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OPERATIONAL PROBLEMS OF NEW COMMUNITIES

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The development of Reston, Virginia and Columbia, Maryland in the early 1960's produced much speculation concerning the role of new towns in future urban growth. Supporters of new towns have offered them as prescriptions for many of the ills found in urban America today: as opposed to the sprawling, ¹ often poorly designed and frequently single class typical suburban community. However, in the decade that has passed since the inception of Reston and Columbia large numbers of planned new towns have not been built, due in large part to the ² myriad problems of new town development which are now general knowledge.

Planned New Towns Versus Unplanned Suburbs

One perspective on the difficulties faced by new towns may be obtained by looking at their counterpart and alternative, the typical development process which one finds in any of hundreds of rapidly growing suburban communities. This development process, unlike the planned new town, is a very pluralistic undertaking. ³ For instance, at any point in time a growing community may have several large subdivisions under actual construction or in various stages of planning. The growth that occurs will be primarily in these subdivisions along with the accompanying shopping centers, industrial concentrations and assorted public developments.

This growth is not in accord with an overall master plan, but is the product of multiple market decisions of numerous subdividers and merchant builders. The lack of planning may frequently be evident in the finished product. But the point to be made here is that this pluralistic undertaking, with several developers each with short range goals, is very efficient in terms of spreading risk and minimizing front end investment. These are norms in this fragmented and localized industry.

Consider for the moment the case of a small suburban community which is well situated in a growing market area and which has an existing infrastructure. The objective of each developer is to capitalize upon the existing infrastructure in the process of building several score, or several hundred, housing units. Frequently the developer need not pay the full costs of providing services - such as streets, schools, open space and sewage treatment. These costs resulting from the new development are passed on to the balance of the community in the form of rising property taxes or as a reduction in the average level of services rendered.

The unplanned town may grow rapidly if many developers are active and if the town is within a strong housing market area. Recall again that each developer has only a short term interest in the community. The subdivision of several score or several hundred units can be built and sold within one to three years. The speed of entry and exit, which minimizes inventory and carrying costs, is an industry norm.

Another important aspect of this pluralistic process is the fact that not all the developers and merchant builders at work in a given community will succeed, for this is a volatile industry. Some entrepreneurs will misjudge the market or underestimate their own costs or be underfinanced, and they will fail. A high failure rate is characteristic of this industry. The companies that succeed will make high profits for their efforts. However, many companies will be left in their wake which will be bankrupt. Thus, the average rate of return, for all builders in the community, will be more modest than the rates shown by only the successful firms. Since the new town developer is in fact the whole industry, on a very localized level, its return is more likely to be the industry average, which includes losers as well as winners.

Some General Problems of New Town Development

Development of a planned new community is much different from the typical development process just described. New towns usually do not have an existing infrastructure on which to piggy-back. Initial infrastructure investment is a necessary and expensive first step. This creates the tremendous front end investment and subsequent carrying charges of which so much has been written.

But there are other problems facing the new town developer, caused by the scale of the project and the fact that the new town developer is going it alone. Management problems are magnified in the new town development, as opposed to the typical development pattern. Most real estate developers tend to be specialized. Among residential developers there are apartment builders, developers of FHA subsidized housing, merchant builders of traditional houses, developers of luxury housing units and many other types. Most large volume builders tend to specialize in a particular kind of unit or section of the market. In addition, there are separate developers who specialize in commercial and industrial projects. The typical situation is to have numerous specialized builders at work in a community at the same time with little or no coordination among them. The only regulation is that done by the market forces and the zoning ordinances. On the other hand, the new town builder has the problem of overall coordination and management of a large number of what are in effect separate enterprises; residential, industrial and commercial development on a large scale. Thus, the new town developer must have not only the expertise in residential, industrial and commercial development, but have the management skills to administer a comprehensive program composed of these various enterprises.

Numerous small developers are free to ignore the external effects of their decisions. They have no incentives to coordinate their activities or even share information. The consequences of this are evident. However, the new town developer must take cognizance of the effects of his own decisions, in effect by internalizing them. This produces a more coherent community plan but it will likely be more costly than typical development. Negative effects can not be passed off to the community as a whole or isolated in a single project's bankruptcy; the responsibility is comprehensive, so negative as well as positive effects are internalized.

In marketing his product the new town developer is usually anticipating absorption of a sizeable portion of the regional housing market demand. Several thousand new units in any one year, which is a likely forecast for a large new town, are apt to be a major portion of the local housing demand. And here is where the new town developer may experience difficulty in estimating absorption rates with any precision. For instance, the developer must pose the question as to the delineation of the relevant housing market area. Is it the entire metropolitan area or some reduced portion of it? If the market area is in fact the entire metropolitan region, then the average annual required absorption rate may be in the neighborhood of five to ten percent of total market demand. However, if the market is more localized, which is likely to be the case, then the new town may have to capture one quarter or one half of the housing market demand. Since the new town is in competition with numerous other developments such absorption rates may be exceedingly difficult to obtain in the most favorable circumstances, and even more difficult to predict accurately.

Housing market analysis is a very imprecise forecasting tool. Although there are some elaborate methodologies (including computer applications) the analysis of small areas is heavily impressionistic. There are so many unknowns and unquantifiables, such as tastes and preferences of consumers and the policies of local governments. A developer's intuition may place him in good stead as he markets a limited number of units over a short period. He is able to shift as he senses shifts in the market. Small miscalculations may be corrected in time so that no serious harm is done. However, on a larger scale, and over a larger market area, intuition, even enhanced by market research, may not be sufficient for good management decisions. And even armed with knowledge changes may not come as easy for the large development enterprise.

Some Particular Problems of New Town Development

The high visibility of the new town developer, as opposed to the low profile of traditional merchant builders, makes the new town vulnerable to pressures which traditional developers are able to avoid. One is the very important thrust for environmental protection. Environmental groups are frequently able to put effective pressures on communities and large developers for adequate environmental safeguards, which are likely to be costly in terms of engineering studies and investment in physical facilities. The new town developer must then bear the total cost of environmental protection, a situation which rarely confronts the typical merchant builder who passes the cost to the community in higher tax rates or environmental degradation.

Another pressure which now faces the new town developer is the impetus for more affirmative action in housing opportunity. Today considerable pressure is being applied on communities and on developers to provide low and moderate income housing in suburbs. There are now numerous regional "fair share" or housing allocation schemes which have been adopted and which call for dispersal of low and moderate income families into suburban areas. HUD Title VII (1970 Housing Act) guidelines also specifically require that new towns include some portion of their housing for low and/or moderate income families. This in turn must be related to overall marketing strategy and cash forecasts. Given

the requirements of Title VII as well as community pressure the new town developer must find an optimal housing mix solution which will satisfy HUD and advocates of low/moderate income housing, and still be consistent with profit maximizing criteria.

Innovations in New Town Development

Much of the promotional literature on new towns stresses innovative measures in social services which are either existing or proposed. This is a sharp deviation from the approach of the typical residential developer, who seeks no such relationship with the prospective homeowners. Such innovations as health care services, health insurance programs, day care for children, internal transportation systems such as mini-buses, adult education programs and a host of various programs for cultural enrichment seem to be the province of the new town developer. Ultimately these services must be paid for by the prospective homeowners; included in the initial price of the house and/or possibly additional expenses of a homeowners association. These kinds of programs are attractive and may, in fact, help the marketing program of the new community. But they are also likely to be expensive. By definition, the innovative activity must be carried out without the benefit of experience, which makes it vulnerable to poor cost estimation, requirements for mid-course modification and opposition from those who feel threatened by the divergence from traditional procedures.

Growth and Profit

One important lesson from the experience of the existing new towns is that they cannot grow as rapidly as one might at first imagine. Again, compare the planned new town with the rapidly growing unplanned suburb. The 1970 Census reveals that across the United States hundreds of these communities doubled or tripled their population within one decade. Ignoring for the moment that such rapid growth was in many instances chaotic, the point is that under the competitive pluralistic situation extremely rapid growth is possible, since each developer has an incentive to build and sell as quickly as possible while ignoring all external costs. The new town, on the other hand, is not able to ignore the external effects of its own activities; it is a "closed system" which requires a planned and orderly development consistent with environmental protection and adequate supporting services. The new town is constrained, and not able to grow with abandon as have many suburban communities. This factor extracts a high price on the new town developer in the terms of the increase in carrying costs for a longer period.

Each deviation by the new town developer from the industry norms creates serious problems (or potential problems) when viewing the development process as one conducted by an economic entity which must at least break even. This does not imply that the current industry norms are optimal in any sense, since one of the norms is to ignore the negative external effects when at all possible. Such negative externalities degrade both our physical and social environments. The new town developer cannot ignore these externalities, and herein lies both the strength and weakness of the new town. It is apt to produce an environment which is aesthetically pleasing and more responsive to crucial social concerns, but at a cost in terms of dollars for the additional

infrastructure investment and in time for the orderly and coordinated development.

Unfortunately for us these problems confronting new town developers are almost insoluble. All of the new towns developing under Title VII are in serious financial difficulty and some will fail. This is unfortunate, but it is a harsh truth. But the problems facing new town developers can only be understood in the context and the overall manner of building and selling houses in the United States.

REFERENCES

1. The rationale for new towns is cogently discussed by William Alonso in "What Are New Towns For?", Urban Studies, Volume 7, No. 1 (February 1970).

2. Many of the HUD assisted new towns are reported to be in serious financial difficulty. Some of the problems stem from the housing downturn during 1973 through 1975 which has affected all housing developers, including new town developers. However, new towns have encountered serious financial and management problems as well.

3. The concept of pluralistic versus monopolistic development has been advanced by William Alonso and Chester McGuire in "Pluralistic New Towns", reprinted in Frontiers of Planned Unit Development, edited by Robert W. Burchell, Center for Urban Policy Research, Rutgers University, New Brunswick, New Jersey.

4. Columbia, Maryland is such a new town as described. It provides numerous services to its residents. However, a set of interesting observations on Columbia's social services is contained in an article by Monroe W. Karmin, "The Next America," Wall Street Journal, July 14, 1971.