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# INVESTMENT ACTIVITIES OF RELOCATED TENEMENT LANDLORDS—A PILOT STUDY*

It appears remarkable that the literature on slum clearance and housing rehabilitation contains so very little on the investment and behavior patterns of owners of substandard housing.[1] Yet the success of housing code enforcement efforts and associated programs of housing improvement depends almost entirely on the response, attitude, and behavior of owners and investors in substandard housing. Their responsiveness to the housing codes in turn, depends on such variables as the scale of their housing operations, their margin of profitability, and their attitudes toward continuing ownership and management. Some analysis of these problems has recently been provided by two studies, an intensive review of tenement ownership in Newark, New Jersey,[2] and the pilot study which is the subject of this article—an investigation of the investment patterns of a group of slum owners

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1. *See*, for example, W. Smith, An Outline Theory of the Housing Market, with Special Reference to Low-Income Housing and Urban Renewal (unpublished thesis in University of Washington Library, 1958). *Compare* W. Grigsby, Housing Markets and Public Policy (1963).

2. G. Sternlieb, The Tenement Landlord (1966).

in St. Louis following the acquisition of their properties in an urban renewal project area.[3]

One of the major findings of the Newark study is that the profitability of tenement ownership is decreasing, a consequence of the rising vacancy rate in the Newark slums as former slum tenants find better housing in other areas. New patterns of slum ownership have developed. Ownership is shifting either to large-scale, non-resident landlords, or to owner-occupants (often Negro) who purchase slum tenements at inflated prices with inflated financing. Semi-professional absentee owners, holding relatively few properties, have been forced out of the market. A weakening market and changes in ownership patterns have inhibited private repair and maintenance in Newark. Large-scale, non-resident landlords are hesitant to repair their holdings for fear that they will not get a fair return on their investments. Their approach has been to reduce maintenance expenditures rather than to increase rents. Owner-occupants often cannot raise the money for needed repairs; and they are fearful that they will ultimately be displaced by slum clearance activities, or will face increased tax assessments if they repair their properties.

In view of the apparent unattractiveness of substandard housing, slum owners who have their properties taken as part of a slum clearance program might be expected to use this opportunity to leave the slum housing market. The pilot study in St. Louis attempted to investigate this hypothesis. The investment patterns of thirty-six owners of rental property were traced during a period of five years, after slum properties owned by them were acquired by the St. Louis land clearance authority as part of an urban renewal project.[4] While the smaller owners tended to leave the market entirely or to purchase housing outside slum areas, the larger landlords tended not only to remain in the market but to increase their holdings by purchases in slum areas elsewhere in the city. While a gross index of housing quality indicates that new purchases by this second group were better in quality than the housing taken from them for urban renewal, most of the new holdings were in areas of rapid transition and there is some indication that these areas have continued to decline in quality. While the St. Louis study, heavily skewed in favor of the professional, non-resident

3. It should be emphasized that both the Newark and St. Louis studies were carried out in housing markets in which the housing stock consisted primarily of relatively small multi-family structures averaging from four to eight units.

4. It should be carefully noted here that the project covered a white and not a Negro slum area.

landlord, sheds very little light on the behavior of resident owners who left the slum clearance area, the study lends confirmation to the Newark findings that there exists a group of non-resident, absentee owners who specialize in slum property on a large scale. This article will discuss the St. Louis study and will report on some of its major findings.

## I. Sampling and Study Procedures

The Kosciusko urban renewal project in south St. Louis was selected for the St. Louis study. Before clearance, Kosciusko was an older slum of 221 acres containing both residential and commercial structures, 97 per cent of which were substandard.[5] All of the site residents were white. A sample of slum owners was taken from the Kosciusko area, and it was first divided into classes according to the number of properties each class held in Kosciusko in 1959, prior to the acquisition of the Kosciusko properties. The method of selecting a stratified sample of these owners is discussed in more detail in the footnote.[6] Each owner who was selected for the sample held at least three rental

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5. St. Louis urban renewal projects are described in St. Louis Land Clearance for Redevelopment Authority, Facts About Urban Renewal in St. Louis (no date).

6. From the Kosciusko project area the Land Clearance for Redevelopment Authority provided a randomly-selected list of 411 properties containing 972 dwelling units. The project contained 898 properties. A check of the Survey of Existing Conditions for the project area indicated that the sample selected was not significantly different in character from the property that was not selected. All commercial properties, all duplications (including straw names) and all owners holding fewer than three units each were eliminated from the sample, leaving 102 owners holding 154 properties containing 615 rental units.

These owners were at first divided into four classes, based on their Kosciusko holdings:

Class 1: All nonresident owners who owned seven dwelling units or more.
Class 2: Resident and nonresident owners who owned from four to seven dwelling units.
Class 3: Nonresident owners who owned three dwelling units and resident owners who owned five dwelling units.
Class 4: Resident owners who owned four dwelling units.

From these classes, the following selection was initially made:

Class 1: Twelve out of 15 owners.
Class 2: Eighteen out of 46 owners.
Class 3: Eight out of 29 owners.
Class 4: Two out of 12 owners.

While the research was carried out on the basis of these classes, Class 4 was finally dropped as lacking significance, and Classes 2 and 3 were combined in a single class of small owners because it was felt that there were no significant differences in their activities.

properties so that owners of very small properties were excluded. Once the sample was selected on the basis of Kosciusko holdings, property assessment records were consulted to determine the holdings of the sample group throughout the City and County of St. Louis in 1959.[7] This year was selected because the Land Clearance Authority began to acquire properties in the project area in 1960. All of the owners in the sample were then divided into two groups, *Large* owners and *Small* owners. Large owners are *nonresident* owners of rental property who held at least seven rental units in the City and County in 1959. Small owners are all other owners of property, whether absentee or not, who owned three or more rental units, but not more than seven, in the City and County in 1959. The sample contained sixteen large owners and twenty small owners.

The subsequent investment history of these owners was then traced through records in the assessors' offices in the City of St. Louis and in St. Louis County.[8] No attempt was made to investigate records of transactions in East St. Louis, which has much substandard property, or in other municipalities or counties across the Mississippi River in Illinois.[9] Date of acquisition, location, and assessed valuation were obtained for each property bought and sold during the study period. Assessed values for taxation were used as the basis for estimating property investment. Straw party holdings were investigated and identified on the basis of fairly complete information, so that property holdings could be traced to their true owners.

This method of selecting the sample places several limitations on the data, and these limitations should be noted. Since the sample was stratified to select a larger number of owners who had extensive holdings, the study does not lend itself to a statistical comparison between classes which would indicate whether larger slum landlords tended to reinvest in slum property to a greater extent than smaller slum landlords. What the study permits is an indication, for each class, of the relative change in slum holdings during the study period.

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7. This step was taken to avoid distorting the scale of operations of individual owners who might not be well represented by their Kosciusko holdings. A few owners were shifted to a different class after holdings outside the project area were added to their holdings inside the project area.

8. Note, however, that this method of search did not reveal property bought and sold during the year and which was not owned on the tax assessment date. If anything, this limitation on the data will tend to understate the transactions of the more active owners.

9. However, impressionistic evidence indicates that the owners covered in this study confined their activities to the Missouri side of the Mississippi River.

Another qualification must be made. While Kosciusko owners were initially ranked on the basis of dwelling units owned rather than structures owned, the comparison of holdings at the beginning and at the end of the project period is based on the number of structures owned. The investigation did not determine whether a given owner invested in multi-family or single-family structures, although the tendency of these owners to concentrate in the multi-family slum corridor extending east to west through the center of the city eliminates this variable to some extent. Moreover, since the conversion of structures to create more dwelling units is one of the most pervasive tendencies in transitional residential areas, the number of dwelling units in a building at the time of purchase is not a true indication of the nature of the investment.

### A. Classification by Investment Activity

The sample of owners selected from the Kosciusko project was then further divided into groups which reflect the level of investment activity during the study period. This classification turned on the extent to which property owners in Kosciusko continued in or left the housing market, and this determination was made on the basis of the value of the property bought and sold during the study period. Three groups were differentiated:

Group I: Owners who purchased more property than they sold.

Group II: Owners who sold more property than they bought.

Group III: Owners who did not reinvest in property.

The distribution of classes of owners by groups is as follows:

NUMBER OF OWNERS IN EACH GROUP

| Group | Large Owners | Small Owners |
|---|---|---|
| I | 6 | 3 |
| II | 5 | 10 |
| III | 5 | 7 |

Since the sample was stratified to select a much higher proportion of the larger owners, the distribution of owners by group is significant. What the study shows is that most of the smaller owners fall in groups which tend to leave the housing market entirely. Nevertheless, only about one-third of the larger owners fall in the group in which property holdings were substantially increased.

## B. Classification by Condition of Housing Held

So far, sample owners in the Kosciusko project have been divided into two classes according to their size, and these classes have been redistributed into groups depending on whether or not they tended to stay in or to leave the housing market during the study period. It was necessary next to find some method of classifying by condition the property that was bought and sold. This classification was carried out for property located in the City of St. Louis only, as the assumption was made that all of the residential property purchased in St. Louis County was in good condition.

Classification of property in the City of St. Louis was based on a housing condition map[10] prepared by the St. Louis City Planning Commission, derived from the federal housing census of 1960. Since the census was based on conditions existing at the beginning of the study period, it does not take into account the trend of conditions in neighborhoods, and this fact must be kept in mind when the data is interpreted. Furthermore, the younger age of housing in newer neighborhoods combined with the newness of these neighborhoods probably biased the housing census toward higher scores in these areas. There is also the point that the criteria used in the housing census are relatively gross, and have been found inaccurate in some communities where subsequent tests have been made. Nevertheless, use of housing census data provides a rough guide to neighborhood condition, which can be checked through an appraisal of neighborhood trends based on urban renewal and housing rehabilitation project designations.

A further qualification must be placed on the use of the housing condition survey, as it is based on blocks rather than on individual structures. Five grades were developed for the city planning commission survey, and each grade was based on the proportion of unsound dwellings located in each block. For purposes of this study, a simplified scale with three grades was devised:

10. See Map I. The maps are printed at the conclusion of this article. According to the 1960 federal housing census, all of the property in the Kosciusko project was in Grade D, the lowest possible housing condition category which was selected for purposes of this study. See the discussion in the text, *infra*. However, in order to verify the census information, the property owned by the sample owners was checked against the Survey of Existing Conditions which was carried out as part of the planning for the Kosciusko project. All of the sample owners held at least one property which was graded very poor, and much of the property held by these owners had from four to six basic housing deficiencies.

Grade A: 0-30% of housing in block unsound.
Grade B: 30%-50% of housing in block unsound.
Grade D: 50% or more of housing in block unsound.

All of the property in St. Louis County was graded "U" to denote that it is ungraded.

The procedure used to grade city property acquired by a sample owner was as follows: first, each property was located by block on the city map. The average condition of property for that block was translated into one of the three grades used for this study, and that grade was assigned to the individual property. For example, if the particular block was in Grade B, it was assumed that every property purchased in that block was in Grade B. While this method of classification overlooks variations among individual properties, it is a fairly accurate indication of housing condition, and may indicate trends in condition insofar as standard housing in a substandard block is affected by nearby substandard properties. Morever, if slum entrepreneurs purchase the bad properties in good blocks, as is often alleged, then this method of grading over-rates the quality of the housing that was acquired.

While the initial project plan called for an investigation of the actual condition of properties purchased by the sample owners, together with a check on the subsequent history of these properties, time did not permit this check to be made. However, a series of maps has been developed to accompany this report,[11] in which the property owned by each group at the beginning and end of the study period is related

11. The maps were prepared by first delineating on a map of the city the various urban renewal and rehabilitation projects, and then dividing the remaining area of the city into ten sections each of which was substantially homogenous in terms of housing condition. Map I was used to determine housing condition. The maps also indicate when each urban renewal and rehabilitation project was in execution. An urban renewal project is in execution once it receives final federal and local approvals. Local rehabilitation projects were assumed to be in execution once rehabilitation activities started. Two sets of maps were prepared for each group of owners, one showing property holdings in 1959 and the other showing property holdings in 1964. Property held by each group is identified by grade for each renewal and rehabilitation project and for each of the other designated areas of the city.

One additional comment should be made about the maps. They do not accurately show the execution status in 1959 of the area designated as the Southern Rehabilitation Complex, as some of the projects in this complex were in execution before 1959. However, since only about five per cent of the property held by each group in the southern complex was located in the areas that went into execution before 1959, the pre-1959 projects have been ignored for purposes of simplifying the graphic presentation.

to the urban renewal and neighborhood rehabilitation program of the City of St. Louis. The extent to which Kosciusko owners purchased property in areas that became urban renewal or rehabilitation projects is some indication of the character of the property they acquired.

## II. Results of the St. Louis Study

While the limitations on the collection of data require caution in the interpretation of survey results, nevertheless the study did isolate three groups of owners of slum property whose investment activity varied considerably. These investment patterns will be discussed for each group, beginning with Group III, which engaged in the least activity following slum clearance in Kosciusko.

### A. Transactions of Group III

About one-third of the sample fell in Group III, and these transactions are analyzed in Table I. This group did not reinvest in property during the study period, and thirty-four of their properties were sold during this time, almost all of it substandard property that had been in the Kosciusko project. What the table does not show—and what adds a meaningful dimension to these findings—is the length of time each property was held before it was sold. The average time that a property had been held was fifteen years; only three properties had been held for less than three years. These facts, together with a failure to purchase property elsewhere, suggest a group of owners, relatively old, whose holdings may have derived from personal associations with the Kosciusko area. The history of one owner, who appears typical of Group III, supports these inferences. He was investigated in more detail.



TABLE 1. GROUP III TRANSACTIONS DURING THE STUDY PERIOD

A. Property Held in 1959

| | Large Owners | Small Owners | Total |
|---|---|---|---|
| Grade A | 11 | 5 | 16 |
| Grade B | 2 | 1 | 3 |
| Grade D | 25 | 12 | 37 |
| Grade U | 3 | 4 | 7 |
| Total | 41 | 22 | 63 |

B. PROPERTY HELD IN 1959 AND SOLD DURING 1959-64

| | Large Owners | Small Owners | Total |
|---|---|---|---|
| Grade A | 3 | 0 | 3 |
| Grade B | 1 | 0 | 1 |
| Grade D | 21 | 9 | 30 |
| Total | 25 | 9 | 34 |

C. PROPERTY HELD IN 1964

| | Large Owners | Small Owners | Total |
|---|---|---|---|
| Grade A | 8 | 5 | 13 |
| Grade B | 0 | 2 | 2 |
| Grade D | 5 | 2 | 7 |
| Grade U | 3 | 4 | 7 |
| Total | 16 | 13 | 29 |

H-1 was a large property owner who in 1959 owned six properties in the city with a market value of $100,000 and a home in the County with a value of $24,000. Five of his properties in the City were Grade D and the other was Grade A. Four of the Grade D properties were in Kosciusko and contained a total of eleven rental units. They had been held for an average of more than fifteen years. His first purchase in the Kosciusko area had been a building which contained a grocery store which he ran and over which he lived. He rented the remainder of the second floor and all of the third floor as apartments. Later he purchased other buildings in the neighborhood; at one time he owned twelve properties. Eventually, he purchased his present home in the County, although he continued to run the grocery until its purchase by the City. He invested his acquisition award in improvements in his home and in securities. He retained one Grade A and one Grade D property in the City in 1964.

Of the three groups investigated, only Group III showed an appreciable increase in soundness of housing.[12]

TABLE 2. GROUP III: PERCENTAGE OF PROPERTY GRADED "D"

A. PROPERTY HELD IN 1959

| | | |
|---|---|---|
| Large Owners—61% | Small Owners—55% | Total for Group—59% |

B. PROPERTY HELD IN 1964

| | | |
|---|---|---|
| Large Owners—30% | Small Owners—23% | Total for Group—27% |

12. See Maps II and III.

This improvement in quality was due almost entirely to the condemnation of their holdings in slum clearance areas. Judging by the failure of owners in this group to repurchase property elsewhere, it would appear that public acquisition relieved them of the ownership of slum property that they would have sold sooner if possible.

### B. Transactions of Group II

Group II, about forty per cent of the sample, was comprised of owners who continued to invest in property after the loss of their Kosciusko holdings, but who owned less property at the end of the study period than they did at the beginning. Their transactions are summarized in Table 3. They sold more property than they bought between 1959 and 1964, and their 411 holdings in 1959 had decreased to only 274 by 1964. The majority of the property which this group sold had been held for at least ten years. This fact, and the fact that only four properties were bought after 1959 and sold before 1964, indicates that these owners were not active in the market.

TABLE 3. GROUP II TRANSACTIONS DURING THE STUDY PERIOD

A. Property Held in 1959

| | Large Owners | Small Owners | Total |
|---|---|---|---|
| Grade A | 45 | 31 | 76 |
| Grade B | 28 | 19 | 47 |
| Grade D | 145 | 76 | 221 |
| Grade U | 30 | 38 | 68 |
| Total | 248 | 164 | 412 |

B. Property Held in 1959 and Sold During 1959-64

| | Large Owners | Small Owners | Total |
|---|---|---|---|
| Grade A | 15 | 13 | 28 |
| Grade B | 11 | 10 | 21 |
| Grade D | 55 | 46 | 101 |
| Grade U | 16 | 20 | 36 |
| Total | 97 | 89 | 186 |

C. Property Bought During 1959-64 and Held in 1964

| | Large Owners | Small Owners | Total |
|---|---|---|---|
| Grade A | 4 | 7 | 11 |
| Grade B | 0 | 4 | 4 |
| Grade D | 2 | 10 | 12 |
| Grade U | 8 | 14 | 22 |
| Total | 14 | 35 | 49 |

D. PROPERTY OWNED IN 1964

| | Large Owners | Small Owners | Total |
|---|---|---|---|
| Grade A | 34 | 25 | 59 |
| Grade B | 17 | 11 | 28 |
| Grade D | 92 | 39 | 131 |
| Grade U | 22 | 32 | 54 |
| Total | 165 | 107 | 272 |

While Table 4 only shows a slight decrease in the percentage of Grade D property owned by Group II, there are other indications to the contrary. Grade D property comprised 54 per cent of the property sold as compared to 24 per cent of the property purchased. Even more important, Group II owners did not tend to reinvest in property in or near renewal or rehabilitation areas. The number of holdings located in then current or proposed project areas, other than Kosciusko and Mill Creek,[13] dropped from 84 in 1959 to 67 in 1964. Ungraded County property, which generally should be better than Grade D City property, comprised 43 per cent of the property purchased as contrasted to 19 per cent of the property sold. These facts, which demonstrate a trend towards selling property in areas which were blighted, or likely to become so, and towards reinvesting in areas that are sounder, cast some doubt on the finding that there was only a six per cent decrease in the percentage of Grade D housing.

TABLE 4. GROUP II: PERCENTAGE OF PROPERTY GRADED "D"

A. PROPERTY HELD IN 1959

Large Owners—58% Small Owners—46% Total for Group—54%

B. PROPERTY HELD IN 1964

Large Owners—56% Small Owners—36% Total for Group—48%

One of the very large Group II owners is RE-1, a real estate company which held over half of the property owned by this group at the beginning of the study period.

Its transactions were as follows:

| | RE-1 | Other Large Owners | Total |
|---|---|---|---|
| 1959 Property | 226 | 22 | 248 |
| Property Sold During the Study Period | 86 | 11 | 97 |
| Property Bought During the Study Period | 9 | 5 | 14 |
| 1964 Property | 149 | 16 | 165 |

13. See Maps IV and V. Mill Creek is a major slum clearance project near the downtown area.

While RE-1 followed the same general pattern of buying common to Group II and had owned most of the property which it sold for more than ten years, it differed somewhat in that it tended to sell its better property rather than its worse property. However, this tendency biased the data for the entire group by only five per cent.

The following case history will illustrate the property transactions of a more typical Group II owner:

H-2 is a large owner who in 1959 had owned a home in St. Louis County for 15 years. He had also held one Grade A property for twenty years and one Grade D property for twenty years. Two other Grade D properties had been held for six years and two years each. During the study period, after the Land Clearance Authority acquired two Grade D properties in the Kosciusko area, the other Grade D property was sold commercially. Two other properties were bought, one in St. Louis County and one Grade A property in the city. The approximate value of the property bought was $55,000. H-2 is typical of many of the owners in Group II, in that each owner sold an average of three or four properties, most of which were Grade D, and bought one or two properties, most of which were in St. Louis County.

## C. Transactions of Group I

In contrast to Groups II and III, which consisted generally of owners who held their property for relatively long periods of time and reinvested sparingly, if at all, the owners in Group I not only bought more property than they sold during the study period, but many of them were very active in the slum housing market. Their transactions are summarized in Table 5.

TABLE 5. GROUP I TRANSACTIONS DURING THE STUDY PERIOD

A. Property Held in 1959

| | Large Owners | | | | | Small Owners | Total |
|---|---|---|---|---|---|---|---|
| | RE-2 | RE-3 | RE-4 | Other Three | Total | | |
| Grade A | 8 | 44 | 14 | 8 | 74 | 5 | 79 |
| Grade B | 9 | 19 | 6 | 3 | 37 | 1 | 38 |
| Grade D | 45 | 45 | 46 | 14 | 150 | 6 | 156 |
| Grade U | 2 | 16 | 5 | 8 | 31 | 13 | 44 |
| Total | 64 | 124 | 71 | 33 | 292 | 25 | 317 |

B. Property Held in 1959 and Sold During 1959-64

| | Large Owners | | | | | Small Owners | Total |
|---|---|---|---|---|---|---|---|
| | RE-2 | RE-3 | RE-4 | Other Three | Total | | |
| Grade A | 0 | 26 | 3 | 4 | 33 | 0 | 33 |
| Grade B | 0 | 11 | 1 | 0 | 12 | 0 | 12 |
| Grade D | 17 | 32 | 21 | 7 | 77 | 4 | 81 |
| Grade U | 1 | 15 | 0 | 2 | 18 | 4 | 22 |
| Total | 18 | 84 | 25 | 13 | 140 | 8 | 148 |

C. Property Bought in 1959-64 and Held in 1964

| | Large Owners | | | | | Small Owners | Total |
|---|---|---|---|---|---|---|---|
| | RE-2 | RE-3 | RE-4 | Other Three | Total | | |
| Grade A | 9 | 97 | 18 | 4 | 128 | 2 | 130 |
| Grade B | 2 | 38 | 9 | 4 | 53 | 3 | 56 |
| Grade D | 8 | 44 | 30 | 8 | 90 | 1 | 91 |
| Grade U | 3 | 13 | 5 | 18 | 39 | 16 | 55 |
| Total | 22 | 192 | 62 | 34 | 310 | 22 | 332 |

D. Property Held in 1964

| | Large Owners | | | | | Small Owners | Total |
|---|---|---|---|---|---|---|---|
| | RE-2 | RE-3 | RE-4 | Other Three | Total | | |
| Grade A | 17 | 115 | 29 | 8 | 169 | 7 | 176 |
| Grade B | 11 | 46 | 14 | 7 | 78 | 4 | 82 |
| Grade D | 36 | 57 | 55 | 15 | 163 | 3 | 16f |
| Grade U | 4 | 14 | 10 | 24 | 52 | 25 | 77 |
| Total | 68 | 232 | 108 | 24 | 462 | 39 | 501 |

Group I consisted of ten owners, about one-fourth of the sample, who owned 317 properties in 1959; their holdings had risen to 501 by 1964. During the intervening five years, they sold 148 properties and ac quired 332.[14] Also of significance is the fact that 164 properties pur chased after 1959 were sold before 1964; this high rate of turnover sug gests that many owners in Group I speculated on the profit to be ex pected from quick resales.

Three large real estate companies owned the bulk of the property held by this group, but the quality of their holdings and their pat-

14. See Maps VI and VII.

terns of reinvestment were quite different. RE-2 tended to hold property for a substantial period of time, indicating that it sought its return primarily from rental income. On the other hand, RE-3, and to a lesser extent RE-4, tended to invest in the most blighted areas of the city, generally in areas of racial transition. The two distinct investment patterns represented by these companies were reflected in the remaining Group I owners, most of them tending toward high turnover rates.

RE-2 owned 64 properties in 1959. Forty-five were Grade D and had been held for an average of more than eight years. Of the eighteen properties held in 1959 that were sold before 1964, fifteen were acquired by the Land Clearance Authority. Only two properties were bought after 1959 and sold before 1964, as compared with twenty-two bought during the study period and still held at the end of it. Eight of the properties which were purchased and retained were in Grade D, but only four were located in areas that were or became renewal or rehabilitation projects. Nine of the properties which were bought were in Grade A, two in Grade B, and three in Grade U. Two of the County purchases were located in rather exclusive neighborhoods.

In contrast, RE-3 and RE-4 bought and sold property at a rapid pace. For example, none of the 124 properties held by RE-3 in 1959 had been owned for over five years; the average was a little less than three. By 1964, the company had sold all but forty of its 1959 holdings. It bought 124 properties after 1959 which it had sold by 1964. Its total number of holdings and its investment in real property almost doubled during the study period. RE-4 followed a similar pattern, although its rates of turnover and expansion were not as rapid.

Most important is the fact that the bulk of the transactions in which RE-3 and RE-4 engaged was in properties located in blighted areas or in areas of racial transition. In 1959, their holdings comprised 70 per cent of the holdings of Group I that were Grade D or located in active or contemplated project areas. By 1964, 83 per cent of their holdings were in this category. In addition, 98 of the 124 properties bought by RE-3 after 1959 and sold before 1964 were in areas which were urban renewal projects by 1964. This pattern of quick turnover in blighted or deteriorating neighborhoods suggests that RE-3 and RE-4 were able to find profit opportunities in dealings in blighted properties.

In spite of these patterns of investment, Table 6 indicates a substantial improvement in the quality of housing held by Group I. This apparent improvement needs qualification, for with few exceptions, Group I owners reinvested in areas that include the city's most deteriorated neighborhoods; they purchased frequently in areas that were or became urban renewal or rehabilitation projects. Group I owned 47 properties in such areas in 1959 and 125 in 1964. Their incidence of activity in the area designated as "City III" on the maps was equally as high, and this area is as badly blighted as any selected for renewal. This group's holdings in the City III area had risen from 69 in 1959 to 106 in 1964.[15]

TABLE 6. GROUP I: PERCENTAGE OF PROPERTY GRADED "D"

| | | |
|---|---|---|
| | A. Property Held in 1959 | |
| Large Owners—51% | Small Owners—24% | Total for Group—49% |
| | B. Property Held in 1964 | |
| Large Owners—35% | Small Owners—8% | Total for Group—33% |

## III. Some Concluding Observations

While necessarily tentative, both the Newark and St. Louis studies indicate a difference in slum ownership patterns, as some larger owners of substandard housing increased and enlarged upon their holdings, and some smaller owners disappeared. These studies cast some doubt on traditional housing market analysis, in which housing entrepreneurs are assumed to be indifferent to the areas of the city in which they invest;[16] and the St. Louis study confirms to some extent the

15. The following table suggests that the percentage of Grade D property held by all of the owners declined from 1959 to 1964. However, the table is subject to the limitations inherent in the data on housing condition.

Percentage of Property in Grade D

| | | | |
|---|---|---|---|
| | | A. 1959 | |
| Group I | Large Owners—51% | Small Owners—24% | Total for Group—49% |
| Group II | Large Owners—58% | Small Owners—46% | Total for Group—54% |
| Group III | Large Owners—61% | Small Owners—55% | Total for Group—59% |
| | | B. 1964 | |
| Group I | Large Owners—35% | Small Owners— 8% | Total for Group—33% |
| Group II | Large Owners—56% | Small Owners—36% | Total for Group—48% |
| Group III | Large Owners—30% | Small Owners—23% | Total for Group—27% |

Note, however, that the percentage of property held in project areas also tended to decline:

Percentage of Property in Project Areas

| | | |
|---|---|---|
| Group I | 1959—60% | 1964—54% |
| Group II | 1959—55% | 1964—49% |
| Group III | 1959—65% | 1964—27% |

16. *See* J. Heilbrun, Real Estate Taxes and Urban Housing, ch. 2 (1966).

existence of a class of owners who choose to invest in substandard and declining areas. Studies of housing market behavior can no longer afford to aggregate data for entire markets, but will have to develop more sophisticated methods for subclassifying areas of investment, investors, and owners. Unfortunately, the St. Louis study suggests that those landlords who have relatively long-term investments in substandard areas tended to leave once given the opportunity. Those landlords who added to their holdings often turned over their properties quickly, indicating a lack of interest in permanent investment which undoubtedly decreases their interest in housing code compliance.

What policy implications are to be derived from these studies is a matter of choice. Punitive and suppressive measures are one possibility. If it is assumed, for example, that large operators knowingly invest in substandard and declining areas in order to "milk" profits out of deteriorating property which they purposely allow to deteriorate further, then conduct of this kind can be made criminally punishable.[17] Characterizing activities of this kind as illegal could also provide a basis for writing down costs of acquisition of substandard property for urban renewal, on the traditional ground that no recovery may be had in eminent domain for values which are attributable to illegal uses.[18] How helpful these measures can be is questionable, however. It may be more constructive to take account of prevailing patterns of large-scale and semi-monopolistic ownership in devising more effective methods of housing code enforcement. For example, statutory proceedings could be devised to bring all of the properties of a single owner before the code enforcement agency at one time, so that a rehabilitation program could be worked out in stages for all of his properties. Pooling and exchange agreements among several owners, supervised by the enforcing agency, are another possibility. Such agreements could consolidate the holdings of a single owner in

17. An Illinois law has created the crime of "criminal housing management." Ill. Ann. Stat. ch. 38, § 12-5.1 (Supp. 1966). It applies to any person who has management or control of residential real estate and who "knowingly permits by his gross carelessness or neglect the physical condition or facilities of the residential real estate to become or remain so deteriorated that the health or safety of any inhabitant is endangered."

18. *See* the general discussion in Dagen & Cody, *Property, et al. v. Nuisance, et al.*, 26 LAW & CONTEMP. PROB. 70 (1961).

one neighborhood, affording a more attractive base for lenders and in this manner easing the job of housing code compliance.[19]

In the long run, however, these studies suggest some form of institutional recognition of the position of the large-scale entrepreneur. If his management and related skills are to be mobilized most effectively, he might be converted to a nonprofit or limited-dividend status which would entitle him to participate in programs of federal subsidy. These programs would provide the financial basis for more reasonable rent levels, would permit rehabilitation to decent standards, and would bring hopefully beneficial controls. Other proposals can be imagined which would give the large-scale owner a more constructive role in housing improvement efforts. He might be utilized quite effectively in leased public housing programs, for example. What these studies suggest most clearly, however, is a need to pay more attention to the behavior and structure of the housing market in fashioning policies for slum and substandard housing.

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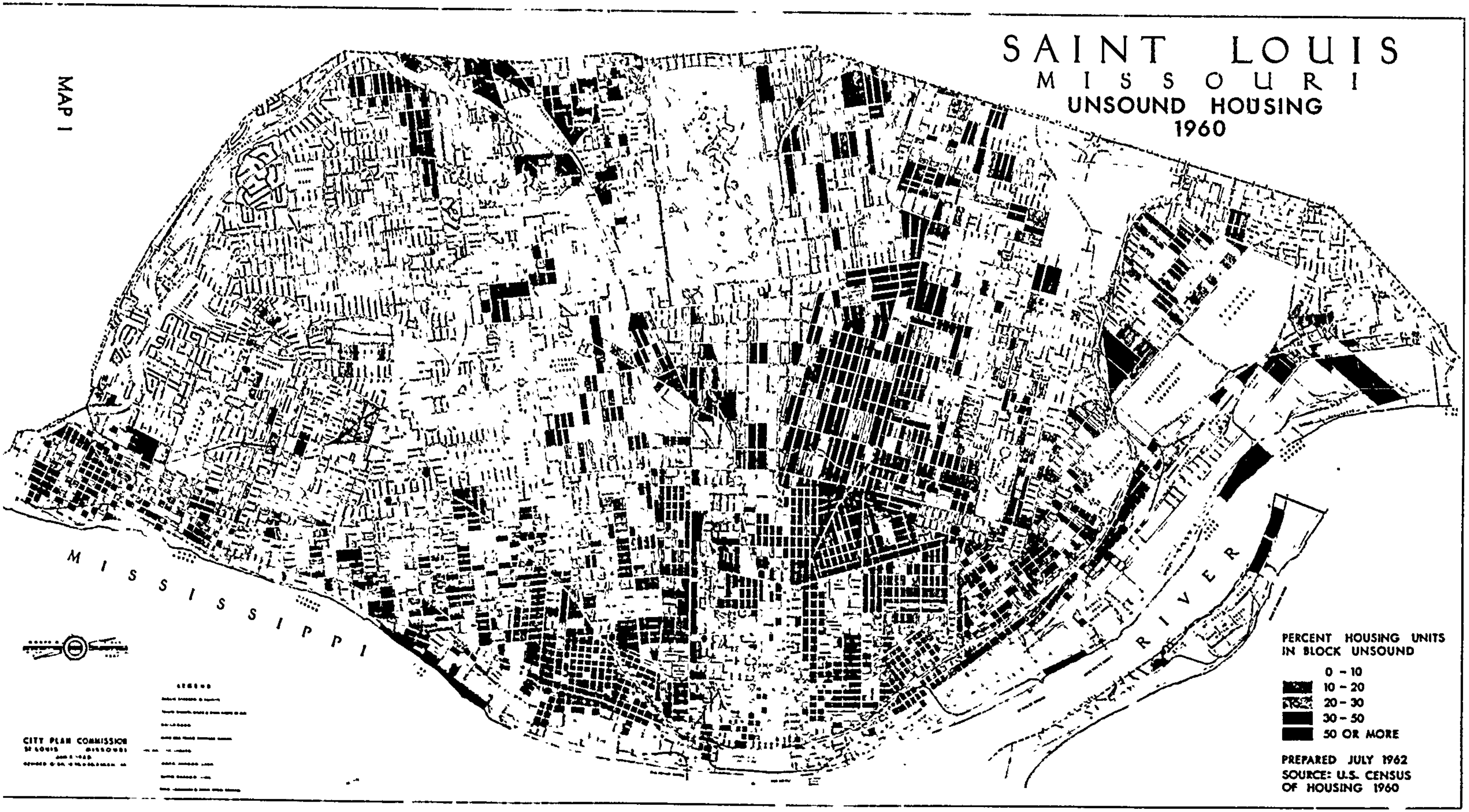
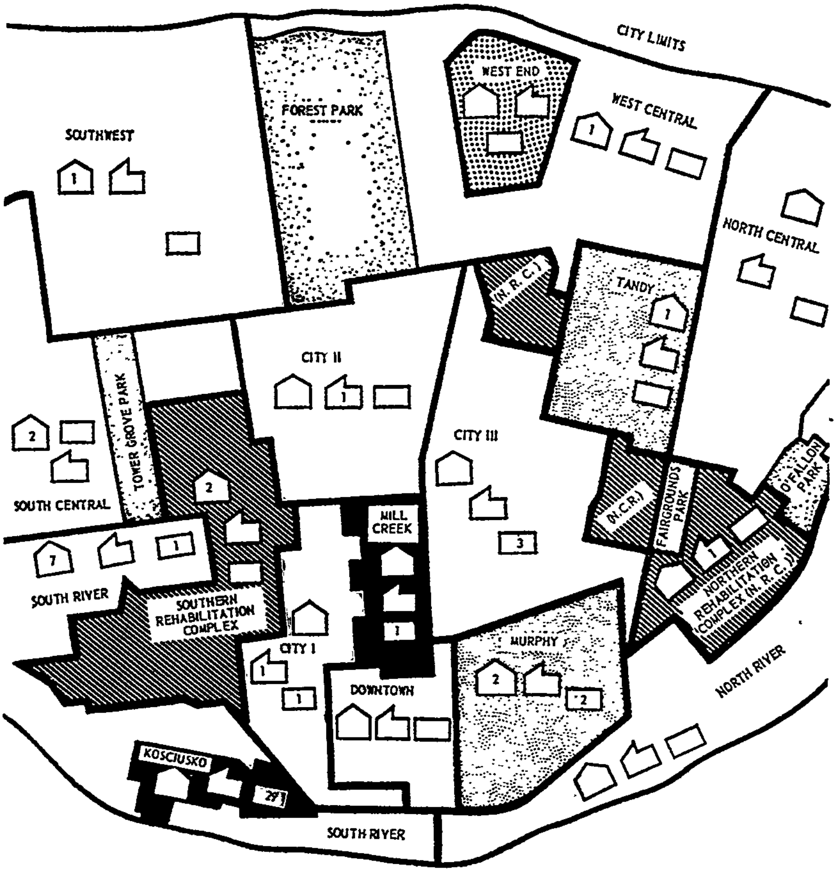
19. This suggestion demands caution. If consolidation went too far it might create a monopoly position which may give the owner enough leverage to raise rents.

MAP 1


SAINT LOUIS
MISSOURI
UNSOUND HOUSING
1960
MISSISSIPPI
RIVER
PERCENT HOUSING UNITS IN BLOCK UNSOUND
0 – 10
10 – 20
20 – 30
30 – 50
50 OR MORE
PREPARED JULY 1962
SOURCE: U.S. CENSUS OF HOUSING 1960
CITY PLAN COMMISSION
ST LOUIS MISSOURI

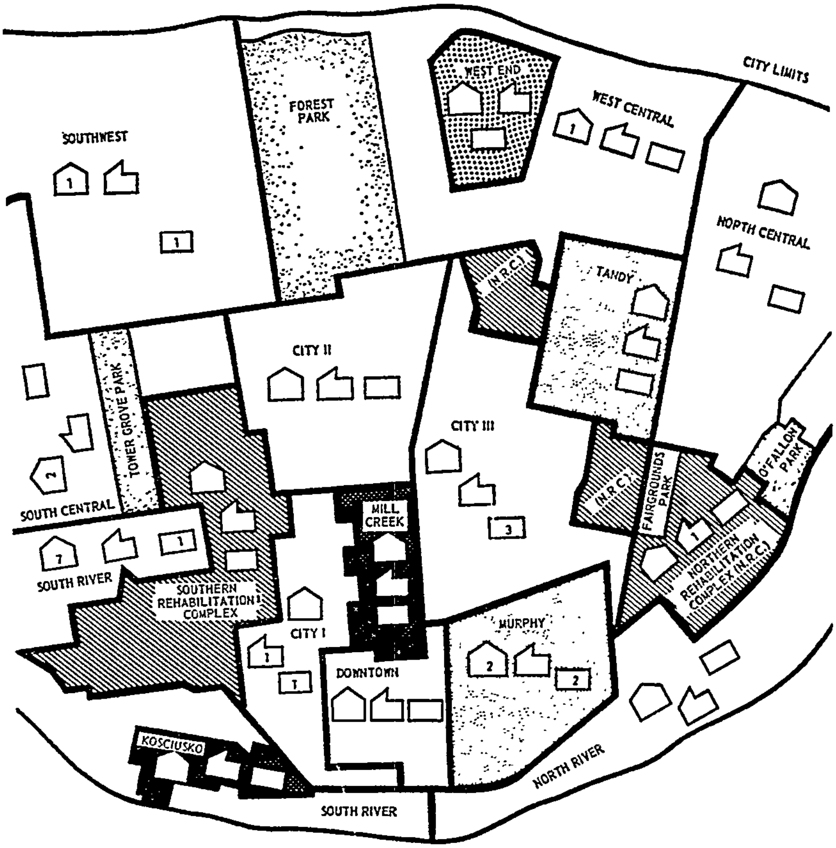



LEGEND
RENEWAL PROJECT IN EXECUTION
REHABILITATION PROJECT IN EXECUTION
RENEWAL PROJECT DELINEATED
FUTURE SITE OF REHABILITATION PROJECT
GRADE. A: 0-30% UNSOUND HOUSING
GRADE B: 30-50% UNSOUND
GRADE: D: 50% OR OVER UNSOUND
NUMBER WITHIN UNSOUNDNESS SYMBOL INDICATES NUMBER OF PROPERTIES OF THAT GRADE OWNED BY GROUP

LOCATION, NUMBER AND UNSOUNDNESS OF CITY HOLDINGS OF GROUP III OWNERS IN 1959

Only the central sector of St. Louis, Missouri, is shown in Maps II-VII. See Map I for a complete map of St. Louis.

MAP II




LEGEND

RENEWAL PROJECT COMPLETED

RENEWAL PROJECT IN EXECUTION

RENEWAL PROJECT DELINEATED

REHABILITATION PROJECT IN EXECUTION

GRADE A: 0–30% UNSOUND HOUSING

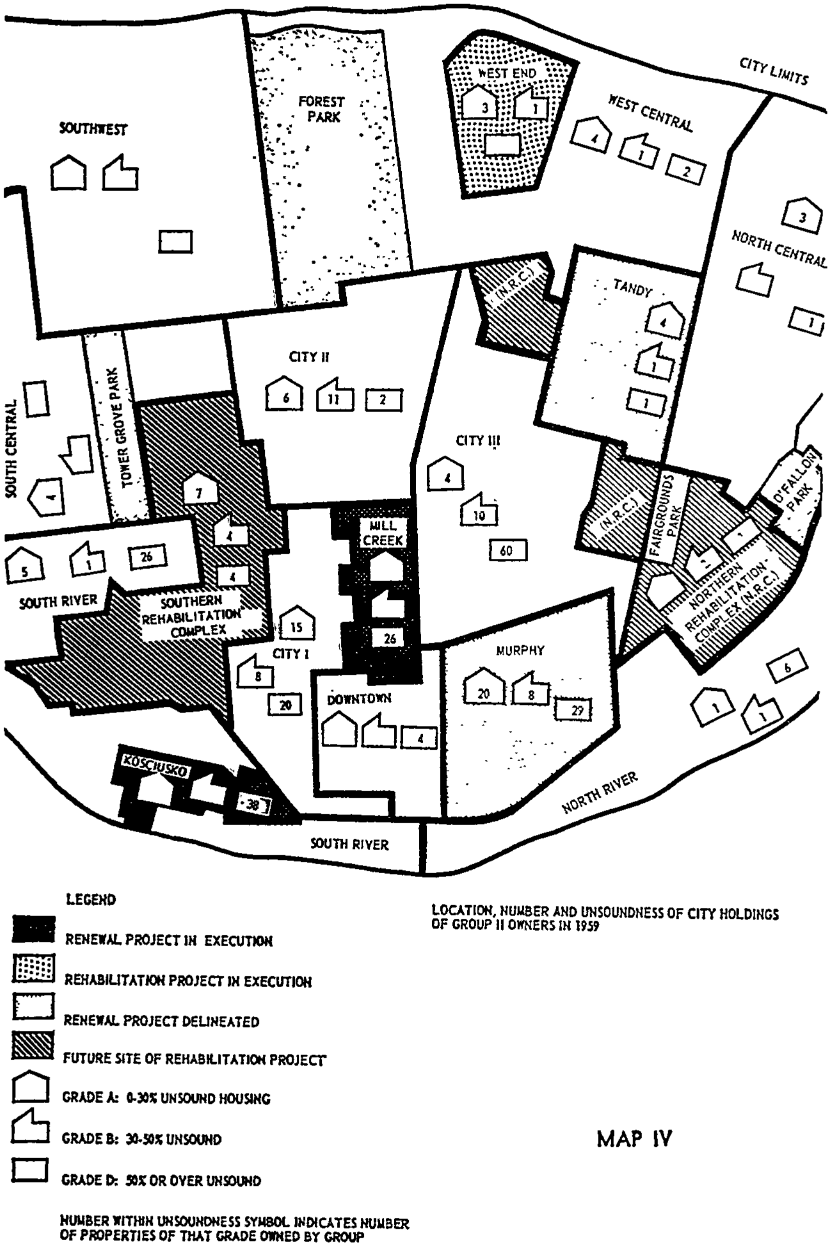
GRADE B: 30–50% UNSOUND

GRADE D: 50% OR OVER UNSOUND

NUMBER WITHIN UNSOUNDNESS SYMBOL INDICATES NUMBER OF PROPERTIES OF THAT GRADE OWNED BY GROUP

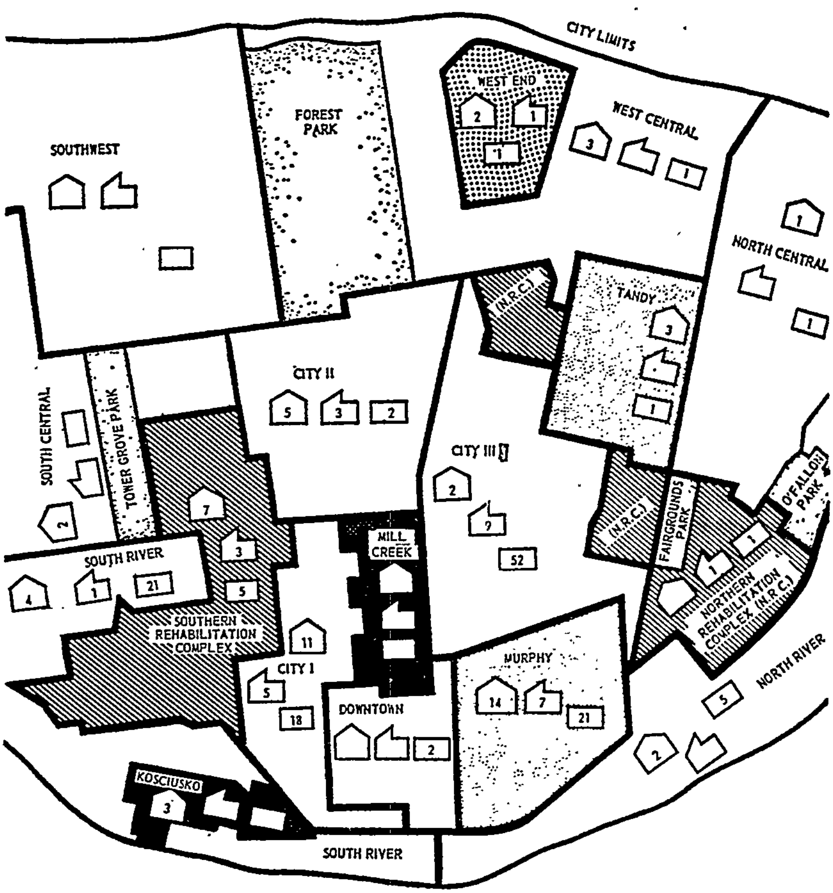
LOCATION, NUMBER AND UNSOUNDNESS OF CITY HOLDINGS OF GROUP III OWNERS IN 1964

MAP III




LOCATION, NUMBER AND UNSOUNDNESS OF CITY HOLDINGS OF GROUP II OWNERS IN 1959

MAP IV




LEGEND

RENEWAL PROJECT COMPLETED

RENEWAL PROJECT IN EXECUTION

RENEWAL PROJECT DELINEATED

REHABILITATION PROJECT IN EXECUTION

GRADE A: 0-30% UNSOUND HOUSING

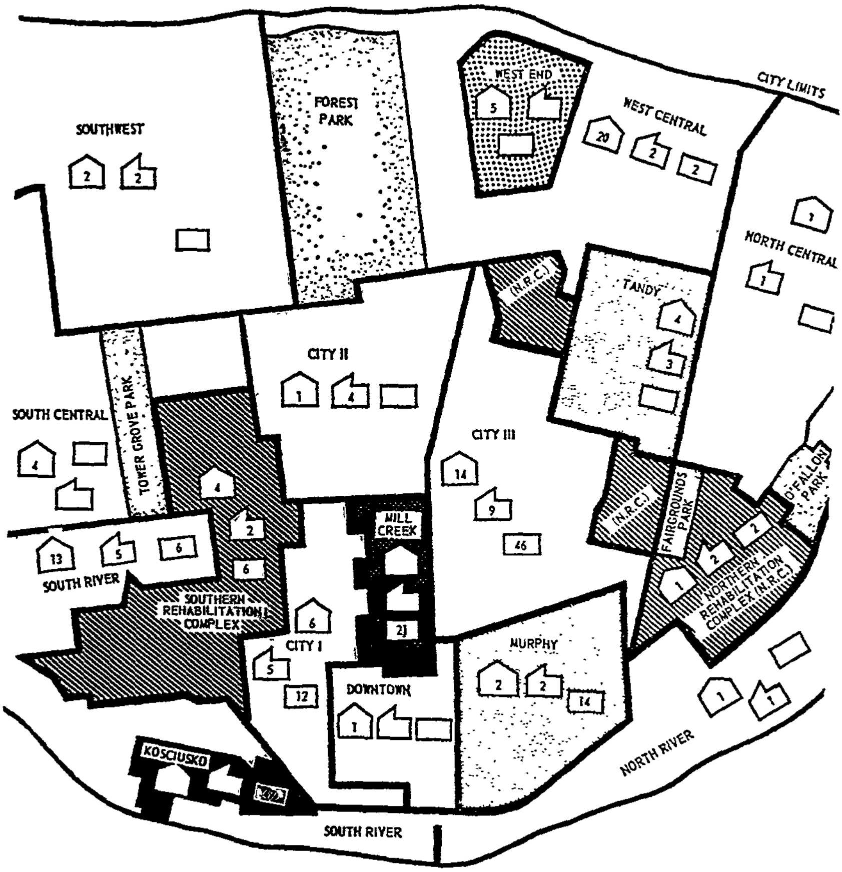
GRADE B: 30-50% UNSOUND

GRADE D: 50% OR OVER UNSOUND

NUMBER WITHIN UNSOUNDNESS SYMBOL INDICATES NUMBER OF PROPERTIES OF THAT GRADE OWNED BY GROUP

LOCATION, NUMBER AND UNSOUNDNESS OF CITY HOLDINGS OF GROUP II OWNERS IN 1964

MAP V




LEGEND

RENEWAL PROJECT IN EXECUTION

REHABILITATION PROJECT IN EXECUTION

RENEWAL PROJECT DELINEATED

FUTURE SITE OF REHABILITATION PROJECT

GRADE A: 0–30% UNSOUND HOUSING

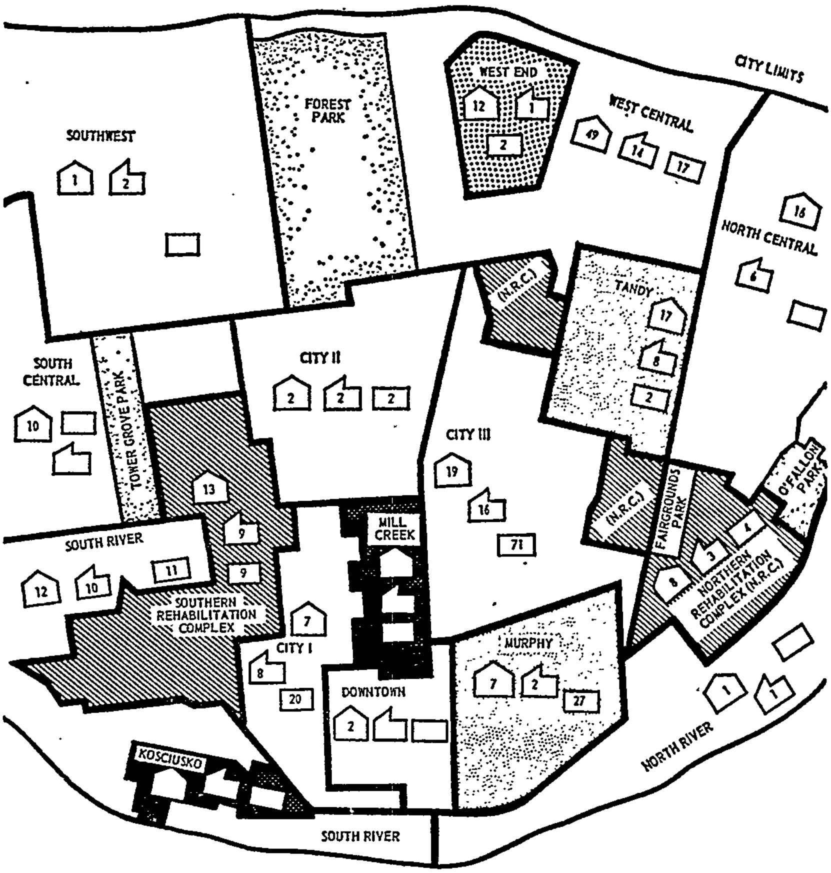
GRADE B: 30–50% UNSOUND

GRADE D: 50% OR OVER UNSOUND

NUMBER WITHIN UNSOUNDNESS SYMBOL INDICATES NUMBER OF PROPERTIES OF THAT GRADE OWNED BY GROUP

LOCATION, NUMBER AND UNSOUNDNESS OF CITY HOLDINGS OF GROUP I OWNERS IN 1959

MAP VI




LEGEND

RENEWAL PROJECT COMPLETED

RENEWAL PROJECT IN EXECUTION

RENEWAL PROJECT DELINEATED

REHABILITATION PROJECT IN EXECUTION

GRADE A: 0-30% UNSOUND HOUSING

GRADE B: 30-50% UNSOUND

GRADE D: 50% OR OVER UNSOUND

NUMBER WITHIN UNSOUNDNESS SYMBOL INDICATES
NUMBER OF PROPERTIES OF THAT GRADE OWNED BY GROUP

LOCATION, NUMBER AND UNSOUNDNESS OF CITY HOLDINGS
OF GROUP I OWNERS IN 1964

MAP VII