance. If the impossibility arises from the party's own fault or neglect, performance is not excused and a liability to pay damages results. When the subsequent enactment of a law makes it illegal to perform a contract, then, of course, nonperformance is excused. The death or incapacitating illness of a party to a contract calling for personal services is another form of impossibility of performance which excuses nonperformance. However, always remember that an ordinary contract is not terminated by the death or illness of one of the parties. The estate of the deceased person must still perform his covenants under any contract, or pay damages. The destruction of subject matter which is essential to the completion of the contract will release the parties from the performance of the contract.

The fourth form of impossibility is said to arise where some element or characteristic, which the parties assumed existed or would exist and which is essential to the performance of the contract, does not exist.

Suppose Allen contracts to build a thirty-story office building at a certain location. Because of the nature of the underlying soil and earth structure it is found to be utterly impossible to build such a building; the agreement may be terminated. The missing essential element is a proper soil condition to support such a building.

Contracts which have been willfully broken after part performance may or may not have conferred some benefit on the promisee. In contracts, such as construction contracts, in which the benefit received from partial performance prior to a willful breach cannot be returned, the person entitled to performance is not required to pay for the benefit received. However, if the benefits can be returned, then they must be, or else the party receiving them must pay the other party their reasonable value less the damages he has suffered from the willful breach of the contract.

**DAMAGES**

The only usual remedy for the breach of a contract is the right to recover a judgment for damages. In a few exceptional types of cases a court of equity will grant as a remedy specific performance of the contract and will compel the promisor to carry out the express terms of the agreement. Contracts in which the agreement calls for the delivery of property having some peculiar or intrinsic value (such as Queen Catherine's emerald necklace) are of the exceptional types where specific performance will be granted.

To the real estate profession the most interesting of these exceptional types are contracts for the sale of real estate. Our courts have always held that a certain piece of real property may have intrinsic worth—therefore, recovery of money damages may not be adequate compensation for the failure to receive that particular plot of land. Specific performance may be demanded whenever the grantor refuses to deliver a deed as provided by the contract—hence, the need for meticulous care in drafting real estate sales contracts so that a court may if necessary find all of the terms of the agreement written within the contract itself.

The amount of damages awarded in a lawsuit is determined normally by the jury and should be in an amount which will compensate the injured party for the loss he has suffered. Both litigants and lawyers often feel this is a pious hope rather than ever an actual result obtained before a jury. Attorney's fees of the injured party usually cannot be assessed against the defendant as a part of the judgment. The amount of damages recoverable is limited by the rule that they
must be such as the parties would contemplate would normally arise from such a breach of the contract.

As soon as a contract has been broken, it becomes the duty of the injured party to reduce the actual loss as much as possible. Thus, if a tenant breaks a lease and moves out before the end of the term, there is a duty on the landlord to use reasonable efforts to obtain a new tenant for the vacated apartment as soon as possible—thus mitigating the liability of the defaulting tenant under the terms of the lease. Similarly, an employee who has been wrongfully discharged cannot sit idly by and expect to draw his pay; he must make a reasonable attempt to procure other work of the same general character.

It is customary in many types of contracts to provide specifically for the amount of damages to be paid for the breach of certain terms of the contract, thus avoiding litigation. Such provisions are legal and will be enforced so long as the court does not consider the stipulation to be a penalty for failure to perform rather than compensation for damages. In order to be construed as liquidated damages, the amount of compensation agreed upon must bear a close relation to the probable damage to be sustained from a breach.

**Rights of Third Parties**

A contract creates both rights and duties. An assignment consists of some act whereby one party transfers his rights under a contract or some portion of them to a third party. The transferor is called the assignor; the one to whom the assignment is made is called the assignee. No particular formality is essential to an assignment. Consideration is not required. An assignment may be either written or oral. It is best to have it in writing. All rights under a contract may be assigned without the consent of the other party to the contract. Any contract as a whole may be assigned provided all interested parties consent to the assignment. In the absence of such consent only certain types of contracts can be assigned as a whole.

An assignment transfers the rights under a contract but not the duties. Contracts for personal services cannot be assigned by either party; neither can contracts which involve the personal credit of one of the contracting parties. Of course, a creditor may always assign his right to collect the purchase price of articles sold under a contract. An employee entitled to wages under an employment contract may make a binding assignment of his wages—but a mere expectancy cannot be assigned.

A failure by the assignee to perform the duties under a contract gives rise to a cause of action in favor of the other party to the contract. In most states he may elect to sue either the assignor or the assignee. Always remember that the assignor is not relieved of his duty to perform by assigning the contract; the other party cannot without consent be deprived of his rights against the assignor.

The assignee should immediately notify the other party of the assignment. This is advisable because, in the absence of any notice of the assignment, the other party may give performances of the contract to the assignor. As soon as notice is given, the other party must perform for the assignee. Also, notice of the assignment protects the assignee in case of attempted assignment to the same rights to two different assignees because the first assignee to give notice, provided he has no actual knowledge of any prior assignment, has a superior claim to the right assigned.

Under an assignment the assignee receives the same rights as the assignor had. Any defense of the other party available against the assignor at the time he re-
ceives notice of the assignment is available against the assignee.

Suppose Allen sold to the Marshall Company his used automobile on sixty days' credit for $400. He later purchased $200 worth of auto tires from the Marshall Company and did not pay for them. Then he assigned to Brown his $400 claim against the Marshall Company and received $400 cash in payment from Brown. Brown immediately notified the Marshall Company of the assignment. The Marshall Company refused to pay Brown more than $200. He sued them—and could recover only the $200 they offered him. Brown, as assignee, had no greater rights than had Allen, his assignor.

THIRD PARTY BENEFICIARY CONTRACTS

Contracts are often made with the express purpose of benefiting some third party. One example is a life insurance contract between the company and the insured for the benefit of the third-party beneficiary. Another example is the agreement between a purchaser and a seller of real estate by which the purchaser assumes and agrees to pay the mortgage—for the benefit of the mortgagor. In such cases what are the rights of the third parties?

Notice that these examples illustrate two essentially different situations. In the first, the beneficiary is a pure donee; in the second, the beneficiary is a creditor of the party to whom the promise is made.

The decisions are conflicting, and the states do not agree upon these points, but perhaps a majority of courts now permit the donee beneficiary to sue and recover on the contract. In all states, by statute or otherwise, the beneficiary of a life insurance policy is permitted to recover from the insurer. The creditor beneficiary is also permitted to sue and recover on the contract.

Discharge of Contracts

We have considered the formation and operation of contracts. Let us review briefly the ways in which a contract may be discharged. The customary and expected method is, of course, by the complete performance of the contract. Naturally, if a contract is not fully performed by either party, it may be discharged by an agreement of the parties.

A contract may be discharged also by an accord and satisfaction. An accord consists of an agreement between contracting parties whereby one of them is to do something different from that called for by the contract. The accord is satisfied when the terms of the new agreement are fully performed. Both accord and satisfaction must take place before the old contract is discharged.

A novation is an agreement by which one party to a contract is replaced by a new party. In order for this substitution to be effective it must be agreed upon by all parties; only thus will the contract be discharged as to the party withdrawing.

An intentional cancellation or alteration of the written evidence of a contract will have the effect of discharging it.

Every state has a Statute of Limitations which prescribes the time limits within which a court action may be brought to enforce contractual rights. After the period set by the Statute of Limitations has passed, the contract is discharged unless revived by a new promise of the promisor.

The Federal Bankruptcy Act affords another popular method of discharging contracts—but that is a subject too involved to attempt even a superficial examination in this material.

In conclusion, let us repeat a statement with which we began this summary—our entire business life rests upon the firm foundation of the enforceability of contracts.
Economic Factors Related to Residential Building

By Lowell J. Chawner

The active production of domestic shelter by private agencies is closely related in all countries to vigorous growth and to increases in levels of income. The rate of growth in numbers, or more properly in new families added by natural increase or migration, appears to be the dominant demand factor which gives rise to changes in production. Improvements in levels of income not only enlarge the economic demand for shelter as well as for other commodities; but production, in turn, particularly when arising from the expansion of credit, further tends to increase employment and income. Costs of ownership also influence the volume of construction, although differently under different conditions in the market for shelter. It is this latter subject, the cost-of-production aspect of residential building, in reality the annual “cost of ownership,” with which this present discussion is primarily concerned.

Annual Volume of Residential Building in the United States

The production of houses, as is well known, has been conspicuously marked by severe long-time fluctuations in the volume of current activity. During the year

---

CHART I

Preliminary Estimates of the Number of Family Units Built Annually in Urban and Rural Non-farm Areas in the United States.

This article is reprinted from THE ANNALS of the American Academy of Political and Social Science—March, 1937.

49
1925 there were added to the residential building supply in nonfarm areas in the United States, more than 900,000 new family units. Seven years earlier the corresponding number was 240,000, and eight years later, in 1933, it fell to some 60,000 units. No other industry of comparable size over this period experienced fluctuations in production as severe as did residential building, and only in a few other durable goods industries was the same order of magnitude approximated. Preliminary estimates of the number of nonfarm family units built annually in the United States over the period from 1915 through 1936 are shown in Table I and in Chart I.

**TABLE I**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Units Built</th>
</tr>
</thead>
<tbody>
<tr>
<td>1915</td>
<td>529,000</td>
</tr>
<tr>
<td>1916</td>
<td>506,000</td>
</tr>
<tr>
<td>1917</td>
<td>350,000</td>
</tr>
<tr>
<td>1918</td>
<td>241,000</td>
</tr>
<tr>
<td>1919</td>
<td>545,000</td>
</tr>
<tr>
<td>1920</td>
<td>337,000</td>
</tr>
<tr>
<td>1921</td>
<td>457,000</td>
</tr>
<tr>
<td>1922</td>
<td>777,000</td>
</tr>
<tr>
<td>1923</td>
<td>861,000</td>
</tr>
<tr>
<td>1924</td>
<td>878,000</td>
</tr>
<tr>
<td>1925</td>
<td>919,000</td>
</tr>
<tr>
<td>1926</td>
<td>830,000</td>
</tr>
<tr>
<td>1927</td>
<td>771,000</td>
</tr>
<tr>
<td>1928</td>
<td>710,000</td>
</tr>
<tr>
<td>1929</td>
<td>517,000</td>
</tr>
<tr>
<td>1930</td>
<td>320,000</td>
</tr>
<tr>
<td>1931</td>
<td>204,000</td>
</tr>
<tr>
<td>1932</td>
<td>97,000</td>
</tr>
<tr>
<td>1933</td>
<td>60,000</td>
</tr>
<tr>
<td>1934</td>
<td>60,000</td>
</tr>
<tr>
<td>1935</td>
<td>133,000</td>
</tr>
<tr>
<td>1936</td>
<td>250,000</td>
</tr>
</tbody>
</table>

For residential building alone, adequate statistics are not available for years prior to 1915. However, total building permits in a number of urban areas since 1875 are available and appear to have experienced cycles of large amplitude and with durations of sixteen to twenty-two years similar to that shown in Chart I for residential building.

Fluctuations in the production of new units have been very great, not only from year to year but also among individual cities as well as among groups of cities classified according to size and relationship to metropolitan areas. On Chart II are shown the rates of building in terms of the number of units per ten thousand persons by city size, satellite and non-satellite communities being shown separately. These rates, which are estimated from building permit reports, provide the basis for the totals shown in Chart I. Notable differences may be observed in the rate of growth between satellite and non-satellite cities. These differences reflect the migration toward the periphery of large cities, both as the result of shifts from central sections, typical of urban growth, and from farm to urban areas.

**OTHER CHANGES IN THE SUPPLY**

Changes in the available supply of housing depend not only upon new building but also upon such factors as the conversion of large single-family houses to multiple-family dwellings, the conversion of residential structures to other forms of use, principally to stores and offices, and the withdrawal of structures from use by demolition and by destruction through

---

1See Appendix to this article for a discussion of the method used in arriving at these estimates.
Economic Factors and Residential Building

Number of Family Units for Which Building Permits Were Granted Annually per 10,000 Persons in Groups of Cities by Size and Relationship to Metropolitan Areas.

Catastrophes such as fire, flood, and tornado. Statistics indicating the net change in the housing supply resulting from conversion are available for only a few very large cities such as New York and Philadelphia. It is frequently assumed that the number of family units added by the conversion of large houses to apartments is approximately equal to the number taken out of use by the conversion of residential buildings to other purposes. Such information as is available, however, indicates that there may be some net increase in units by this process.

The demolition of residential structures in the United States in the past has been at a very low rate, and over the period from 1920 to 1930 probably did not average more than forty thousand family units per year in all nonfarm areas. In the majority of cases during this period, about 850 cities over the period from 1929 through 1935. Preliminary tabulations for a few of these cities indicate somewhat lower rates than those for the individual cities mentioned above.

The figure of 40,000 units per annum for all urban and rural nonfarm areas over the period from 1920 to 1930 is little more than a guess based upon such scattered data as are indicated above. The annual rate corresponding to this figure is 4.8 units per annum per 10,000 population, based upon the average annual population over this period. Mr. Frank J. Hallauer uses a rate of 5.0 units per annum per 10,000 based upon 1920 population for his computation covering the period 1920-1930. "Population and Building Construction," Journal of Land and Public Utility Economics, Feb. 1934, pp. 35-41, and Feb. 1936, pp. 12-18.

During the period from 1920 to 1929 inclusive, apartment demolitions in New York City were about 5.7 units per annum per 10,000 population, based upon an average of the 1920 and 1930 populations, and from 1932 to 1934 the rate was 5.3 units per annum (based upon 1930 population). In Cleveland from 1932 to 1935 the corresponding rate (based upon 1930 population) was 8.0 units. In Philadelphia from 1930 to 1935 the corresponding rate was 6.9 units (based upon 1930 population). These rates have been computed from the Annual Reports of the Tenement House Department of the City of New York; the Real Property Inventory, Cleveland, Vols. 1 to 6; and unpublished data for Philadelphia.

At the present time the Bureau of Labor Statistics is engaged in a field survey to obtain annual demolition data for
demolitions occurred in connection with changes in land use from residential to commercial or other purposes. Only infrequently have submarginal structures actually been taken down (prior to the last few years) solely because they were no longer in demand. During the past four or five years the rate of demolition has been substantially increased through the action of municipal authorities in prohibiting the occupancy of structures unsafe or otherwise unfit for use. The assistance of the Federal Government in the removal of such structures without cost to their owners has also accelerated the rate of demolition.

Withdrawal from use as the result of fire, flood, tornado, or other catastrophe may be estimated at approximately thirty thousand family units annually in nonfarm areas over the period from 1920 to 1929. No statistics on this subject are available, however, other than for the dollar value of total fire losses covering personal as well as real property and partial as well as complete destruction reported by the National Board of Fire Underwriters.®

Up to the present time in the United States, average net changes by conversion, demolition, and other withdrawal from use have thus been small in comparison with the number of new units built annually. Over the period from 1920 to 1929 inclusive, the number of new units built as indicated in Chart I was approximately 7,000,000. During this same period the number of units withdrawn from use by all causes probably did not exceed 10 per cent of that number.


ADJUSTMENT OF SUPPLY TO THE CURRENT DEMAND

Although residential building in all but the most inactive years is a large and highly important branch of industrial activity (from 1923 to 1928 inclusive it totaled more than four billions of dollars per annum), it stands in relation to the total housing supply as a comparatively small increment in the number of available units. Even in the peak year of 1925, the number of new units added did not exceed 5 per cent of the then existing supply, and in 1933 and 1934 it fell to a level of less than 0.3 of 1 per cent of the standing supply.

The adjustment of production to meet current demand, even if possible as a normal economic process, would require very large year-to-year changes corresponding to the current changes in demand. An increase in vacancies of 2 per cent due to the doubling-up of families, if such a sudden change should occur, would alone more than offset an average increase of about 470,000 per annum in the number of families in nonfarm areas, and would make practically unnecessary any new building in a year during which such temporary doubling might occur. Undoubling of this magnitude in any year would conversely create a physical need of twice the average requirement. Actually, the intensity of use does not appear to change at such a rapid rate, although doubling up may very likely have been more than 1 per cent during 1932 in urban areas in the United States.®

The relatively small ratio which annual production bears to the total supply, although essentially true of all commodities excepting direct consumables such as food,

®Statistics on the number of extra families are included in the Federal Real Property Inventory, 1934, U. S. Bureau of Foreign and Domestic Commerce. No measure of year-to-year changes or distinction between permanent and temporary doubling-up appears to be available.
Economic Factors and Residential Building

fuel, and services, characterizes housing to a higher degree than it does any other major commodity. Manufacturing buildings and equipment and railroad rolling stock, for example, although generally thought to be highly durable, are for the most part withdrawn from use after much shorter periods of time than dwellings. In fact, as has already been observed, residential structures seldom have been withdrawn from use and, in any event, their replacement has been postponed over long periods of time.

THEORETICAL ASPECTS OF PRODUCTION

The economic process by which new units are added to the standing supply of residential buildings is not essentially different in basic theory from that of other commodities. The customary distinctions of classical theory between current market, short-term, long-term, and secular trend conditions in the supply are, however, of special importance. This arises in part from the capacity of the basic demand in terms of the net increase in new families added annually to change substantially as well as to expand or contract greatly by doubling and undoubling, thus placing the requirements for new residential building from time to time under substantially different conditions. The postponable character of new construction, the great length of life of structures, and the relative ineffectiveness of economic processes for taking submarginal structures permanently out of use add to the violence of these changes as they affect production.

Market conditions

Market conditions may be said to prevail at times when vacancies are numerous, because of a contraction of demand or in some cases because of a previous overproduction of desirable units. Under these conditions "cost of ownership" is not an important element in the determination of production or of rent or value, which for the most part may be expressed in terms of relative desirability of available units. The prospect of an increase in rent or sale price does, of course, affect the supply schedule and may result in the withholding of properties from use and in sustaining prices above those which would exist in a market for a rapidly perishable commodity. Those conditions are roughly descriptive of the housing market in most communities in the United States over the period from 1928 to about the beginning of 1935.

Short-term conditions

During periods when there is a shortage, however, "cost of ownership" plays an important part in determining the volume of construction of new units. As economic demand increases, a shortage of desirable units begins to develop, often quite rapidly. In this case short-term conditions, in which productive capacity is somewhat limited by available labor, materials, and investment funds, may in an important degree influence the number of units which may be built.

The immediate postwar period illustrates clearly the short-term influences of cost upon the production of dwelling units. Such conditions were particularly marked in 1919, 1920, and 1921, and no appreciable adjustment was reached until 1922 or 1923. Throughout this period the economic demand as measured by rents and vacancies was increasing, although in the summer of 1922 rents did show a very slight reaction in this steady rise to a peak in the middle of 1924. During the latter part of 1919 and the early part of 1920 the costs of materials moved up very rapidly, 70 per cent from April 1919 to the same month one year later, but declined
equally abruptly, reaching a temporary low point in September 1921. Wages in the building trades advanced sharply in 1920 and increased somewhat during the following year, but declined in 1922.

It is clear that the sudden rise in building costs in 1919 and 1920, in spite of a very active demand, did much to cause the reaction in the volume of residential building which occurred in 1920. The prompt readjustment of prices in the latter part of 1920, although contributing to the business depression of 1921, was followed by a recovery in building activity in that year. Interest rates also advanced rapidly during 1920, reached their highest levels early in the following year, and declined somewhat thereafter. In comparison with immediately preceding and following years, the aggregate of the major elements of cost was at a moderate level in 1922, a year which experienced an astonishing increase in building activity. Observation of Chart I indicates that each of the year-to-year fluctuations in new building from 1919 through 1922 were in substantial agreement with theoretical expectations as regards the manner in which cost operates upon production.

Long-term conditions

Long-term conditions in the supply permit certain adjustments in the number of workers and in the prices and production of necessary materials as well as in investment funds and business organization in the building industry. To the extent that demand follows an orderly rate of increase, cost may be in substantial adjust-

1Building cost statistics covering this period are shown in some detail by the author in "Construction Cost Indexes as Influenced by Technological Change and Other Factors," Journal of the American Statistical Association, Sept. 1935, pp. 561-576.

Mr. Frank R. Garfield, Board of Governors of the Federal Reserve System, and Mr. William M. Head, Central Statistical Board, have called special attention, in a paper presented at the Annual Meeting of the American Statistical Association in December 1936, to an important distinction existing between the trends in building costs and in the actual purchase price of houses.

ment with value, and production may be comparatively steady over such periods. Assuming that rigid limits may be set upon an economic process in which change is a dominant characteristic, such a "normal" adjustment between value, cost, and annual production appears to have been reached in 1923 or possibly 1922, and to have continued through 1927.

Although this period was one of apparent stability as regards the relation between demand, costs, and production, its commitments for the future were highly insecure. The accumulation of tremendous debt, involving interest charges higher than they had been during any similar long period of years for many decades, and without allowances for amortization or other protection against depreciation, obsolescence, or other loss of value, resulted in a situation in the ownership and production of housing which was inherently unstable and which could hardly have withstood even moderate adversity.

Secular trends

Secular trends, in building technology, in types and practices of lending institutions, and in living customs, e.g., from single-family to multiple-family units, also result in important changes in production. The effects of such trends upon year-to-year production, however, are likely to be obscure and are not readily amenable to analysis in general terms.

ANNUAL COSTS OF OWNERSHIP IN RELATION TO PRODUCTION

During periods of active demand, particularly in short periods as indicated in the previous section, "costs of ownership" clearly influence the volume of building. The more important elements entering into annual cost are the original building cost of structures and other improvements, the purchase price of land, interest rates
and other financing charges, annual taxes and assessments upon land and improvements, and the annual loss of value due to obsolescence and depreciation. Supplementary costs, such as those for transportation and community services (refuse collection, recreational facilities, schools, and so forth) not adequately provided by public agencies, also enter into any comparisons of the annual cost of housing in different areas.

Building costs

Improvements in the facilities included in houses have been substantial during the past two decades. Changes in residential building methods, however, have been very slight, and the technique of fabrication of houses has been one of the slowest of the arts to respond to the widespread technical progress of recent times. The result has been that a moderately rising long-time trend in the prices of building materials, accompanied by a much steeper trend in wage rates in the building trades, has resulted in a substantial increase in building costs during the past two or three decades. The failure of residential building to share in the technological developments which have made possible both high wages and lower costs in many types of manufacturing production, has undoubtedly seriously hindered the improvement of housing conditions which would have followed substantial technical improvements.

---

**CHART III**

Number of Families in the United States Having Incomes Greater than Amounts Shown.
and consequent reductions in the purchase price of dwelling units.

The effect of changes in the purchase price upon the number of persons who can afford to occupy a given dwelling unit has been the subject of considerable speculation. Chart III makes some further conjecture upon this subject, as well as with regard to interest rates. This Chart is a summation of income frequencies, and shows the number of families in the United States having incomes greater than the amounts shown as abscissa. 

"Other things being equal" in a strictly economic sense, it would appear that a 20 per cent reduction in the total purchase price of a house and lot from $4,000 to $3,200 would be expected to increase the number of families who could afford to occupy such a house by approximately three and a half million in urban and rural nonfarm areas in the United States on the basis of 1929 levels of income.

Although the number of families in the income classes in the range under consideration varies widely in the two periods, the number which might appear to be affected by the change in costs indicated is approximately the same for both 1929 and 1933 levels of income. The assumed cost is considered to be the minimum necessary to provide adequate shelter and facilities for a typical American family of moderate

income in urban areas in the United States. The years 1929 and 1933 are the only periods in recent years for which the distribution of family income appears to have been estimated.

This observation regarding the isolated result of changes in costs is, of course, not fully descriptive of the actual consequences which would follow, because of the widespread adjustments in general economic activity which inevitably accompany any substantial change in a single factor in the economic life of a country. Although not precisely measurable, the illustration does suggest, however, that effects upon production which follow substantial changes in cost (purchase price) during periods of active demand are likely to be of large magnitude.

**Financing costs**

Interest rates and other financing charges, and the rate of retirement of invested capital made necessary by depreciation, obsolescence, and other loss of value, are also of major importance in any discussion of the production and supply of domestic shelter. The effect of changing interest rates upon the volume of production is of special importance here, and has already been discussed briefly in connection with "short periods" in the preceding section.

The relation between changes in interest rates and amortization, "other things being equal," and the number of families which would be affected by such changes, is suggested by certain comparisons based upon Chart III. The chart indicates that, based upon the levels of income in 1929, approximately five million more families of moderate income could support the ownership of a minimum-priced house adequate to their needs if interest rates and amortization were to change from 6½

---

*The distribution of urban and rural nonfarm families by income groups in 1929 was derived from an estimate by the Brookings Institution, *America's Capacity to Consume*, Table 37, p. 227. As shown on the chart, "families" include unattached individuals occupying separate dwelling quarters, and thus correspond with the census total of families.

The distribution of nonfarm families by income groups in 1933 is based on the percentage distribution of family income by income groups reported in the *Financial Survey of Urban Housing*, U. S. Department of Commerce, 1934. The total estimated number of nonfarm families in 1933 were first distributed according to these percentages. The resulting frequencies gave a total nonfarm income less than that indicated by the statistics of national income paid out (National Income in the United States, 1929-1933, U. S. Dept. of Commerce, 1936), with allowances for agricultural income and for the income of individuals living in hotels, boarding and lodging houses, labor camps, and so forth.

Family incomes were adjusted upwards by a constant percentage for all incomes in such a manner that both the number of families and the total of all family incomes were in agreement with the statistics mentioned above.
per cent amortized over 20 years to 4½ per cent amortized over 30 years. This calculation is based upon the assumption that one fifth of family income is allocated to cover interest and amortization charges upon the total purchase price of house and lot.

The number of families which it appears would be affected, other things being equal, is very great, being approximately seven times the average number of family units built annually in nonfarm areas in the United States during the period from 1920 to 1929. The secondary consequences, however, such as reduction in rents and values, changes in consumers’ appraisal of the desirability of improved housing as compared with other commodities, changes in the supply of materials, labor, land, and investments funds, and similar economic adjustments which would follow a substantial volume of new building, would greatly reduce the number of families which otherwise might appear to be affected. In spite of these limitations, the comparisons do suggest that a highly important relationship exists between interest rates and amortization, and the volume of production of new units as measured by the ability of families to support home ownership either as tenants or as owner-occupants.

Chart IV provides a more direct comparison of the effect of interest rates and amortization upon various investments in housing which could be sustained by a given annual outlay for such purposes. This chart is a graphical representation of the mathematical relationship which exists between a capital expenditure, interest

**CHART IV**

Housing Which Equal Annual Payments of $240 Will Support at Varying Interest Rates and Periods of Amortization.
rates and periods of amortization, and the annual payment required to sustain that expenditure. It may be observed that equal annual payments of $240 for 20 years will sustain a capital expenditure of approximately $2,700 when interest rates are 6½ per cent, and that the same annual payments over 30 years with interest rates at 4½ per cent will sustain a capital expenditure of approximately $3,900.

Other costs

In addition to purchase price and financing charges, a number of other costs, such as taxes and supplementary expenditures for transportation and community services, enter substantially into the total cost of home ownership. Purchase price and financing charges, however, appear to be the dominant factors, and consequently have been particularly emphasized in this discussion.

Costs and production: English experience

Experience in England since about 1929 follows theoretical expectation and also tends to confirm the reactions in the United States during 1919 to 1921 with regard to the relation between interest rates, construction cost, and private residential building. Through voluntary cooperation, all branches of the home building industry in England and Wales have assisted during the past six years in maintaining conditions favorable to sustained activity in meeting the existing demand for dwellings. The building societies, aided by large amounts of available funds and strong and efficient management, have reduced their interest rates on comparable loans from approximately 6 per cent in 1929, to prevailing rates at the present time upon well-secured private loans as low as 4½ per cent. *

Construction costs have also been very substantially reduced each year since about 1927, with the exception of the past two years, during which a slight increase has occurred. This reduction may be attributed in part to a cooperative agreement between the building trades workers, contractors, and the Government, by means of which the workers have accepted lower hourly wages in return for more sustained employment. During this period the number of "houses" reported by the Ministry of Health as having been built annually in England and Wales without state assistance, for the annual periods ending March 31, has increased steadily from 70,000 units in 1929 to 284,000 in 1935. Although there has been a steady demand for housing in England due to a large increase in the number of families, accompanied by a moderate increase in population, this large volume of private building probably would not have been maintained had not interest rates and construction costs been substantially reduced.

SUMMARY

Major fluctuations in the production of houses are for the most part dominated by demand factors such as marriages less dissolutions by death or divorce, immigration, internal migration, and levels of family income. These major fluctuations, which appear to have been roughly cyclical, are believed to result in periods of differing character with regard to the influence of costs and other supply factors.

* A discussion of recent "Changes in Interest Rates" by Hears in the Economist, London, April 11, 1936. This article states that effective interest rates on mortgages held by the building societies have declined from 5.78 per cent in 1929 to 5.20 per cent in 1935. Actual interest rates charged on private loans to private borrowers have been reduced to a much greater extent, approximately 1½ per cent, as indicated above.
Economic Factors and Residential Building

upon the volume of building at different periods of time.

Special emphasis has been placed upon these differences in time as they relate to costs. Market conditions at times of curtailed demand or excess in the standing supply evidence little relationship between cost factors and production. With increasing demand and actual or approaching shortage, production may, over short periods, show a marked relationship to cost. Over longer periods, the supply of necessary labor, materials, credit business organization, and similar factors becomes adjusted to enlarged requirements, and cost and production may be in fairly close adjustment.

Actual stability, however, is seldom attained. Residential building, in spite of its relative size and importance when compared with other industries in good times, is essentially a small increment in the available supply of a highly durable commodity. Moderate changes in the total demand represent very large changes in the increments in that demand, and result in wide changes in production.

The period from 1915 to 1934 is the only one for which residential building statistics alone are available. This period tends to confirm theoretical expectation with regard to the relation between major cost factors and the volume of production. Experience in England since 1930 also tends to confirm theoretical expectation with regard to these factors.

The costs of production, in the economic sense, which are related to private residential building are essentially costs of ownership. Interest rates, building costs, land costs, taxes, and other costs of ownership have long been recognized as highly important in their relation to residential building. The magnitude of the possible effects of cost changes upon production is not readily commensurable in precise terms. Certain indications based upon the consequences which appear to follow, other things being equal, from changes in purchase price and in financing charges, upon the number of families who could sustain the ownership of a minimum-priced house have been suggested by Chart III. The secondary adjustments which inevitably accompany any major economic change would of course greatly lessen the consequences which might otherwise be expected to follow changes in building and financing costs. Nevertheless, both theoretical observations and actual experience indicate that substantial changes in the costs of ownership in certain periods may have highly important effects upon residential building volume.

The magnitude of these effects is likely to be especially large in the United States at the present time. Vacancies in many cities are lower than they have been for a decade or more; marriages in urban areas appear to be greater in number than at any previous time; and levels of family income are increasing. Consequently changes in costs of ownership may be expected to have particularly important effects at the present time upon the volume of new units produced, which is still at comparatively low levels.

APPENDIX

Estimates for the years 1921 to 1935 inclusive are based largely upon the number of families provided for as reported to the United States Bureau of Labor Statistics. These reports cover dwellings in all cost ranges in an increasing number of cities which embraced approximately 50 per cent of the nonfarm population in 1921 and 55 per cent in 1935. Rates based upon these re-
ports were computed for satellite and non-satellite cities in considerable detail as indicated in Chart II. Using these rates, estimates of the number of family units built were extended to cover each group of non-reporting cities or unincorporated areas upon the basis of the population of these areas. Whenever possible, allowances were made for annexations, lapses, under reporting, discrepancies between plans filed and multifamily units completed in New York City, and similar factors. The estimates for satellite cities under 25,000 population also depend upon the reports of the Real Property Inventory, United States Bureau of Foreign and Domestic Commerce, 1934. The figure shown for the year 1936 is an extension of the estimate for 1935 on the basis of the relative increase in 1936 over that in 1935 as indicated by annual totals for over seven hundred identical cities.

Estimates for the years 1915 to 1920 inclusive were projected back from the 1921-1922 average, as determined above, by using the link relatives indicated by year-to-year changes in residential floor space in twenty-seven eastern states reported by the F. W. Dodge Corporation, adjusted to allow for the differences during these years in the rates of building in eastern and western states (total building permits in representative cities were used for this minor adjustment). The dollar value of residential building contracts awarded, deflated for price changes, yielded link relatives not unlike those computed from floor space, but much more uncertain because of the uncertainty inherent in building cost indexes, particularly from 1917 to 1922.

The total number of family units estimated as having been built in nonfarm areas during the years 1920 through 1929 is shown as 7,037,000. A rough check upon the reliability of these estimates over this period may be determined from the reports of “Families” from the Decennial Census of Population in 1920 and 1930, with allowances for differences in census dates. Assuming 2 per cent vacancies in 1920 and 5 per cent in 1930, demolitions of 40,000 per annum, fire and other catastrophic loss of 30,000 per annum, and net additions by conversion of 15,000 per annum, it would appear that 6,974,000 new dwelling units were added during this decade. This seemingly close agreement should not be accepted, however, as more than a rough indication of the reliability of the estimates. Increase allowances for net additions by conversions, for fewer vacancies in 1920, or similar changes, would give slightly different results. In making the above comparison, however, the most likely values have been used.

These estimates were computed under the direction of the author by Miss Dorothy Smith, who also assisted greatly in other ways in the preparation of this paper. A fuller explanation of the methods used has been prepared and will be furnished upon request. Similar estimates, covering the period 1920-1936, also based upon building permits reports but using an entirely different method of projection, have been prepared by Mr. David L. Wickens and Mr. R. R. Foster of the National Bureau of Economic Research, and were discussed by them at the Annual Meeting of the American Statistical Association, December, 1936. The estimates in their entirety, however, have not been formally released.
Landscape Planning and Real Estate Management

By Ralph Rodney Root

Landscape planning in real estate development and management stands for guided and directed design as contrasted with haphazard horticultural effects achieved by meager and unstudied plantings about the immediate surroundings of buildings or dotted about the lots of a subdivision. To be of real and lasting value, any landscape effect must be the result of careful study and supervision by a person trained in this phase of work.

LANDSCAPING AROUSES FIRST INTEREST

Few, if any, real estate projects are inaugurated until interest has been aroused by means of some sort of landscape treatment; however, the landscaping is often temporary and planned to last only until the selling or renting campaign is successfully closed. A strong basic plan, with proper hardy plantings and other suitable landscape features which give something of lasting value, is often disregarded for an immediate effect that soon disappears, leaving only drab and unattractive surroundings of a slum character.

The lack of a definite working plan in any development or rehabilitation project is apparent at once to a professional who has given study to this field of work. Although "dressed-up" buildings or real estate projects will mislead the layman until the gloss wears off, the investors will find in time that something they thought they were buying is not a permanent part of their investment. A planting of seedling trees that will struggle years before furnishing any amount of shade or old shrubs that have reached their full growth and will begin to deteriorate in five or six years is not what can be called a sincere landscape development of real estate projects.

LANDSCAPING ADDS TO REAL VALUE

Real property should mean real value—in its essential features, even if some properties are of a more aesthetic nature than others. I have in mind a high class subdivision development near one of our larger cities, which was developed with large building lots, wide "estate" drives, and many other features not usually found in this type of development. To save money, the owners cut the planting cost by substituting a cheaper grade of plant material than that called for in the planting specifications but followed the plan as to the number of plants and their location. After a period of fifteen years the property was put on sale, and buyers were given to understand that the landscape effect alone was worth more than fifty per cent of the asking price of the building sites. Upon careful study by an expert in landscape work, it was found that more than seventy-five per cent of the plantings were worthless from a standpoint of use in the development of the separate properties.

Such trees as Black Locusts, Poplars, Silver Maples, and Box Elders are not of lasting value, although the first cost may be half that of the better type of trees. The actual saving at the time of planting may have been fifty dollars for each lot, or a total of five thousand dollars for the entire project.

An expanse of grass cut by walks and dotted with a variety of attractive plant material will not make a successful land-
scape development, because the first requirement—namely, good design—has not been achieved. The professional fee charged by a landscape architect is for this part of the plan; a good basic design is the thing that is often left out in most real estate developments. Plants, beautiful in themselves, if placed in a haphazard way, are only attractive according to their horticultural merit; they are the reason for the area about the building. This space should be, first of all, a part of the approach interest and, at the same time, enhance the architecture.

In the working out of a landscape plan, simplicity and ease of understanding are the important elements. A confused array of materials does not give a favorable nor lasting impression to the casual observer. The arrangement of the space, if careful study has been given to the requirements of the problem by a competent designer, will be a simple and direct working plan, with the landscape material properly selected and placed, bringing into the scheme an attractive natural effect.

COMPLETE BUILDING PROGRAM SHOULD INCLUDE LANDSCAPING

The arrangement of the space about buildings, for its best use in a practical and a decorative way, should be a part of every building program. This, however, is usually left to the last, with the result that as little as possible is done and the entire project suffers both from a selling and an aesthetic angle. The walks, drives, and any areas available for recreational use by those who occupy the premises are often inconvenient or unattractive. If the necessary circulation and recreational areas are planned without competent knowledge of simple principles of design, the architecture of the building is often damaged; in place of an attractive working plan, we have an ordinary and cheap result that lowers the value of the investment and makes the tenants feel dissatisfied.

In any real estate consisting of landscape and buildings, the entire effect is the first consideration. The cost of grading, drainage, walks and drives, the watering system, soil preparation for lawns, flower areas, shrubs and trees, fertilizer and architectural features, such as lattice, railings, out-of-door furniture, etc., depends upon the class of material used. Interwoven with this part of the program is the use of materials that will not depreciate too quickly nor require high maintenance costs. Walks must be built of serviceable and attractive materials, requiring the minimum of upkeep and having a long life. The grading should not only present a pleasing flow of line and form but should provide satisfactory drainage away from the building and walks.

At the present time there is much confusion as to just what a landscape architect is; consequently, we find men with little if any training in design presenting themselves as experts, capable of taking on any type of landscape development. Real estate managers should not fall prey to the first man "on the job." Incompetence in this respect results in either unattractive or impractical grounds consisting of a few groups of shrubs and scattered beds of flowers which are attractive only as separate units.

WORKING OUT A LANDSCAPE PROGRAM

In working out a landscape program, for any real estate project, the first step is to make a thorough analysis of the existing conditions, in regard to the particular problem in hand as well as its relation to the surroundings. The second step is to coordinate the survey data with the re-
quirements of the problem in such a way as to produce a practical and aesthetic working plan for the development of the property. The third step is to execute the plan with such materials as will give the best value to each of the various landscape features in the available space.

The organization of the activities of the property and their arrangement in the available space results in a basic plan or design. Such items as entrance and service and recreation areas are each given their proper amount of space; thus, their relation to each other is properly established.

The principles of design should govern the relationship of the requirements of each real estate development with the architectural plan of the building. It is at this point of our landscape project that the value of the professional is brought out over the gardener who grows plants, the landscape contractor who produces an effect with lawn and shrubs, or the nurseryman who produces a horticultural effect by relying upon plant material alone.

GRADING

The grading of the areas about the building setting is as important as the final decorative planting. Artificial hills and valleys that bear no relation to our problem should be eliminated. While the surface drainage is a part of the grading problem, the proper use of levels, slopes, underdrainage, drain outlets, and catch basin locations is likewise an important element of the problem. This part of the work should be done simultaneously with the design so that water will not be directed to walks and drives, which must be used in all kinds of weather and in all seasons of the year.

COUNTRYLIKE ATMOSPHERE NEEDED

One of the great needs of owners and managers of real estate today is a definite landscape program for the bringing in of more countrylike conditions to our city and suburban properties. The crying need seems to be either a better use of the unencumbered space about the buildings and along the street or a more intensive landscape development. The city dweller should be given an opportunity to attain more of the healthfulness and charm of the country by more healthful and congenial surroundings. One of the solutions to this problem has been the building of garden cities. The cities are generally laid out and owned by a corporation, and all of its inhabitants accept the houses and grounds just as they have been designed and carried out under the direction of trained landscape men. The result, of course, is a much more harmonious scheme than could have been attained in any other way. There are many successful communities of this sort to be found abroad, but the conditions that make them successful there do not hold here for the average American likes to control his own real estate holdings.

There are no such things as rules of design. One cannot learn a few formulae and then turn out satisfactory work because of having gone through a certain number of processes and made a definite number of motions. The well-trained designer always has an attitude toward his subject which will direct him in his work. The acquisition of such an attitude is a matter of study and requires not only enthusiasm but experience in the particular field in which he is working.

DESIGN MUST CONSIDER USE

Speaking generally, the question of use is first to be considered in any problem of
design. Use may be considered from two standpoints: the practical and the aesthetic. Of course, all design is fundamentally practical, inasmuch as it aims to give the best solution to the problem with which one is working. Whatever is to be designed must perform its duties thoroughly. But that is not enough; it must also perform them gracefully, for the day has gone when it was thought that objects of use need not be attractive. Every solution of a utilitarian problem should appear to solve the situation so completely that one cannot behold it without a feeling of satisfaction. Thus, beautiful surroundings of one sort or another are created, and these in turn have a direct influence upon the lives of those who see them and live among them. Even though the walks are well graded and laid out in such a manner as to facilitate circulation, and the plant masses are so located as to screen objectionable views or to enhance existing ones, the result may not be beautiful; it may be that too strong insistence has been given to practicability and thus the function of the various working parts of the plan made too obvious, with the result that the idea of beauty for which the design was created has been lost.

A great deal of study is often required in order that the finished design should appear unstudied—spontaneous. It is a design of this kind that we say has simplicity.

SUITING THE MEANS TO THE END

In undertaking a planting problem, the desired, final picture must first be carefully determined and then the material selected that will produce this effect. The landscape designer wishes certain forms, sizes, and colors in the finished effect, and these are essential to the best development of his problem. He may be able to achieve these results in many different ways by the use of a variety of plant materials; consequently, he will have a considerable range of selection. After taking into consideration the economic and aesthetic requirements of the design, the success of the result will depend upon the care exercised in the choice of the materials. One often sees enormous beds of shrubs, which have not been skillfully laid out—they are placed in such positions that only a very few are visible from any point of view. Consequently, three-fourths of the material employed has been wasted. The entire question of selection of plant material is one of suit ing the means to the end. Without judicious selection, any planting scheme will fail miserably.

How is one to judge of the proper interrelation of the parts of a design? This is again a question of use. The province of a designer is to combine the materials with which he has to work to the best possible advantage. Every part of a design must be placed where it can function freely and to the best possible advantage. All true beauty is functional. In any landscape development, it should always be made perfectly clear that all of the elements of the plan are harmoniously working towards this end, whether they are included for practical or decorative reasons or both. A beautiful design is never the result of chance. Wherever a beautiful combination of landscape and architecture is found it is certain to be the product of consummate art and not a happy accident. One will find that it was an accomplished designer who welded the diverse elements into a harmonious whole.

LENGTH, WIDTH, AND DEPTH

Landscape design, in the abstract, may be termed a problem in the composition of areas. Areas have only two dimensions:
length and breadth. However, for the final consideration of the design scheme, the designer must constantly keep in mind the third dimension—depth—for the design is to be viewed from different points. In the preparation of the drawings and sketches for a landscape development only two dimensions can be treated at one time, but the plan and elevation should be correlated in order to produce a satisfactory result—different elevations should be studied from several points of view.

As may be seen in a photograph, all masses of three dimensions appear to the eye, or rather pictorially, as areas possessing only two dimensions. One actually beholds only width and height; the impression of depth is an illusion. It is here that the training of a professional landscape architect is necessary—he is able to visualize the finished landscape picture.

Landscape design may be safely defined as the satisfactory, and consequently the beautiful, composition of natural areas—shapes of earth, trees, and sky—in three dimensions. Landscape composition is the "putting together" of the various elements of a landscape project in such a way as to produce an appearance of unity and harmony. It is the assimilation of all the different parts of a project and their amalgamation into one underlying design idea that produces a successful basic plan. Any elements in the design that are not perfectly assimilated and harmonized with the surrounding parts, in accordance with the basic principle of design, are not composed to the best advantage and so mar the finished composition. A thorough knowledge of plants and their possible uses in landscape work is of great importance to a landscape designer; the pictorial effects he desires to create depend upon the intelligent use of this material.

Plants are used in many ways, according to the purpose in view. The problem of the landscape designer is to improve the landscape by harmonizing the various elements of the plan, through choice combinations of plant material. The ability to use plant material with this purpose in mind comes only through definite training and experience. A nurseryman's or gardener's knowledge of plants is gained in a different way from that of a landscape architect; they see a planting problem only from their own point of view—not from the design angle. It is this knowledge of plant materials and their relation to design that makes the services of a professional landscape architect of great importance to real estate projects. He will use his plant material in many ways: for screening objectionable features, such as service walks, drives, and outbuildings; for tying buildings in with their surroundings; calling attention to points of interest that might otherwise have been overlooked, such as a distant view; for the elaborating and harmonizing of architectural detail, as in setting off a monumental building to the best advantage; and in supplying a setting for special features—for instance, a background for a large project or a foreground beyond which the general scheme is to be seen.

Creating Impressions

Since any landscape project depends upon the first impression for its chief interest, the importance of the points of view cannot be overemphasized. Therefore, as the number of points of view in a problem increases, the complexity of the plant composition increases correspondingly. The first favorable impression made by a landscape scheme as seen from a distance must be maintained at shorter range; the program of plantings must be accom-
The Journal of Real Estate Management

plished so well as to stimulate interest for a nearer view and a closer analysis. Plantings may also create new interests. In many cases, where architectural elements are markedly dominant, landscape interest may be supplied by planting and at the same time enhance the architectural effect. In such cases, the lines of the large planting masses are arranged to harmonize with the architectural lines of the buildings; although we may not have a countryside effect, we have a pleasing composition of architecture and plant material.

After a landscape program has been prepared and approved, it should be strictly adhered to and worked out as a regular routing of the development. The main elements of a design will then be carried out and each item taken care of in its turn. By such a procedure, much of the "cluttering-up" of the property with senseless landscape decorations will be avoided. Attractiveness in a landscape can be achieved at a cost of little more than mediocrity. The expenditure is one of thought, super-

vision, and planning. If changes in the landscape development scheme become necessary while a landscape project is under way, the original designer should be consulted, as even minor alterations to a scheme may cause the loss of the original, final result planned by the artist.

The object of this article has been to clarify the one point — that of the real value of a landscape architect's services in the development of real estate projects—which, of course, is one of the major parts of real estate management. The professional landscape architect may not be a nurseryman with many acres of growing plants, an engineer with a knowledge of grades and construction, nor a gardener with a knowledge of flower growing, etc., but he will bring to any landscape development the results of training and experience in the working out of a basic plan using the fundamental principles of design. It is this effect that makes a project a real success.

* * *
Some Complaints and How They Were Handled

By Jean Coman

From my observations of more than twenty large-scale public and private housing projects, I found very few managers who had given any serious thought to the psychological factors of tenant complaints.

In a few progressive management companies, tenant expressions of dissatisfaction are classified as "complaints" when the tenant expresses a grievance and as "requests for service" when no grievance or fault is involved. Webster defines a complaint as "a statement of wrong, grievance or injury." To complain means "to express a sense of ill treatment, murmur, find fault; to present a formal statement of grievance." Complaints by tenants frequently indicate a feeling of ill treatment, but the majority of situations termed "complaints" are really "requests for service."

Psychology in Use of Terms

Some managers state that the tone in which a matter is brought to their attention places it in the class of a request or a complaint. Managers and tenants will attain more effective and friendly cooperation if the word "complaint" and all that it implies are eliminated from management jargon. In its place the use of the word "request" is suggested, which implies an attitude of mind by both parties presupposing a satisfactory solution, instead of the grieved seeking redress.

Every manager of a large number of dwellings knows that tenant requests consume a great deal of the staff's time. The manner in which they are handled has much to do with their volume and the general goodwill of tenants. The larger the number of dwelling units, the more important is the method by which these situations are handled. If all tenant requests are not treated according to some uniform principle, the management is accused of discrimination, with the total result that the dissention is greater than the satisfaction of the few given special attention.

In one very large eastern development, upon entering the rental office, one is greeted by a sign on the door leading to a private office, which reads, "Information and Complaints" in large, bold type. Such an invitation to complain seems unwarranted and certainly must leave at least a subconscious impression in the mind of the prospective tenant.

In another office, when a tenant says, "I want to make a complaint," the reply is, "We are glad to take your request; what is it please?" Still another has its "complaint" form headed, "Service Request," and all tenant problems and their disposition are reported on this blank. However, most managers still use the word "complaint" and feel a certain resentment when any problem is brought to their attention.

If the aim of the management is to prevent the necessity for tenant requests, the manager should welcome the opportunity, when asked to replace a leaky faucet, to cut down or increase the heat, or to paint, if painting is necessary. "An ounce of prevention is worth a pound of cure." The establishment of goodwill by a few small services will pave the way for the time when the management may have to say "no" to a request. For instance, one limited dividend housing project provides porter service without charge to its tenants for a one-half hour during or imme-
Immediately after moving in. Another development provides janitor service for hanging pictures. Still another sends a letter of welcome to each tenant, stating that the management is there to render service, also informing them of the care necessary in the use of certain facilities and requesting cooperation in consideration for the neighbors. Thus, the tone of tenant-management relationship is struck.

"Customer Is Always Right" Attitude

During the depression it was frequently necessary for managers to put up with many things which, during a housing shortage, they would not tolerate. Even though this situation is now reversed, it is still considered poor management practice to be indifferent or haughty with tenants. "The customer is always right" attitude of the merchandiser has not permeated rental management. Large scale operators are finding that only by tactful and understanding management can they forestall tenant groups from becoming complaining and destructive bodies. A satisfied customer—in our case, a tenant—is the best advertisement that any business can have.

Causes of Dissatisfied Tenants

In addition to leaky faucets, swollen doors, dirty walls, and other ordinary maintenance service requests, what kinds of problems, situations, and conditions make a dissatisfied tenant? What conduct or behavior of tenants is unsatisfactory to the management? How are these situations handled and with what results? In my opinion, most situations calling for action or special cooperation by tenant and management can be grouped under the following classifications:

1. Noise (radios, parties, etc.).
2. Quarrels between tenants.
4. Dogs.
5. Accidents due to mechanical failure or carelessness.
6. Use of common facilities (laundries, outdoor areas, equipment, etc.).
7. Standards of living.
8. Failure of design or planning.

Noise: Every manager of multiple dwellings, whether twenty units or two thousand units, has had the problem of noise. What he does about it depends largely upon his point of view toward the tenants. If he is concerned with keeping the tenants, he will try to adjust the problem. If he has a long waiting list, he may figure that it is easier (although he knows it is more expensive) to ask the offending party to move.

Blasting radios are mostly accidental and unintentional; such offenders seldom realize that they are disturbing others. Some managements use night watchmen to control party noise; however, many tenants resent this way of being reminded that their actions are disturbing to others. If the watchman's reminder is unsuccessful in stopping the noise, some managers warn the tenant by letter that his actions are disturbing to other tenants. If the noise becomes habitual, the tenant is called into the office to discuss the matter.

In one project the tenants on the sixth and fourth floors complained of a resident on the fifth floor regarding late and noisy parties. The matter was talked over, and the fifth floor tenant agreed to eliminate all entertaining until a transfer to a ground floor apartment could be made.

In this same development, a ground floor tenant stated that the noise of children playing, running, and jumping was unbearable. A call at the home of the tenant on the second floor brought a denial of the accusation. On several occasions the manager called on the ground floor tenant...
Complaints

69
to verify the complaint, and at no time did he hear any unusual noise. The complaints ceased.

On another occasion a fifth floor tenant complained to the management concerning heavy walking and noise from the apartment above. The neighbor upstairs agreed to be careful, but the complaints continued. The sixth floor tenant finally agreed to trade apartments with the fifth floor family. This obviated further complaints.

A manager cannot afford to get angry or become impatient with tenants. A sense of humor will often prove a handy asset. One manager was awakened at 2:30 o'clock in the morning by a telephone call from a tenant who exploded about his upstairs neighbor who had just dropped a shoe. When the manager could arouse herself sufficiently to understand the nature of the tenant's annoyance, she replied, "What happened to his other shoe?" The tenant finally laughed and agreed to come into the office the following morning to discuss the problem.

Everyone who has ever lived in an apartment knows how distressing a baby's cry can be. At what point should the manager interfere in response to tenants who are disturbed? The following case was reported from a New York development as an aftermath of a strong complaint which reached the office from Mrs. B.

Mrs. B. requested the management to make a formal complaint against Mrs. A. as a woman of unsound mind and that she be committed to a psychopathic ward for observation. The management would not in any case do such a thing. Mrs. B., however, was assured that an interest would be taken in the situation mentioned and that an attempt would be made to remedy it as diplomatically as possible. Several days later it developed that most of the trouble emanated from the home of Mrs. B.

The following facts stress the importance of getting both sides of any dispute:

Mrs. A. and Mrs. B. both occupied ground floor, garden apartments adjoining each other. Mrs. A., a woman past sixty-five years of age, lived alone. She was a woman of excellent education and had been active in community, political, and charitable work for many years. Mrs. B., a young woman in her twenties, lived with her husband and baby. Mr. B. worked until three or four o'clock in the morning. On several occasions the elderly Mrs. A. was awakened at about 11:30 P.M. by the crying of Mrs. B.'s child. At first she made no complaint, but the condition continued night after night. Finally, upon one occasion when the child cried incessantly until about three o'clock in the morning, Mrs. A. went to the window of Mrs. B.'s apartment, looked in, and found to her great surprise that the child was alone. She hesitated to enter the apartment and finally decided to call a policeman. The officer found the door leading to the garden unlocked, proceeded through the child's room, and found the mother in her bedroom peacefully sleeping. He knocked on her door, but receiving no response he went over to the bed, shook her, and informed her that her child was disturbing the neighbors. Mrs. B. proceeded to upbraid Mrs. A. as being a crank, a grouch, a busybody, and undoubtedly one fit for an asylum. The policeman told her she was mistaken, that Mrs. A. had a justifiable complaint, and that if the noise continued, he would be compelled to have her put under bond to keep the peace. No further complaints were reported by either Mrs. A. or Mrs. B.

The attitude of the management in all such cases is to act slowly and, as often as
possible, to allow matters to adjust themselves. In the above instance, the management had the assistance of the police department, thereby relieving the management of final decision.

Quarrels: From his experience in the management of over one thousand units, one manager has found that complaints of one tenant regarding disturbances from others can be more successfully handled by personal calls than by letters. Invariably where tenants have endeavored to settle their own difficulties before reporting them to the management, it has resulted in personal feelings, spite, and revenge which have been difficult to overcome. Quarrels between families call for great tact and complete knowledge of the facts.

One management urges his tenants to bring their complaints to the office. He states:

“When one tenant has had reason to complain about the unusual noises of a tenant in the above apartment and has gone to that tenant seeking relief, if the tenant above is not receptive to this personal complaint, the management has little chance of adjusting the quarrel. If the disagreeable noises continue, this creates a ‘dog and cat fight’ and there is no chance for the management to settle the quarrel. If the complaint is a serious one, such as frequent boisterous parties, the management’s final recourse is to bring action; however, before this is done, the management must definitely establish the fact by producing two or three witnesses who will testify. When tenants quarrel because of their children’s misunderstanding, the management should withdraw from this type of wrangle and suggest that the matter be reported to the proper authority—the police department, board of health, or whatever department has jurisdiction in this particular case.”

Not every one will agree with this method of handling such situations. Most managers believe that domestic quarrels are not the concern of the management unless the noise disturbs neighbors. One manager usually tells this type of family that he doesn’t care to have a class of people in his building who cannot get along with each other. The most satisfactory approach, for the summer months at least, seems to be, “I suggest that you close your windows so the neighbors will not know your business.”

The case of Mr. X. will illustrate the effectiveness of the management’s cautious intervention in quarrels. Mr. X. resided with his mother in a three-room apartment. After some weeks of occupancy Mr. X., a highly nervous individual, came to the office and said that he had moved from his last apartment because the tenant immediately under his quarters had made weird noises at all hours of the day and night and had manufactured chemicals in the apartment and that the fumes from these chemicals had added to the extreme discomfort of both his mother and himself. To the management’s amazement, Mr. X. then proceeded to explain that his former neighbor had moved too and that out of the 1,400 apartments available he had selected the one directly under Mr. X. He said he would appreciate it very much if the manager would investigate and dispossess the annoyer. Investigation disclosed that the tenant of whom Mr. X. complained had come from another state and had never heard of Mr. X. before coming to his new home. By this time, the manager, of course, was convinced that there was something radically wrong mentally with both Mr. X. and his mother.
Complaints

and concluded that all would benefit by their absence.

Fortunately, both mother and son visited one of the resident physicians, who, with a little suggestion on the part of the management, strongly recommended that they move and offered to use his influence with the management in effecting a release. Needless to say, no obstacles were placed in the way of their leaving.

What would you do if faced with the following situation?

Mrs. Smith and Mrs. Jones were neighbors in a large housing development consisting of apartments and group houses. John Smith, age seven, and Freddie Jones, age ten, fought constantly. Mrs. Jones came to the management office to say that either the Smiths or the Joneses would have to move; she could not have her Freddie play with John because he was teaching her boy bad habits, including that of foul swearing. After careful investigation and observation of both children and their parents, the management concluded that the parents and not the children were to blame. The children really were very fond of each other, and their quarrels had developed over, “my mother says your mother . . .” The assistant manager, a woman, was able to explain to both parents the cause for the difficulty. Accordingly, Johnnie was urged to join the Boys’ Club, while Freddie became active on the neighborhood baseball team. Needless to say, this adjustment was not effected by one conference; periodic follow-ups were necessary. However, both tenants remained and were apparently satisfied.

Mischievous Children: Families without children are usually given preference because children admittedly present a problem to management. In one project of fourteen hundred units there were more than fifteen hundred children, most of them under six years of age. While all children presenting problems cannot be handled as easily as the following case illustrates, the principle is sound.

The family in question consisted of a widow and two children, one age six and the other age four. The children had been without a father for about three years, and it was obvious that the training given them by their mother was decidedly along the wrong lines. The younger boy became the great problem because, in his anxiety to be as mischievous as possible, he not only tormented other occupants of the particular house in which he lived but he also had a strong inclination to destroy whatever he touched. He particularly delighted in trampling upon and breaking newly planted shrubbery. A visit to his mother by the recreational consultant proved of no assistance at all, for once out of parental sight the child again became unmanageable.

The management decided to keep the child occupied, reasoning that he might feel himself quite important if he were assigned a task, which, of course, would take his mind off his usual plans for devilry. Accordingly, he was made the “official picker-upper” and was furnished with a small gunny sack and a stick with a nail on the end of it. From that time on “Junior” picked up all of the waste paper in the area surrounding his particular house in return for one ice cream cone per day. Today “Junior” is no longer a problem, and he is undoubtedly having the best time he has ever had in his young life.

In a project recently constructed in the Middle West the tenants complained that the shrubbery at the entrance ways was a disgrace, with its scraggly, unkempt appearance. The gardner could not explain the condition because Baby Juniper is known as a hardy shrub. The manager
learned from a tenant that the little children had discovered it was great fun to run backwards and jump into the shrubs. Accordingly, the areas were replanted with shrubs of a taller variety. The appearance of the entrances was improved, but the problem of the children’s excessive energy was not solved; such energy could have been spent to the best advantage in an area designed for play.

Public housing projects will always have a considerable number of families with children. In many, play yards have been provided for the pre-school child. In the larger projects, playgrounds and large areas have been set aside for school children and young adults. In the very largest projects, play fields will accommodate all branches of sports for all age groups. In each group of apartments, basement play space has been planned for the children’s use in inclement weather. Workshop space for the promotion of hobbies and leisure time activities is provided in most projects. When the needs and desires of the tenants are determined, they are organized, and ways and means found within each group to carry out the activities in which they are interested. The provision of space is not enough to relieve the manager of his troubles; neither can he superimpose a social program or regiment the social life of the tenants. Quite to the contrary, a policy of self-organized and self-conducted activities must be adopted.

In order to minimize any damage or annoyance occurring from the usual mischievousness of approximately four hundred children, the management of one project employed a recreational advisor who, in turn, organized a Service Guard among the older boys to assist in maintaining order and for instructing the younger children in the proper care of the property. This organization was supplied with numbered badges (stamped “Service Guard”) and was active in preventing roller skating in the grounds, riding of bicycles, running on lawns, etc.

Dogs: Whether it is the Gold Coast, Park Avenue, Main Street, or the Bronx—dogs are a problem. Some large housing developments have prohibited dogs; others have allowed dogs of certain breeds but only with the written permission of the management. In most cases, however, the management has regretted this action—if one tenant keeps a dog, fifty other tenants see no reason why they should not have the same privilege. One manager tackled the problem by permitting dogs as long as there was no complaint. If a neighbor complained, the tenant knew that the dog must go. This, however, did not work because most every dog owner had one or more complaints against him. Another manager solved the problem, after letters and personal requests had failed, by soliciting the help of a representative of the American Society for the Prevention of Cruelty to Animals, who furnished notices stating the penalty if dogs were not licensed and for any misbehavior. These owners are now cooperating, and scarcely any trouble is being experienced.

While managers agree that it is desirable for children to have pets and know that some prospective tenants will not move in unless dogs are allowed, they feel that, in apartments, the best interests of the majority of the tenants are served by prohibiting dogs, cats, and other pets.

Accidents Due to Mechanical Failures or Carelessness: Probably every manager at one time or another has had a careless employee. The following is a good example of the perplexing problems confronting management from this angle.

Steam was escaping from a disconnected radiator in an occupied three-room
apartment. Some time during the summer this particular apartment had been deco-
rated. When the painters were finished, they evidently set the radiator close to the 
hand valve, and either the superintendent 
or the handyman neglected to hook it up. 
In the fall of each year, just before turn-
ing on the steam boilers, radiators and 
hand valves are carefully inspected to 
make sure that everything is hooked up 
and tight, but this was overlooked in this 
particular apartment. When the steam 
was turned on, the tenant was not at home, 
and when she returned later that evening, 
she found her apartment full of live 
steam. All of the finish on her furniture, 
radio, piano, etc. and some expensive hats 
(so she claimed) were ruined. The man-
agement felt that they were morally, if 
not legally, responsible for the damage 
and tried to settle for what they thought 
was a fair amount. The tenant engaged 
a lawyer and was prepared to bring action 
for considerable damage. The manage-
ment then reconsidered, thinking their 
case very weak, and settled this claim by 
paying a substantial sum of money.

In the early months after a building is 
opened for occupancy, the management 
should expect some complaints as the re-
sult of carelessness and mechanical fail-
ures. The following example may not be a 
typical case, but it does represent the atti-
uide of the management where they rec-
oognized their liability and believed it ex-
pedient to compensate the tenant.

The property, in this case, consisted of 
a seventy-five family apartment house. 
The circulation of hot water was very 
poor, and it was decided to thoroughly 
 cleanse the inside of the tank and, at the 
same time, make pipe changes that would 
 improve the circulation. When the pipes 
had been reconnected, the plumbing con-
tactor decided to boil out the tank and, 
accordingly, added a liberal supply of 
alum, which is very good for this type of 
job. When this had been completed, the 
tank was drained, but evidently it was not 
flushed out carefully with cold water. The 
following morning one of the tenants, an 
attractive natural blonde, called at the of-
fice with a head of very badly matted and 
discolored hair. It seems that she had de-
cided to wash her hair the following morn-
ing, and the hot water faucets supplied 
her with a quantity of very sticky hot 
water; although she tried several types of 
shampoos, she was unable to take care of 
the condition resulting from the use of 
this water. Naturally, she was very much 
disturbed when she arrived at the office, 
and the manager personally felt that his 
company was in a very bad fix.

The manager recommended that she go 
to one of New York's good department 
stores and have the hairdresser do what-
ever was necessary to remedy the condi-
tion. She did this, and after several treat-
ments the color of her hair was restored. 
This expense and the cost of the lady's 
time from her place of business (she was 
a hostess in one of the better restaurants) 
were charged to the plumbing contractor.

This case is regarded as a very inter-
esting one, and it is felt that the manage-
ment was liable for their plumber's action. 
Since this tenant was a very attractive 
natural blonde, they might have been sued 
for a large sum of money for negligence.

The same management, however, han-
dled another liability case in a somewhat 
different manner.

The property in this case consisted of an 
eighty-family house adjoining a large 
parking space. The apartment areaway 
was separated from this parking space by 
a concrete retaining wall about one hun-
dred feet long and eight feet high. When 
the apartment was built, the parking
The Journal of Real Estate Management

space plot was about the same grade as that of the property, and the retaining wall was built to a height level with the street grade. When the vacant property was rented for a parking lot, the operator had the lot filled in, bringing the grade of his property up to the level of the street—the same level as the top of the retaining wall. Unfortunately, because of the slope of the street grade, the parking lot sloped toward the apartment building in question.

During heavy rainstorms, some additional pressure was naturally laid on the retaining wall. The management, however, considered it strong enough to withstand any water pressure which it might be called upon to bear, even though it was supporting the drainage of the adjoining lot. However, during a two-hour cloudburst the retaining wall let go, and the apartment house areaway was covered with the parking lot fill and automobiles; likewise, the cellars were flooded with water to a height of twelve to eighteen inches.

A large portion of the basement was given over to the storage of trunks, baby carriages, etc., but the management had always maintained that tenants using such spaces were accepting the risk for the property which they stored there. Two of the tenants were in the theatrical business and claimed to have had a quantity of valuable costumes, press notices, and photographs in the trunks, which were irreparably damaged by the water. In this case the management stood pat and said that they would not settle; the tenants engaged attorneys to bring action against them for the damage. It took three months for the case to be placed on the calendar for trial, during which period the tenants would not pay rent, amounting to $156. The case was tried in court, and the court decided that there was no responsibility upon the part of the management and that, therefore, they did not have to pay the damage; however, they were never able to collect the rent.

Misuse of Common Facilities: In large-scale housing projects where common laundries, carriage rooms, social rooms, and playgrounds have been provided, the great majority of tenants will respect property and conduct themselves with consideration for others. There are a few, however, who always disturb the harmony of the many.

For example, in one project the carriage rooms were widely separated and served the tenants by their own apartment key. This was done to save the labor necessary to open and close numerous carriage rooms upon request. However, many tenants left these doors open or deliberately blocked the doors so that their children or others would have easy access without the use of the key. This led to the removal of carriages, carts, tricycles, etc., either stolen or borrowed, and the sufferers were considerably inconvenienced by this repeated disappearance of personal articles, whether they were responsible for the unlocked doors or not. Many letters of request to all tenants and constant vigilance by the maintenance crew did not solve this situation. The management came to the conclusion that the only real answer to the problem was through a long time educational program with the children.

Where common laundries are provided, the scheduling of their use is indeed a difficult task. A project of three hundred families has common laundries on the roof of each of the four buildings. When the project opened, the manager kept a schedule for the laundries in the office. One of his assistants spent at least half of her time supervising the use of these facilities and straightening out disputes between the tenants. After some months, the assistant
Complaints

decided to form tenant committees of women from each building to schedule, supervise, and manage the use of the laundries. This has worked exceedingly well, with tenants assuming full responsibility and the equipment being kept in better condition than it was under management supervision.

In the use of social rooms by clubs composed of members under twenty years of age, several managers have remarked that such groups cannot be responsible for the property unless supervised by older leaders. One manager tried to place the group between the ages of fourteen and twenty on their own responsibility, but the experience was regretted. He found it advisable to secure supervision in the form of volunteer workers selected from the membership of adult clubs.

One manager told me that the only way to prevent damage to property from misuse of common facilities and equipment was to charge the tenants for expenses incurred by any damage.

Standards of Living: While there are those who believe that certain practices go with the income of a family, property managers know that carelessness in disposing of garbage, neglect in caring for the halls, and other reflections of tenant habits are not confined to any one income. Even when the management has set up certain standards, it is necessary for one or more employees to watch the departures from these standards, to call the offender’s attention to the fact that the management expects their cooperation in observing these standards, and to repeat the process again and again until the standard has been attained.

One manager stated, “Carelessness in placing garbage, etc., in incinerators was partially overcome by placing instruction cards under the doors of all apartments on the floor where carelessness was reported. This matter, however, is still a problem. The same procedure was followed whenever milk bottles were placed in public halls in the morning, remaining uncollected all day, or baby carriages were taken up to the apartments in the elevators.”

Another manager explained that in dealing with people who throw garbage down incinerators without first wrapping it in paper, or in cases where the management knows that tenants in a particular building act in an offensive manner, a letter is written to each resident in that house calling the matters to their attention very strongly and urging their help in making the project a better place in which to live. Here is a sample of one such letter:

“Dear Mrs. Smith:

This letter is written to each occupant of the house at Z Street and is a reminder that the management would very much appreciate observance of the rule having to do with the use of the incinerator chute.

Please do not, under any circumstances, throw garbage down the incinerator unless it is securely wrapped in paper. If you fail to do this, it is only a question of a short time when the sides of the incinerator will be incrusted with refuse and your building will be anything but a pleasant place in which to live.”

Where families had previously lived in dwellings improperly ventilated and had received little sunlight, they are often accustomed to airing linen and bedding in the windows. Such a practice was overcome in one large development by persistent calls at the time of the occurrence; attention was called to the fact that there was no need for this in the new dwelling. Where the family failed to accept this explanation, it was suggested that they place
the bedding on a chair near the window to avoid the unsightly appearance of bedding frescoing the exterior of the project.

*Failure of Design or Planning: Opinions of managers are divided as to the proper disposition in the case of failures of design and planning.*

In one case reported, Mrs. A. complained that one of the walls forming part of her child's bedroom appeared to be the side of the chimney leading from the boiler room to the roof. This wall was hot at all times, with a result that the room was seldom lower than seventy-eight degrees in temperature. Investigation by the operating organization showed Mrs. A.'s complaint to be justified. An attempt was made to get the contractor and the architects to remedy the condition by insulation. A disagreement followed as to the responsibility, so the management took it upon itself to correct the condition and work out the responsibility later. A child's health and the payment of rent were the important factors to be considered in this case.

Managers who have taken over properties after the completion of construction say that many of their tenant troubles could have been avoided if the architects had done a better job of planning. Banging incinerators, slamming doors, locks that do not work, floors that buckle, windows that stick, and play areas located too near the buildings are some of the management difficulties blamed upon the architect and the builder.

In a large project, where suspended clothes dryers were provided in the kitchens, many complaints that these dryers were inadequate reached the management office, and a request came from an organized group of tenants for additional equipment. The decision was reached to provide clothes dryers on the roofs of the buildings. A large expenditure of money was necessary to resurface the roofs. These dryers were built low and confined to the central portions of the roofs so that clothes could not be seen from the street or gardens.

**Principles for Handling Tenant Requests**

The following principles indicate the most desirable methods of dealing with tenants who request service:

1. Make a clear statement and interpretation of the rules to tenants at the time of lease-insufficient.
2. Put yourself in the place of the person making the request, and treat each request as seriously as it is made.
3. Require all requests to be made at the management office. A minor service employee should not handle requests.
4. Make a written record of all requests, follow up their disposition, and analyze the causes.
5. Treat requests tactfully, fairly, firmly, but humanly.
6. Be friendly with tenants—but treat all alike.
7. Be as accommodating as possible but not subservient.
8. Never become impatient or angry with tenants.
9. Do not be too busy to listen.
10. Get at the bottom of the complaints, using the techniques of a trained investigator.
11. Use force only as a last resort and then only on stubborn tenants.
12. If an undesirable tenant must be moved, move him out with the least possible friction.
13. When tenants have been inconvenienced through no fault of their own, consider rent adjustments or other compensations.
14. Repair mechanical breakdowns immediately and thoroughly.
15. Prevent service requests and mechanical breakdowns by high standards of maintenance, inspections, and adequate training of the entire staff.

If these principles are followed, the manager's job is likely to be easier and the tenants better satisfied.

---

*Author's Note: These principles are predicated upon actual conditions in non-Federal housing developments and are in no way to be considered in conflict with the Government Housing Policies.*
Internal Social-Economic Structure of Urban Communities

By WALTER L. GREENE

The internal social-economic structure of an urban community denotes the constitution, phenomena, and development of society and its wealth. The economic process is a means by which we produce, protect, and utilize wealth while contributing to society's gradual advancement towards a more organic type.

It is upon an understanding of this principle that we may better comprehend the nature of the progress of our urban communities. It is also from this principle that we may appreciate the practical association of economic and social phenomena and discern the restrictive tendencies of economic influences as contrasted with the progressive aspects of social influences.

The operation of both social and economic influences results in a gradual evolution of the community structure. Inertia is never prevalent. The effects of social or economic influences, either individually or collectively, are continually advancing or retarding the social-economic structure in every community. It is, of course, significant to understand the prevailing trend of your community with respect to these important factors. In the absence of corrective measures, the trend is inclined to become accelerated. The evidence of this phenomena is plentiful in the history of American cities.

The growth of an urban community resulting from the dominating influence of either social or economic factors establishes new demands, which in turn affect both the social and economic structure. The operation of this cycle has written the history of our cities from coast to coast and will continue to do so.

Diversification

Accompanying the growth of urban communities there is always a corresponding increase in the diversification of land utilization. Every step in this advancement of diversification furnishes an additional opportunity or a group of additional opportunities to the real estate broker for creative selling and a new set of problems for the property manager. To understand that diversification of land utilization is proportionate to the growth of a community establishes a basis upon which anticipated needs may be carefully considered in the light of the opportunity that they afford for progressive creative selling and constructive management. This is always beneficial not only to the Realtor but to the community because it is productive of creating a better economy of land through the transfer of properties that under new ownership may be used more nearly in accordance with their highest and best use.

Multiplication of ownership and amplification of utility of real property have been coincidental with the progressive attainments of social organisms. Future progress will rest largely upon the exercise of our abilities towards the proper distribution and utilization of real properties.

Sociological principles may be quite dissimilar among the smaller organisms without jeopardizing the effectiveness of the larger structure of which they all are component parts.

This paper was prepared by Mr. Greene as one of the tests in the Case-Study Course now being developed by the Brokers Division of the National Association of Real Estate Boards. It contains a wealth of ideas for property managers as well as for brokers.—Ed.
Without such dissimilarity the larger structures might collapse entirely. It is recognized that the social characteristics of one neighborhood may be entirely different from those of another neighborhood, and as a matter of fact it may even be said that they constitute a different set of social principles. They, nevertheless, combine in the formation of a quite definite social organism, represented by the community as a whole; and these communities in turn, just as did the neighborhoods, combine to represent the social organisms of the counties, commonwealths, states, nations, or empires.

Each development within a given community is a product of effort, conscious or unconscious, to conform to the principles of the social organism of that community as conceived by the one responsible for such development. Moreover, the success of the development will be proportionate to the accuracy of his conception of the characteristics of the social organism.

Economics is charged with the failure of many adventures in the development of real property where such failures were primarily due to an erroneous conception of the more encompassing principles of sociology.

Most of us instinctively sense the majority requirements of the social organism of which we are a part. Some of us run counter to such requirements and are disciplined by economic loss or by the power of the organism itself.

The broker or manager who aggressively strives to understand the social structure of the community in which he operates will probably find unforeseen opportunities for remunerative productiveness and quite probably will avoid many economic losses.

**Practical vs. Abstract Relationships**

It sometimes seems clearly evident that being so close to our daily operations we are inclined to ascribe to these operations only the characteristic of being practical in their application. Likewise, we are prone to assume that those things which do not consume our daily attention constitute a series of abstract relationships and that our attention should not be diverted to them except upon occasions when the more direct and so-called practical factors are not requiring our time.

Further analysis upon this habit might reveal that the so-called practical applications are really no more practical than the so-called abstract relationships and that the main distinction lies in the fact that the former represent the line of least resistance; whereas, the latter represent an unlimited opportunity to augment the production secured through that line of least resistance if the Realtor will apply himself to an understanding of the influential factors involved in the field of his operation, and if instead of placing entire dependence upon the line of least resistance, he will give a reasonable effort to creative selling and constructive management.

The judgment of the Realtor should be extremely sensitive to the probable effect of sudden economic changes within his community, such as the establishment of a large industry or the removal of a large industry to another community. Such an incident cannot occur without materially affecting both the social and economic structure of the community. It becomes necessary for the community to adjust itself to the new conditions. It is in the nature of such adjustment that the Realtor is again furnished an opportunity through the exercise of his judgment,
based upon his superior information and knowledge of matters concerning real estate, to be of material service to his community and simultaneously beneficial to his own interest.

These swift economic changes may result from varied causes, but they are generally the cause of an endeavor to increase the exploitation of natural resources of the community, whether such resources consist of timber, valuable minerals, or climatic conditions suitable for health or tourist resorts.

**DECENTRALIZATION**

There is much comment today about the decentralization of industry, and strong arguments are advanced by both proponents and opponents. It is not the province of this paper to treat of this subject except in its probable effect upon the social-economic structure of our communities, and the most that can be said is that it will behoove the Realtor to watch closely and to interpret carefully such changes as might occur through any movement leading toward an effective decentralization of industry. It should be remembered that the existing centralization of industry has an established pool of labor, apparently comparable to its operations. Whether or not decentralization would ultimately prove beneficial, we cannot deny the fact that the period required for such decentralization would be a period encompassing forceful changes in the social and economic background of those communities which participated in the industrial migration.

It is essential that the Realtor be conversant with social and economic trends if he is to acquire that quality of judgment upon which reliance may be placed. His judgment is the backlog of his success, and judgment based upon insufficient and irrelevant facts is certainly not good judgment. His judgment will be sound only in the degree that he understands not only the existing social-economic status of his community but the trend and probable fluctuations of the trend. Above all things he should fully understand the futility of efforts to force a community to absorb projects that are socially and economically unsound. Communities have suffered heavy economic losses resulting from the operation of speculators who were either unacquainted or unconcerned with the measure in which their operations conformed to the requirements of the community.

The community, as a whole, like any individual in the community, has certain definite requirements for subsistence, and, in addition to these, it has certain wants not necessary to subsistence but beneficial to its social status.

The community is in no better position to absorb an oversupply of definite requirements than is the individual to consume three meals at one sitting.

Uneconomic speculative activity, forcing the expansion of a city beyond its requirements, is immediately effective in a thinner spread of total community income, which in turn invariably has a detrimental effect upon its social structure. The patient may recover, and does with very few exceptions, but the period of convalescence is slow.

**ECONOMY OF UTILIZATION**

Economy in the utilization of urban land is a social and economic requisite. The degree of economy which we have been able to accomplish has indeed been quite imperfect. The abundance of raw land has no doubt been largely responsible for our rather free use and somewhat inconsiderate utility of it. Another and probably
more effective reason lies in our previous lack of acquaintance and understanding of the economic gain resulting from the development of property to its highest and best use.

An analysis of a survey which would show the proportion of land in any community, the utility of which approximated its highest and best use, would undoubtedly reveal an astounding deficiency in our previous efforts to economize land, or it might even be indicative of the fact that the economy of land was a matter of little consideration in many of our developments. It is well to explain at this point that the term "economy of land" is in no wise synonymous with the impression of cramped, crowded, and overbuilt conditions. Economy does not mean to skimp. It means to provide in the right proportion. The more effective economy of land results from the development of any property, whether it be an office site or a subdivision tract, in such a manner that it conforms to the highest and best conceivable use of that particular property. Compliance with these conditions does not, therefore, represent an overcrowded utilization of our land areas any more than it represents extravagance in their use.

If a realtor could see a map of his community upon which each property not developed to its highest and best use was significantly marked, he would be astounded at the potential volume of business awaiting only the beneficial results of creative salesmanship and constructive management. Whenever and wherever there exists a higher and better use for any property within a community, there also exists an opportunity for some broker or manager to perceive of this condition and possibly be effective in its correction.

It is axiomatic that the social and economic well-being of a community is largely dependent upon economy in the utilization of its lands. Failure to recognize and comply with this principle results unfavorably both to the social-economic organism and to the individual. Neither a condition of insufficient housing nor one of oversupply long enduring can result in anything but economic loss.

A DEFICIENCY OF HOUSING

Statistics indicate that the measure in which we supply housing facilities operates in very evident cycles and that the accumulated deficiency has been and still remains below the accelerated normal requirement. Assuming the accuracy of these statistics, we have endured a long period of insufficient housing facilities required to meet the needs of our people. If we are doubtful as to the accuracy of this, we may in some degree substantiate it by our experience of past conditions with regard to the adequate housing of all classes of people in this country and our knowledge of such conditions as exist today.

We need reflect only a moment on this subject to conclude that there probably never has been a reasonable degree of adequacy of housing facilities for the unfortunate members of our communities whose income levels are represented in the lower brackets. Inadequate housing facilities among this group of people produce a lack of efficiency directly traceable in economic loss. Of even great importance, this condition is of tremendous significance to the social order of the community.

Social influences emanating from this class are much more effective in proportion to their numbers than those which emanate from any other class of our population. Deprivation, low ethical standards, lack of ambition, and loss of respect and faith in the social order are productive of ill health, violence, crime, and many simi-
lar assaults upon the attempts constantly being made to improve our social organism.

The degree in which housing facilities fail to meet the needs of various income groups is becoming recognized more and more as a social problem of prime importance. It naturally follows that great reliance must be placed upon the aggressiveness and the judgment of realtors if real advancement is to be accomplished in this field.

We must also remember that we are in a measure responsible for economic and social loss as a result of our occasional influence in supplying more housing of the better type than can be absorbed by those of the higher income group. The loss effected is both economic and social. Every precaution should be taken to avoid it.

If economic and social gain is to be achieved, there must be a reasonable equilibrium in the supply and demand of housing facilities, and it is not sufficient that we have an equilibrium simply in the total of the supply to the total of the demand. There must also exist a balance between supply and demand of adequate housing for the various income groups. We cannot expect an oversupply of costly housing accommodations to offset a shortage of facilities as required by those of the lower income group.

The developer who contemplates marketing new subdivision properties will do well to analyze carefully the housing demand and to determine that there does exist or will exist in a reasonable period of time a demand for the type of houses that would be suitable for the particular property being offered, and that such demand is sufficient to justify such development. The development of subdivision properties and the building of houses must, of course, precede their absorption, but the measure in which they are supplied in advance of the demand is indicative of whether or not such supply will result in economic gain or loss.

Every addition to an urban community, irrespective of size or value, quality or type, superimposes its influence upon the entire social-economic structure of that community. The influence may be small or it may be large, but in either event it is inescapable.

The rapidity of additions, especially those of like character, may, of course, be either beneficial or detrimental, but they are always exceedingly influential. These constitute important indices which the realtor will do well to watch, for that may frequently spell success or failure in his sales efforts.

The existence of scarcity in a particular type of property will produce a demand which is generally recognized quite rapidly by Realtors. It frequently occurs, however, that their efforts to supply this demand continue well beyond the point at which the demand was met.

It is not intended that the Realtor should be capable of determining the exact point at which supply and demand are balanced. It is intended, however, to call attention to the importance, from a social as well as an economic standpoint, of the benefits of reasonable judgment under such circumstances. We cannot deny that in many instances reasonable judgment has not been displayed; and social and economic loss became the resultant factors.

It is definitely our social obligation to understand the importance of our function in the economic life of our community and to perform this function in such a manner as to give reasonable assurance of the continued social and economic advancement of our people who are dependent upon us.
for leadership and guidance in those matters that are germane to our activities.

**Balance**

From our previous reference to the desirability of maintaining a reasonable balance between the demand and supply of housing facilities, it should not, of course, be inferred that balance in this respect is in itself sufficient. The principle of balance is much broader than this. It requires that a balance of supply of housing accommodations must also be balanced with the industrial and commercial establishments which are productive of the incomes so vitally important in maintaining a reasonable balance in housing accommodations. Conversely, the housing accommodations are of equal importance in maintaining the industrial and commercial establishments. The interdependence is an accepted fact, but the varying degrees in which actual conditions fulfill this necessity of interdependence are not easily traceable nor so well understood, and yet this interdependence furnishes the opportunity, as previously pointed out, for the most effective type of creative selling and constructive management.

The people who occupy the residential areas of our communities have a multitude of wants which custom decrees they will fulfill as rapidly as their economic circumstances will permit. If these wants cannot be fulfilled within their own community as they occur, their fulfillment will be sought in foreign communities.

It is probably safe to assume that the commercial districts of no city are supplying the full measure of wants that could be supplied through such districts. The Realtor who is capable of determining this deficiency will immediately add another lease or sale to the credit of creative selling.

A deficiency of commercial outlets will tip the balance in only one direction. It is equally as important for us to consider the effect when the balance is tipped in the opposite direction—an oversupply of commercial outlets as measured by the demands of a community. This condition invariably results in economic loss; and the economic loss suffered is proportional to the oversupply.

What has been said about the residential and commercial districts with regard to the balancing of their functions is equally as appropriate to all other social and economic aspects of the community, including the industrial, religious, educational, and recreational. A reasonable balance must be maintained between all of these factors if social and economic loss is to be avoided. Their interdependence is of the first order, and their respective influences are of the greatest significance. Collectively, they represent the very life of the community, and the community will reflect the degree in which these component parts are properly balanced. Any deficiency, for example, in the recreational facilities of a community will have a profound significance upon its social order. Any degree of deficiency in the educational facilities of the community will have a profound significance not only upon its social order but of equal effect upon its economic life.

A deficiency of the religious facilities and opportunities offered within a community will be productive of crime and the establishment of a social problem of great handicap to economic advancement.

Changes in any of these factors generally produce proportionate changes in the remainder of them, as they are collectively sensitive to the individual fluctuations and are, therefore, commonly subjected to changes which may be either beneficial or detrimental.
The Realtor who values the quality of his judgment must necessarily be reasonably acquainted with the fluctuations affecting the balance between the component factors of his community.

**AN EXAMPLE**

We must be careful that we do not consider balance as some abstract idea incapable of practical application. We may cite one example which alone should be sufficient to convince us that the word “balance” as here used is quite definitely a concrete term and entirely susceptible of the most practical application.

Let us assume that the management of an industrial plant, long established in a given community, employing approximately 2,000 men, most of whom are skilled mechanics, decides for some reason to remove the plant to a distant location. It would be an erroneous assumption to conclude that the labor employed in this plant would migrate with it. Only a small proportion would establish residences in the new locality. It must be understood that the majority of these workmen have established their homes along definite economic and social lines. Other members of the family may have employment which could not be sacrificed to follow the migrating industry. Many of them may have equities in their homes which they could ill afford to leave. They will, in the main, stay with the community and attempt to seek employment in other industries. The economic effect of the migration of this one industry is to throw 2,000 additional men into the pool of labor to obtain the best share they can of the community income, and, being unable to obtain a sufficient share, they will suffer further economic loss through the possible loss of the equities they have built up in their homes. Many of them, of course, may find re-employment upon a satisfactory basis, but the fact that the total community income must now be spread out to care for these 2,000 additional men is an inescapable result.

The community will also suffer the loss of that portion of income formerly produced by the industrial plant and received through the general channels of trade in addition to the amount paid to labor and for taxes.

Social changes will be concurrent with those of economic influence, and it is conceivably possible by magnifying the case that such social changes might easily be productive of still greater economic loss.

The community receiving the industry will be likewise thrown out of balance, although possibly in a different direction. Two thousand men must be obtained to perform the industrial operation. Some will be obtained from nearby communities, and, therefore, additional demand for housing facilities must be met. Others will be obtained from various other occupations, and, in the absence of an available pool of labor, unemployed and sufficiently-skilled in the necessary operation, the new industry will produce a labor shortage throughout the community. The degree and effect of such shortage may be reflected in the wage scale, in the cost of production, and finally in the cost of living. Such an analysis could be continued to the point where it would be difficult for us to return from the many tangents upon which we would be led. Surely our previous summary is sufficient to emphasize the importance of balance and its concrete application in a most practical way.

In our consideration of balance, we are inclined to overemphasize the importance of balance with respect to residential, commercial, and industrial properties and to underestimate the importance of other
properties in the nature of recreational, religious, educational, and civic properties, public utilities, and quasi-public buildings. As the functions of these properties do not ordinarily demand our everyday attention, we are inclined to ascribe to them considerably less significance than we do to those properties that are more directly associated with our economic pursuits. We should understand, however, that the reasonable balance of properties within any community may be just as easily and just as effectively thrown out of adjustment by a deficiency or oversupply occurring in the latter type of properties as in the former.

ECONOMIC BACKGROUND OF COMMUNITIES

The economic background of our community is dependent upon an adequacy of transportation facilities, including freight and passenger railroad and bus terminals and airports, also educational and religious facilities, orphanages, cemeteries, hospitals, and other similar factors, which, of course, include all types of recreational facilities such as theatres, parks, golf courses, tennis courts, baseball diamonds, football gridirons, etc.

Let any one of these categories become deficient or excessive, and balance is destroyed to the extent of such scarcity or surplus; if this condition should endure for long, it will spread to other categories, making adjustment more difficult with each successive step. The disruption of balance, resulting in an oversupply, may be caused by the lack of enterprise or from retrenchment motivated by fear, while an equilibrium destroyed by a demand in excess of supply may result from the normal progress of business or from unwarranted optimism and the lure of greater gains.

Uneconomic speculation, our greatest enemy, is responsible for disturbing balance in both directions. It creates a superficial demand, a large portion of which is attempted to be met, and when this has run its course, there remains an oversupply that will normally require a long period to absorb—which is always productive of definite economic loss.

If we are ever to increase the attractiveness of real estate as an investment, it is imperative that we recognize the full force of the principle of balance and make every possible effort to reduce the fluctuations in our cycle of real estate prices which result from unbalanced conditions. Our objective should surely be to hold down the high point of the cycle and hold up the low point of the cycle in order that the cycle itself will represent the smallest possible radius from its focal point, which is on the normal line between such fluctuations.

We should encourage buying and selling of real estate upon this normal trend line rather than at the top of the hill or the bottom of the valley. If we encourage speculative gains by recommending an investment policy, the results of which are dependent upon the investor buying at the bottom of the cycle and selling at the top of the cycle, we shall be increasing and not decreasing these fluctuations.

We should likewise remember that it is impossible for an investor to sell at the top of the cycle without a buyer to suffer a loss compensating his gain. Our purpose is undeniably to sell real estate as an investment commodity for the income that it will yield and not as a speculative commodity which will destroy the stability and value that might otherwise be received from the flow of incomes obtainable from the true function of real estate.

We can reduce these detrimental price fluctuations by adhering to the principle of balance and by consistently discourag-
ing acknowledged detrimental speculation. History furnishes sufficient examples to convince us of our duty and responsibility, both from the social and economic aspects, to maintain as nearly as possible that degree of balance in utility which will produce the greatest economy of land. Any deviation from this principle will produce economic loss despite anticipations that fail to recognize economic limitations.

An analysis of the economic structure of a community will furnish the Realtor with a better understanding of the causes of success or failure in various individual enterprises. It will give him concrete reasons for housing demands. It will explain current rent levels and their fluctuations. It will give him some of the reasons for the complexity of living standards throughout the community, and, above all, it will furnish a fund of information for the improvement of one of the Realtor's greatest assets, his judgment.

It is not recommended that the Realtor should compile a detailed economic survey of his community for, after all, he is by nature a Realtor and not an economist or a statistician. He will find practically all of the facts needed for his consideration of this subject already compiled in a more logical order than his own attempts would produce. He cannot, however, avoid the responsibility imposed in analyzing such data. It is in the analysis that the quality of one's judgment is tested.

Two men supplied with the same data may reach contrary conclusions as the result of their respective viewpoints in the interpretation of such information. No formula can be supplied for the exercise of good judgment in this matter, but one suggestion may be of material assistance. Prejudiced, biased, or presupposed impressions, founded upon sentiment or imagination, must give way to impartial considerations if good judgment is to be worthy of its name. To approach such an analysis under the influence of "the dear old home town spirit" is to start nowhere and get nowhere. We must give the devil his due and let the chips fall where they may.

What the Realtor is interested in knowing is the measure of stability in the growth trend of his community as reflected in its economic background, and this may be reasonably determined through careful consideration of a few rather generalized indices such as the following:

- **General Industry,** including Manufacturing, assembling, fabricating, and refining.
- **Extractive Industry,** including Mining, lumbering, fishing, and the exploitation of other natural resources.
- **Community Specialty,** including Tourist resorts, educational centers, and political capitals.
- **Miscellaneous Trade,** including Finance and transportation.

The number of wage earners in each of these four categories, except any category whose influence is insignificant, should be determined. The number of wage earners in the last category, namely, Miscellaneous Trade, is quite difficult of direct determination and may be secured by deducting the sum of the first three from the total number of persons gainfully occupied.

Estimates should be made of the future trend of employment in each of these fields. Consideration should be given to prevailing wage scales and trends, and especially should we consider the degree of diversification of employment opportunities and see what conclusions seem most logical from an analysis of the one or two industries employing the greatest number of people.

The meat packing industry employs more wage earners than does any other industry in Chicago and also in Kansas City, but in Chicago the number employed...
in this industry represents only 6.3 per cent of the total of all wage earners, whereas in Kansas City, Kansas, it represents 52.4 per cent.

Over one-half of Detroit's 125,000 wage earners are in the motor vehicle and body industry; whereas, in Philadelphia the greatest employment is found in the knit goods industry, which uses only 10 per cent of the 167,000 wage earners of that city.

The influence exerted upon the economic background of a community by the industry employing the greatest number of its total wage earners is, therefore, one thing in Detroit and quite a different thing in Philadelphia.

We have observed that 52 per cent of the wage earners of Kansas City, Kansas, are employed in the meat packing industry. If we consider Kansas City, Kansas, and Kansas City, Missouri, as one metropolitan district, then this ratio will drop to about 18 per cent. It is quite proper that the metropolitan district should be used as a basis for such analysis.

The degree of fluctuation in the number of wage earners in a community is one guide to its relative stability of income and may be measured by the ratio of the minimum to the maximum employment.

Pittsburgh, Detroit, and Birmingham show minimum employment of less than half that of maximum employment; whereas, the United States' average is 68.5 per cent.

The economic structure of a community comprises its wealth in all forms. Wealth consists of material objects, owned by human beings, and ownership of such material objects implies utility. The usefulness of wealth and the benefits derived from it constitute its fundamental attribute. Since past benefits are expired, the wealth upon which property rights are based consists only of rights to future benefits. It follows, then, that the economic structure of a community consists of the future benefits of the wealth upon which property rights are based.

We are perfectly familiar with these terms as applied to real estate and its income. To understand our community's economic structure, we need only extend our viewpoint to encompass all forms of wealth in the community, as they are all subject to the same application. In the case of labor, for example, the wealth upon which the property right is based is the workman, and the benefit of that wealth is his work. In the case of the department store, the wealth upon which the property right is based is the stock of merchandise, and the benefit of that wealth is measured in profits occurring in its turnover.

It will clear our perspective considerably if we examine our economic structure in the light of the measure of future benefits which might reasonably be expected to accrue from the wealth upon which all property rights are based. This requires no arduous compilation of statistical data nor detailed tabulation of predicted future benefits from a thousand and one ways of utilizing capital and labor. It simply reminds us that the same principles which we consider fundamental in the valuation of real property must not be forgotten in our estimate of the economic background of the community.

The stores, factories, mines, schools, street improvements, homes, playgrounds, and other properties, including the personal abilities of the inhabitants, should all be considered as contributing to the economic background in the degree that they are productive of future benefits.

The economic background will be improved as future benefits are enlarged by
improved housing conditions, better utilities, greater stability in the payrolls of labor, greater assurance of the permanency of occupation, better educational opportunities, improved trade relationships, and such factors.

The economic background will suffer as future benefits are diminished through neglect of properties, labor difficulties, growth of slums and blighted areas, exhaustion of natural resources, and instability of payrolls and employment opportunities, and it will suffer heavily from the disruption of balance resulting from uneconomic speculation.

**SUMMARY**

A summary of the principal factors affecting the economic structure of a community would, therefore, include the employment opportunities available to all classes, the adequacy of physical properties, especially housing facilities, the diversification of industry, the distribution of total community income, the extent of natural resources, the cost of living, the cost of government, the social standard, and the abilities of the people.

Deficiencies found in the analysis of the economic structure should be of particular interest, for they are frequently indicative of those fields in which the Realtor will find the best reward for his constructive efforts.

The importance of the Realtor in the economic life of a community is astounding. His work and his opportunities are seldom fully understood by himself or his community. The influence of his operations permeates every phase of economic life. He develops raw lands into home sites, provides the homes, promotes commercial and industrial properties, transportation facilities, recreational and educational facilities, hospitals, and orphanages.

He promotes the exploitation of natural resources in the mines and forests. He builds or promotes streets, bridges, bridle-paths, parks, multi-family dwellings, hotels, and every type of physical property; nor does he stop at this. He is constantly converting these things into cash capital or exchanging them for other properties or converting cash capital into any of these types. By this function he keeps all of these physical properties in the ownership of those who can best utilize them. His influence is felt in the home, in the office, in the factory, in the mine, and the forest; it is nowhere escapable, and still through all of this he sometimes ponders over the results of creative salesmanship justifying the effort.

The economic structure of a community is constantly undergoing change. These changes are frequently representative of new property requirements that had no previous significance. Every such change is an opportunity for creative selling and constructive management. We need only to approximate the opportunities that have passed to understand the force and significance of those to come.
Book Review


A reading of over 400 pages devoted entirely to the management of housing leaves little doubt in the reader's mind that housing management, particularly public housing management, has arrived at majority and is entitled by its successful administration to recognition as a profession.

The authors of this tome are well known among the "Housers"—Beatrice Greenfield Rosahn is Secretary of the American Society of Women Housing Managers, and Mr. Goldfeld is the successful manager of the Lavanburg Homes in New York City. Mr. Goldfeld was also a member of the staff of the National Association of Housing Officials' Management Training Course conducted last year to train future managers of the PWA Housing Division Projects.

This volume, I believe, the premier appearance of a work on the subject of housing management and may, therefore, to many readers possessed of years of practice in the field of building management, appear to be too detailed in what might be considered obvious operating facts. It should be remembered that many of the probable readers will not have the benefit of a similar background. Perhaps for this reason the titles should have been reversed to read "Principles and Practices of Housing Management," for it is not a technical handbook but rather a summation of opinions and experiences gathered in the field from existing large-scale developments.

It is to be remembered that housing has been labeled the vehicle for the accomplishment of a great many socially desirable objectives. Any treatise on management of housing, particularly public housing, therefore, reflects the means of accomplishing these ends.

However, there is as yet so little experience in the field that the principles and practices which are given in this volume are numerous.

No doubt for this reason the "public housing" and "low rent" hypothesis is stressed throughout the book. There is an unwarranted assumption that the major housing enterprises of the future are to be government subsidized or public owned. I do not share this apparent conviction of the authors and, therefore, feel that it is overstressed.

The overtone which implies that private operations do not recognize or are not aware of the "social" angles of housing and tenant relations is a common error. Private operators of any property have tenant relations which in themselves are a "social" education and tend to make good sociologists of landlords. Need I call attention to the social, not to mention the financial contribution, which landlords have and continue to make to the local relief problems. I have a feeling that a good "business" job of management will turn out to be good housing management. The social objectives will be accomplished automatically if the original conceptions are sound.

Management is the means of accomplishing objectives. If the objectives of a given project are defined, their good business administration can accomplish it without the fanfare of doing a "social" job. Perhaps the fault is that the current public housing projects are without stated objectives except the vague generality of "providing families who lack sufficient income, without the benefit of financial assistance, to enable them to live in decent, safe, and sanitary dwellings."

The "hardboiled" operator will find the chapter on "Maintenance," by George D. Chadeayne, much to his liking. He will also find many an idea in the chapters which give a detailed survey of the operation and policies of nine different housing operations in various sections of the country. In these chapters I am inclined to believe that the person of some managerial experience will gain more by digesting this volume than the novice who expects to qualify as a manager.

There are excellent and detailed reproductions of forms and procedures tried and tested by various organizations. This is an excellent enumeration of source material—a helpful and most complete bibliography for those who would delve into any specific phase of the problem.

You, who consider yourselves managers, could do well to read this book. New fields to conquer may be revealed to you—you will learn much from an analysis of the experience of others so accurately reported.

You, who read expecting to become full-fledged managers by act of digestion, will become aware of the extent of your ignorance and profit by recognizing the need of practical work-a-day experience.

You, who want to see public housing an active "social" agency and still be "low cost," may well read to learn that good administration is the prime essential to success. A successful operating unit is a positive and necessary factor to achieve a "socially" successful project. And all may read and learn that housing management is a man-sized, full-time job, which demands the best. Perhaps it would not be amiss to conclude that the first principle of housing management to practice would be to attract to this work personnel possessed of a professional attitude, combined with technical skill and administrative ability—not to mention a sense of humor.

Chicago, Illinois.

Arthur Boisen.
New Articles

"Air Conditioning. The Several Functions of Winter and Summer Air Conditioning and the Different Systems Available to the Realtor-Builder."

The most important development in the field of shelter in recent years is the fast strides made in the development of temperature control. Property managers with office space under their supervision have been faced with the competition of air conditioned space for several years. Recent developments are extending this comfort to the single-family home. Here is a right-up-to-the-minute summary of successful systems and the equipment needed. National Real Estate Journal. April, 1937, p. 45-47. $0.70.

• • •

"Legal Safety in Dealing with Crimes and Disturbances," by Lawrence R. Bloomenthal.

Another one of the many things which a property manager should know is just how far he can go without involving himself in serious legal difficulties. Accidents and crimes occur without warning. These emergencies must be met in a manner which will assure comfort and security to the tenant and protection for the landlord. "Wrongful arrest" and "false imprisonment" are only two of the evils which may descend on the landlord’s head. A Chicago attorney points out these responsibilities and limitations. Buildings and Building Management. April, 1937, p. 45-46. $0.45.

• • •

"Here’s a Windowless Building" and "No Windows—But Very Comfortable," by Robert E. Hattis.

For some time architects and builders have been studying the possibility of doing away with windows. Windows were placed in structures for two reasons—ventilation and light. Advances in the science of lighting now provide us with better and more uniform lighting by means of artificial illumination. Air conditioning has solved the ventilation problem in a more satisfactory manner. Windows also furnish such nuisances as noise, dirt, and odors. So why windows? The National Aluminate Corporation has recently completed a windowless plant in the Clearing Industrial District. These two articles describe the unique features of this building. Real Estate. April 3, 1937, p. 9; April 10, 1937, p. 7-8. $0.30 each.

• • •


Here is an article on a nineteen-story building located in the retail shopping district of Chicago’s Loop devoted entirely to small shops. The old thought that you cannot get shoppers to trade above the first floor has been successfully vanquished in the operation of this building. The methods employed by the management to bring traffic into the building as well as the skillful conversion of unsalable space into "its highest and best use" are described in this article. Skyscraper Management. April, 1937, p. 6-7. $0.45.

• • •


Mr. Jones is the Real Estate Manager of the Fidelity Union Title and Mortgage Guaranty Company of Newark, New Jersey. "These instructions serve as a guide to all employees engaged in the operation and maintenance of the 112 apartment buildings controlled by this organization. The items are listed in alphabetical order." Real Estate Record. April 17, 1937, p. 21-27. $0.45.

• • •

"Formula for a Successful Magazine for Tenants," by George Martin.

For two and one-half years the Rockefeller Center Weekly has been appearing regularly to about 20,000 tenants in Rockefeller Center’s group of buildings. How it is financed and what it does for the development of Rockefeller Center are presented in this article, illustrated with pages from the magazine. Real Estate Record, April 17, 1937, p. 30-31. $0.45.

• • •

"Why Separate Ownership From Control?" by Irving H. Flamm.

For several years the reorganization of defaulted bond issues has been at a standstill. "Now with an aroused public opinion at their heels, committees and trustees, whipped up by the courts, are speeding up the judicial machinery." Each month sees some definite progress. In many of these reorganization plans, there is a growing trend of separating ownership from control through the creation of trusts. Is such a separation necessary or wise for real estate? The Economist, April 3, 1937, p. 3-4. $0.35.
By-Laws

of

The Institute of Real Estate Management

ARTICLE I

Objects

SECTION 1. The objects of the Institute shall be:

a. The establishment of a Code of Ethics and Standards of Practice.

b. The identification and registration of responsible and competent managers and management agencies of real estate.

c. The establishment of coordinated standards and units for the scientific recording of experience in the management of real estate.

d. The exchange of management experience.

e. In general, the fostering of knowledge, integrity, and efficiency in the management of real estate.

ARTICLE II

Membership

SECTION 1. Membership in this Institute shall be:

a. Is actively and reputedly engaged in the business of real estate management.

b. Subscribes to the By-Laws, Code of Ethics, and Standards of Practice established by this Institute.

c. Segregates clients' funds in separate bank or trust account or accounts which shall at all times cover in full all money due clients.

d. Maintains a satisfactory Fidelity bond on all employees engaged in accounting for or handling of funds.

e. Does not receive or accept any commission, rebate, discount, or benefit in connection with the management of property except with the full knowledge of his or its clients.

f. Files a formal application on the official application form furnished by the Institute, giving all of the detailed information and data therein requested and signing an irrevocable waiver of claim against this Institute or any of its officers, committee members, or other officials as individuals, or as a group, for any official act in connection with the business of this Institute and particularly as to its or their acts in electing or failing to elect, or disciplining him or it as a member.

g. Holds and maintains active membership in a Member Board of the National Association of Real Estate Boards. This provision shall not apply in cases where the candidate's office and principal business activities are in a territory that is not included within the jurisdiction of a Member Board of the National Association of Real Estate Boards.

h. Who upon application for admission presents a sworn statement that he or it will within thirty days after election to membership comply fully with the above requirements.

SECTION 2. All members shall be admitted to this Institute only by ballot with not less than eighty per cent of the entire Governing Council voting. Three negative ballots shall exclude.

SECTION 3. Whenever an applicant seeks admission to this Institute, the Secretary shall send to all members a confidential digest of the candidate's qualifications and shall set a time limit for reply. It shall be the duty and obligation of each member to reply to such notices and to advise the Admissions Committee of any favorable or unfavorable facts known to the member regarding the candidate.

SECTION 4. The Institute shall exercise effective disciplinary powers over its entire membership, including expulsion for cause. The affirmative votes of at least eighty per cent of the members of the Governing Council present at the time of balloting shall be required to discipline a member, and a minimum vote of two-thirds of the entire Council shall be necessary for expulsion.

ARTICLE III

Membership Certificates

SECTION 1. Each member shall receive a certificate of membership issued by the Governing Council of the Institute.

SECTION 2. The certificate of membership, as well as any other evidence of membership issued at any time to a member, shall be the permanent property of the Institute and shall be returned promptly to the Secretary of the Institute if the membership of the individual or firm to whom it is issued is for any reason terminated.
ARTICLE IV

Dues

SECTION 1. Subsequent to their election, members shall not be entitled to a certificate or to any other benefits until the dues for at least twelve months have been received by the Institute. Failure to make such payment within ninety days of notice of election shall void the election to membership.

SECTION 2. Subsequent dues shall become payable quarterly in advance, provided, however, that dues for the fifth quarter from date of admission shall be prorated so as to make the due date fall January 1, April 1, July 1, and October 1.

SECTION 3. The annual dues shall be five cents per rental unit managed as of January first of each year, provided, however, that the membership dues for the year 1934 shall be $25.00. Thereafter, the annual membership dues shall in no case be less than $25.00 nor more than $100.00. All candidates becoming members before January 1, 1935, shall be designated as Charter Members, and such designation shall appear on their certificates of membership.

SECTION 4. Five dollars of the annual membership dues is for annual subscription to "The Journal of Real Estate Management."

SECTION 5. Each application for admission shall be accompanied by a deposit of $25.00. If the candidate is admitted to membership, this amount shall apply in full on his first year's membership dues. If for any reason the candidate is not admitted to membership, the full $25.00 will be refunded.

ARTICLE V

Governing Council

SECTION 1. There shall be a Governing Council consisting of a minimum of nine and a maximum of fifteen members, to which shall be added one appointed by the Board of Directors of the National Association of Real Estate Boards, which Governing Council shall control and manage the affairs of the Institute.

SECTION 2. One-third of the elective members of the Governing Council shall be elected at each annual meeting to serve for a term of three years (except that at the first annual meeting of this Institute, one-third of the Governing Council shall be elected to serve for a term of one year, one-third to serve for a term of two years, and one-third to serve for a term of three years).

ARTICLE VI

Nominating Committee

SECTION 1. The President of this Institute, by and with the consent of the Governing Council, shall appoint a Nominating Committee consisting of five members, at least thirty days in advance of the annual meeting.

SECTION 2. It shall be the duty of this Nominating Committee to nominate at least one person for each vacancy in the Governing Council, which nominations shall be reported by mail to all members at least two weeks prior to the annual meeting. Additional nominations may be made by a petition signed by at least five members in good standing, providing such nominations shall be in the hands of the Secretary at least five days prior to the annual meeting.

SECTION 3. The report of the Nominating Committee and any additional nominations shall be read at the first session of the Annual Meeting for the information of the members.

ARTICLE VII

Election of the Governing Council

SECTION 1. The annual election of one-third of the elective members of the Governing Council shall take place at the second session of the Annual Meeting.

SECTION 2. Election shall be by ballot, and every member in good standing present shall be entitled to one vote.

SECTION 3. The Chairman shall appoint three tellers who shall make a tabulation of the ballots and report to the meeting the result of the votes cast. The members receiving the highest number of votes for the Governing Council shall be declared elected, and the tellers will so certify in writing to the Secretary of the Institute, giving the number of ballots cast for each nominee. Any tie votes shall be decided by a majority vote of the members of the Governing Council, that is, the newly elected members and those continuing in office.

SECTION 4. The Governing Council, by majority vote, shall elect members to fill any vacancy occurring between annual meetings, and each person so elected shall hold office until the vacancy is regularly filled at the next Annual Meeting.

ARTICLE VIII

Officers

SECTION 1. The Governing Council shall elect from among its own number a President; and a
Vice President from each of the eight (8) regions created by the Governing Council (subject to the right of the Governing Council to make changes therein at any time), such regions are hereby designated with boundaries and identification coincident with the regions already created by the Board of Directors of the National Association of Real Estate Boards). These officers shall also be respectively President and Vice Presidents of The Institute of Real Estate Management; and their duties shall be such as usually pertain to their respective offices.

The Vice Presidents shall, in the order of their nomination for the then current tenure of office, perform the duties of the President in the event of his absence or disability. They shall supervise the work of the Institute in their respective regions and act as the representative of the President in such matters as may be assigned to them.

In case of a vacancy in the office of any Vice President, it shall be filled by the Governing Council for the unexpired term from the region in which the vacancy occurs, and such Vice President shall be regarded as the last nominee under the provisions of the second paragraph of this Section.

SECTION 2. The President shall, by virtue of his office, become a member of the Board of Directors of the National Association of Real Estate Boards.

SECTION 3. The Secretary and Treasurer of the National Association of Real Estate Boards shall be the Secretary and Treasurer respectively of The Institute of Real Estate Management. All funds of the Institute, including any special funds contributed to it by its members or others, shall be deposited in the treasury of the National Association of Real Estate Boards by the Treasurer and shall be segregated for the sole use of this Institute. The Treasurer shall make due accounting to the Governing Council at least once each year.

ARTICLE IX

Fiscal and Elective Years

SECTION 1. The fiscal and elective years of The Institute of Real Estate Management shall conform to those of the National Association of Real Estate Boards.

ARTICLE X

Standing Committees

SECTION 1. The Standing Committees shall be as follows: Admissions Committee, Local Chapters Committee, Membership Committee, Legislative Committee, Experience Exchange Committee, Inspection and Ethics Committee, Publication Committee.

SECTION 2. Each of the above committees shall consist of two or more members of the Institute, except as otherwise herein provided. They shall be annually appointed by the President, by and with the consent of the Governing Council. The duties of these committees shall be defined by the instructions they shall from time to time receive from the President or the Governing Council.

ARTICLE XI

Special Committees

SECTION 1. Special Committees may be appointed by the President, subject to the approval of the Governing Council, to perform such services as may be assigned to them.

ARTICLE XII

Resignations, Suspensions, Expulsions, and Reinstatements

SECTION 1. All resignations of members shall be made to the Governing Council in writing and may be accepted by them on a majority vote subject to the payment of all outstanding dues and obligations of the resigning Member.

SECTION 2. Any Member may be suspended or expelled for professional misconduct by a two-thirds vote of the Governing Council.

SECTION 3. Any Member who fails to pay his dues or other indebtedness within ninety days after the same becomes due, may at the end of such time be suspended by a majority vote of the Governing Council and shall then no longer be in good standing. Immediately upon suspension, all rights and benefits of membership shall terminate until the delinquency is satisfied. If any indebtedness remains unpaid for six months after the same becomes due, the Member shall automatically be dropped from the rolls, unless the time of payment shall have been extended by the Governing Council.

SECTION 4. Any Member dropped or expelled from membership for any cause shall be reinstated to good standing only by a three-fourths vote of the entire Governing Council, and then only upon written application by the candidate for reinstatement approved by the Admissions Committee.

SECTION 5. Any Member who resigns, is suspended, or is dropped from the roll of membership shall immediately return his Certificate, his Emblem, or any other mark of identity as a Member...
of The Institute of Real Estate Management. Upon failure to return these evidences of membership upon demand by the Governing Council, the President or Governing Council may cause notice of such expulsion to be given publicity through paid advertising or news items in the papers local to the Member’s business address and also cause to be brought any legal action necessary to acquire these marks of identification which are the property of the Institute.

ARTICLE XIII
Local Chapters

SECTION 1. For the purpose of affording its members better opportunities for close cooperation, discussion of various phases of real estate management, and local control, the Governing Council of The Institute of Real Estate Management may, under such rules and regulations as it may adopt, establish such local chapters as may be deemed advisable or necessary. These local chapters shall be known as “Chapters of The Institute of Real Estate Management,” and each shall be given an identifying number in the order of their establishment.

SECTION 2. Upon the application of not less than five members in good standing, the Governing Council may grant authority for the establishment of local chapters with limits defined geographically by the Governing Council, such authority to continue at the pleasure of the Governing Council and to be revocable by the Governing Council under such rules as to quorum and vote as are elsewhere set forth for the expulsion of a member. Each such local chapter shall always have not less than five resident members in order to maintain the continuity of its existence.

SECTION 3. The Governing Council may, when such action is deemed expedient or desirable, redefine or divide the territorial jurisdiction of any local chapter for the purpose of establishing an additional local chapter, providing, however, that there shall in no case be more than one local chapter within the corporate limits of any one city.

SECTION 4. These chapters shall have the right to elect a Chairman, other officers, and committees and to assess dues necessary for their proper functioning. The actions of such local chapters shall at all times be subject to the approval of the Governing Council of The Institute of Real Estate Management and shall at all times remain subject to the Constitution and By-Laws of The Institute of Real Estate Management. Local chapters may not speak for The Institute of Real Estate Management without prior specific authority from the Governing Council.

ARTICLE XIV
Meetings and Quorums

SECTION 1. The Annual Meeting of The Institute of Real Estate Management shall be held at the same time and place as the Annual Meeting of the National Association of Real Estate Boards. Other meetings may be called by the Governing Council from time to time.

SECTION 2. All meetings of The Institute of Real Estate Management shall be open to all members of the National Association of Real Estate Boards, provided, however, that only members of The Institute of Real Estate Management shall be entitled to the privileges of the floor, to participate in the discussions, to vote, or to hold office.

SECTION 3. Those members present after due notice of not less than two weeks prior thereto shall constitute a quorum for any annual meeting.

SECTION 4. A quorum for any special meeting shall consist of sixty per cent of the members in good standing when present either in person or by proxy. All members are to be notified by mail sent out at least two weeks prior to the date of any special meeting of any decisions to be made at the meeting. Any decisions made at a special meeting without such prior notice shall not be final until confirmed at the next annual meeting or at a subsequent special meeting following due notice of the action to be considered.

ARTICLE XV
Limitation of Liability

SECTION 1. The National Association of Real Estate Boards shall not assume any liability for expenditures or commitments of The Institute of Real Estate Management unless such expenditures or commitments shall first have been approved by the Board of Directors of the National Association of Real Estate Boards.

ARTICLE XVI
Amendments

SECTION 1. These By-Laws may be amended by the Governing Council of The Institute of Real Estate Management by a two-thirds vote of the members present, provided thirty days’ notice in advance shall have been given to all members of the intention to amend, together with a written copy of the proposed amendments, and provided further that such amendments be approved by the Board of Directors of the National Association of Real Estate Boards before they become effective.
OFFICERS AND GOVERNING COUNCIL
THE INSTITUTE OF REAL ESTATE MANAGEMENT
of the
National Association of Real Estate Boards

HARRY A. TAYLOR .................................................. President
520 Main Street, East Orange, New Jersey

J. W. MARKEIM .......................... Vice President, Central Atlantic Region
Fourth and Federal Streets, Camden, New Jersey

JAY HEARIN ............................................ Vice President, Southeast Region
Citrus Exchange Building, Tampa, Florida

CARLTON SCHULTZ ............... Vice President, Southeast Region
The B. F. Keith Building, Cleveland, Ohio

E. R. PRICE .................. Vice President, Great Lakes Region
131 South Seventh Street, Minneapolis, Minnesota

DELBERT S. WENZLICK ........... Vice President, North Central Region
1010 Chestnut Street, St. Louis, Missouri

HERBERT U. NELSON ................... Secretary
22 West Monroe Street, Chicago, Illinois

MARK LEVY .......................... Treasurer
22 West Monroe Street, Chicago, Illinois

HARRY GRANT ATKINSON ....... Director of Activities
22 West Monroe Street, Chicago, Illinois

Governing Council
Term Expiring December 31, 1939
Robert A. Cline, Cincinnati, Ohio
Jay Hearin, Tampa, Florida
J. W. Markeim, Camden, New Jersey
E. R. Price, Minneapolis, Minnesota
Delbert S. Wenzlick, St. Louis, Missouri

Term Expiring December 31, 1938
Leo V. DuBois, Cincinnati, Ohio
Edward G. Hacker, Lansing, Michigan
William I. Mirkil, Philadelphia, Pennsylvania
Carlton Schultz, Cleveland, Ohio

Term Expiring December 31, 1937
Paul Caspers, Chicago, Illinois
J. B. Gillespie, Nashville, Tennessee
Robert C. Nordblom, Boston, Massachusetts
Harry A. Taylor, East Orange, New Jersey

Representing Board of Directors, N.A.R.E.B.
Guy S. Greene, Detroit, Michigan

Committees

Admissions Committee
Edward G. Hacker, Lansing, Mich., Chairman
Wm. I. Mirkil, Philadelphia, Penn.
C. Armel Nutter, Camden, N. J.

Education and Research Committee
Henry T. Holzman, Chicago, Ill., Chairman
James C. Downs, Jr., Chicago, Ill.
Carlton Schultz, Cleveland, O.
Morton G. Thalhimer, Richmond, Va.

Ethics and Discipline Committee
Leonard P. Reaume, Detroit, Mich., Chairman
Leo V. DuBois, Cincinnati, O.
Arthur S. Kirk, Des Moines, Ia.
E. R. Price, Minneapolis, Minn.

Publications Committee
James C. Downs, Jr., Chicago, Ill., Chairman

Membership Committee
Louis A. Moses, Cleveland, O., Chairman
Jay Hearin, Tampa, Fla.
J. W. Markeim, Camden, N. J.
E. R. Price, Minneapolis, Minn.
Carlton Schultz, Cleveland, O.
Delbert S. Wenzlick, St. Louis, Mo.
**Membership Roster**

(As of February 1, 1937)

Members of The Institute of Real Estate Management:

1. Are actively and reputably engaged, with a good record, in the business of real estate management.
2. Segregate clients' funds in a separate bank account, or accounts, so that they are never co-mingled with funds belonging to the management firm.
3. Take no commissions, rebates, discounts, or other benefits, in connection with the management of property, on the purchase of supplies, equipment, repairs, or other services, except with the knowledge and approval of the owners concerned. Itemize any such items clearly on the owner's monthly statement.
4. Maintain Fidelity Bonds on all officers and all employees handling or accounting for clients' funds.
5. Make no charges to clients' accounts until bills have actually been paid.
6. Are members of Member Boards, or Individual Members, of the National Association of Real Estate boards.

<table>
<thead>
<tr>
<th>CONNECTICUT</th>
<th>KANSAS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bristol</td>
<td>Topeka</td>
</tr>
<tr>
<td>John F. Driscoll Co.</td>
<td>The Neiswanger Investment Co., David Neiswanger</td>
</tr>
<tr>
<td>1040 Main St.</td>
<td>115 West Sixth Ave.</td>
</tr>
<tr>
<td>Hartford</td>
<td>Wichita</td>
</tr>
<tr>
<td>Aubrey Maddock, Aubrey Maddock</td>
<td>The Wheeler, Kelly, Hanny Trust Co., H. M. Sparling</td>
</tr>
<tr>
<td>469 State St.</td>
<td>120 S. Market St.</td>
</tr>
<tr>
<td>FLORIDA</td>
<td></td>
</tr>
<tr>
<td>Miami</td>
<td></td>
</tr>
<tr>
<td>The Keyes Company, Kenneth S. Keyes</td>
<td></td>
</tr>
<tr>
<td>15 W. Flagler St.</td>
<td></td>
</tr>
<tr>
<td>Tampa</td>
<td></td>
</tr>
<tr>
<td>Jay Healin, Inc., J. L. Healin</td>
<td></td>
</tr>
<tr>
<td>Citrus Exchange Bldg.</td>
<td></td>
</tr>
<tr>
<td>West Palm Beach</td>
<td></td>
</tr>
<tr>
<td>Atlanta</td>
<td></td>
</tr>
<tr>
<td>Draper-Owens Company, Frank C. Owens</td>
<td>521 Grant Bldg.</td>
</tr>
<tr>
<td>GEORGIA</td>
<td></td>
</tr>
<tr>
<td>Chicago</td>
<td></td>
</tr>
<tr>
<td>Arthur Bohnen, Inc., Arthur Bohnen</td>
<td>35 East Wacker Drive</td>
</tr>
<tr>
<td>Harold H. Egan &amp; Co., Harry J. Beeman</td>
<td></td>
</tr>
<tr>
<td>28 S. La Salle St.</td>
<td></td>
</tr>
<tr>
<td>Dayton Keith &amp; Co., James C. Downs, Jr.</td>
<td>111 W. Monroe St.</td>
</tr>
<tr>
<td>Parker-Holsman Company, Henry T. Holsman</td>
<td>1501 E. 57th St.</td>
</tr>
<tr>
<td>Swan, Lorish &amp; Caspers, Inc., Paul Caspers</td>
<td></td>
</tr>
<tr>
<td>Vermont</td>
<td></td>
</tr>
<tr>
<td>Haynie &amp; Ehrat, Inc., H. L. Hendrickson</td>
<td>1501 E. 33rd St.</td>
</tr>
<tr>
<td>INDIANA</td>
<td></td>
</tr>
<tr>
<td>Indianapolis</td>
<td></td>
</tr>
<tr>
<td>Hall-Hotel Co., Inc., M. L. Hall</td>
<td>120 E. Market St.</td>
</tr>
<tr>
<td>IOWA</td>
<td></td>
</tr>
<tr>
<td>Des Moines</td>
<td></td>
</tr>
<tr>
<td>Otumwa</td>
<td></td>
</tr>
<tr>
<td>Frank A. Hilliard, Frank A. Hilliard</td>
<td>110 S. Market St.</td>
</tr>
<tr>
<td>MASSACHUSETTS</td>
<td></td>
</tr>
<tr>
<td>Boston</td>
<td></td>
</tr>
<tr>
<td>MICHIGAN</td>
<td></td>
</tr>
<tr>
<td>Detroit</td>
<td></td>
</tr>
<tr>
<td>John A. Dodds, John A. Dodds</td>
<td>808 Park Ave. Bldg.</td>
</tr>
<tr>
<td>Hannan Real Estate Exchange, Inc., Guy S. Greene</td>
<td>114 Lafayette Blvd.</td>
</tr>
<tr>
<td>Flint</td>
<td></td>
</tr>
<tr>
<td>Kellar, Murphy &amp; Van Campen, Geo. C. Kellar</td>
<td>301 Sherman Bldg.</td>
</tr>
<tr>
<td>Lansing</td>
<td></td>
</tr>
<tr>
<td>Advance Realty Co., C. R. Stebbins</td>
<td>804 Prudden Bldg.</td>
</tr>
<tr>
<td>Duluth</td>
<td></td>
</tr>
<tr>
<td>The Harrison Co., Wm. Harrison, Jr.</td>
<td>409 Lonsdale Bldg.</td>
</tr>
<tr>
<td>Hibbing</td>
<td></td>
</tr>
<tr>
<td>Minneapolis</td>
<td></td>
</tr>
<tr>
<td>General Management Company, E. R. Price</td>
<td>131 South Seventh St.</td>
</tr>
<tr>
<td>Thorpe Bros., James R. Thorpe</td>
<td>519 Marquette Ave.</td>
</tr>
<tr>
<td>Kansas City</td>
<td></td>
</tr>
<tr>
<td>W. V. Richmond</td>
<td>114 W. 10th St.</td>
</tr>
<tr>
<td>Membership Roster</td>
<td></td>
</tr>
<tr>
<td>--------------------</td>
<td></td>
</tr>
<tr>
<td><strong>St. Louis</strong></td>
<td></td>
</tr>
<tr>
<td>Franciscus-Maginn, Inc., Louis Maginn.</td>
<td>708 Chestnut St.</td>
</tr>
<tr>
<td>Real Estate Management Co., E. S. Miller.</td>
<td>317 N. 11th St.</td>
</tr>
<tr>
<td>Wenzlick Sales &amp; Management Org., Inc., Delbert S. Wenzlick.</td>
<td>1010 Chestnut St.</td>
</tr>
<tr>
<td><strong>NEW JERSEY</strong></td>
<td></td>
</tr>
<tr>
<td>Asbury Park</td>
<td></td>
</tr>
<tr>
<td>Atlantic City</td>
<td></td>
</tr>
<tr>
<td>Isidor Schmiedler, Isidor Schmiedler.</td>
<td>1421 Atlantic Ave.</td>
</tr>
<tr>
<td>Camden</td>
<td></td>
</tr>
<tr>
<td>Chas. H. Myers &amp; Co., Inc., Chas. H. Myers.</td>
<td>12 N. 7th St.</td>
</tr>
<tr>
<td>Nutter Mortgage Service, C. Armel Nutter.</td>
<td>101 N. 7th St.</td>
</tr>
<tr>
<td>East Orange</td>
<td></td>
</tr>
<tr>
<td>Henry M. Lesher, Henry M. Lesher.</td>
<td>58 N. Grove St. at Grove St. Sta.</td>
</tr>
<tr>
<td>Frank H. Taylor &amp; Son, Inc., Harry A. Taylor.</td>
<td>626 Main St.</td>
</tr>
<tr>
<td>Elizabeth</td>
<td></td>
</tr>
<tr>
<td>R. J. Kirkland &amp; Son, R. Mason Kirkland.</td>
<td>125 Broad St.</td>
</tr>
<tr>
<td>Wm. M. Flinn &amp; Company, B. B. Flinn.</td>
<td>215 Broad St.</td>
</tr>
<tr>
<td>James Rosensohn, Inc., James Rosensohn.</td>
<td>700 Bergen Ave.</td>
</tr>
<tr>
<td>Hackensack</td>
<td></td>
</tr>
<tr>
<td>Rusch &amp; Boyd, Inc., Jos. L. Rusch.</td>
<td>325 Main St.</td>
</tr>
<tr>
<td>Ho-Ho-Kus</td>
<td></td>
</tr>
<tr>
<td>Jersey City</td>
<td></td>
</tr>
<tr>
<td>Merchantville</td>
<td></td>
</tr>
<tr>
<td>Newark</td>
<td></td>
</tr>
<tr>
<td>Ables, Stevens, Inc., Leslie Stevens.</td>
<td>606 Broad St.</td>
</tr>
<tr>
<td>David Cronheim, David Cronheim.</td>
<td>39 Cranford Place</td>
</tr>
<tr>
<td>Harry J. Stevens, Harry J. Stevens.</td>
<td>478 Central Ave.</td>
</tr>
<tr>
<td>North Bergen</td>
<td></td>
</tr>
<tr>
<td>James Nolan, Inc., James Nolan.</td>
<td>940 Bergen Turnpike</td>
</tr>
<tr>
<td>Paterson</td>
<td></td>
</tr>
<tr>
<td>Samuel P. Vought, Samuel P. Vought.</td>
<td>7 Smith St.</td>
</tr>
<tr>
<td>Plainfield</td>
<td></td>
</tr>
<tr>
<td>J. G. Mulford, J. G. Mulford.</td>
<td>214 Park Ave.</td>
</tr>
<tr>
<td>Roselle</td>
<td></td>
</tr>
<tr>
<td>Frederick J. Sarg, Frederick J. Sarg.</td>
<td>405 E. 2nd Ave.</td>
</tr>
<tr>
<td>Teaneck</td>
<td></td>
</tr>
<tr>
<td>Alexander Summer, Inc., Alexander Summer.</td>
<td>241 Cedar Lane</td>
</tr>
<tr>
<td>H. J. Tulp, Inc., H. J. Tulp.</td>
<td>398 Cedar Lane</td>
</tr>
<tr>
<td>Union</td>
<td></td>
</tr>
<tr>
<td>Ventnor City</td>
<td></td>
</tr>
<tr>
<td>Byron Jenkins, Byron Jenkins.</td>
<td>920 Atlantic Ave.</td>
</tr>
<tr>
<td>Westfield</td>
<td></td>
</tr>
<tr>
<td><strong>NEW YORK</strong></td>
<td></td>
</tr>
<tr>
<td>New York</td>
<td></td>
</tr>
<tr>
<td>Herman A. Acker Corp., Herman A. Acker.</td>
<td>215 E. Kingsbridge Road, Bronx</td>
</tr>
<tr>
<td>Clement E. Merowilt &amp; Co., Inc., Clement E. Merowilt.</td>
<td>60 Gramercy Park North</td>
</tr>
<tr>
<td><strong>OHIO</strong></td>
<td></td>
</tr>
<tr>
<td>Cleveland</td>
<td></td>
</tr>
<tr>
<td>Land Title Guarantee &amp; Trust Co., Louis A. Moses.</td>
<td>7th &amp; Walnut St.</td>
</tr>
<tr>
<td><strong>OKLAHOMA</strong></td>
<td></td>
</tr>
<tr>
<td>Tulsa</td>
<td></td>
</tr>
<tr>
<td><strong>OREGON</strong></td>
<td></td>
</tr>
<tr>
<td>Portland</td>
<td></td>
</tr>
<tr>
<td><strong>PENNSYLVANIA</strong></td>
<td></td>
</tr>
<tr>
<td>Philadelphia</td>
<td></td>
</tr>
<tr>
<td>Jackson-Cross Company, Boyd T. Barnard.</td>
<td>1560 Walnut St.</td>
</tr>
<tr>
<td><strong>VIRGINI A</strong></td>
<td></td>
</tr>
<tr>
<td>Memphis</td>
<td></td>
</tr>
<tr>
<td>Percy Galbreath &amp; Son, Percy Galbreath.</td>
<td>Columbia Mutual Tower</td>
</tr>
<tr>
<td><strong>TEXAS</strong></td>
<td></td>
</tr>
<tr>
<td>Amarillo</td>
<td></td>
</tr>
<tr>
<td>Wichita Falls</td>
<td></td>
</tr>
<tr>
<td>A. C. Realty Company, A. C. Estes.</td>
<td>812 Eighth Bldg.</td>
</tr>
<tr>
<td><strong>VIRGINIA</strong></td>
<td></td>
</tr>
<tr>
<td>Richmond</td>
<td></td>
</tr>
<tr>
<td>Morton G. Thalhimer, Inc., Morton G. Thalhimer.</td>
<td>1013 E. Main St.</td>
</tr>
<tr>
<td><strong>WEST VIRGINIA</strong></td>
<td></td>
</tr>
<tr>
<td>Bluefield</td>
<td></td>
</tr>
<tr>
<td>Basley-Wilson Co.</td>
<td></td>
</tr>
</tbody>
</table>