



# REAL ESTATE

# Bulletin

EDMUND G. BROWN, *Governor*

May 1964

MILTON G. GORDON, *Commissioner*

## State Real Estate Commission—Structure and Function

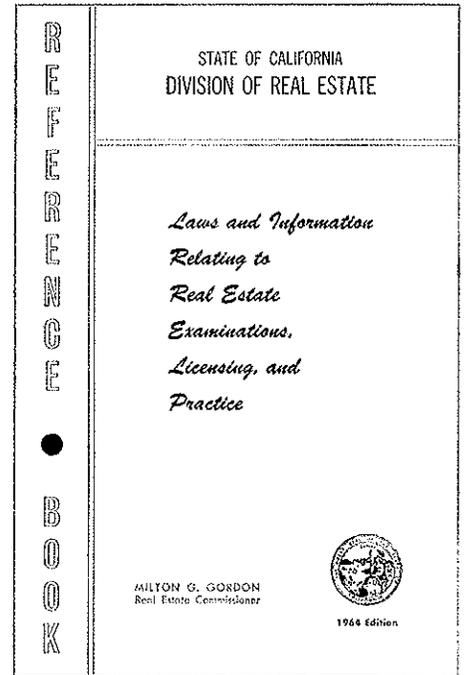
The State Real Estate Commission is a seven-member advisory body established by legislative act in 1937 as the State Real Estate Board which was re-titled in 1957. Members are appointed by the Governor for four-year terms and must have had at least five years' active experience as real estate brokers in California to be eligible. Meetings of the body are chaired by the Real Estate Commissioner who is, of course, a member.

Frequently the press or others discussing policies or actions relating to the administration of real estate law in California will refer to an order issued by the "commission." For example: "The Real Estate Commission revoked the license held by John so and so" or "The commission ordered the promoters of the Blank Subdivision to desist and refrain from further sales." This is never the case. The commission's function is largely consultative and advisory and it issues no administrative orders. The authority and responsibility for the determination of administrative policy and enforcement of the provisions of real estate and related codes is vested in the Real Estate Commissioner.

The commission may (a) inquire into the needs of the real estate licensees of California, the functions of the Division of Real Estate and the matter of its business policy; (b) confer and advise with the Governor and other state officers as to how the division may best serve the State and real estate licensees; (c) make such recommendations and suggestions of policy to the commissioner as the commission deems beneficial and proper for the welfare and progress of the real estate licensees and of the public and of the real estate business in California.

Beyond its advisory function the commission is charged with the responsibility of appraising claims of equivalent experience or educational qualifications made by any candidate for broker license who has not completed the basic requirement of two years' full-time active employment as a real estate salesman in California. This involves a large volume of work and the judgment that only experienced and eminently qualified officials can be expected to possess.

## 1964 Reference Book Here



The 1964 edition of the Reference Book is now available at \$3.12 per copy, including tax. See Commissioner's comment on Page 660.

## MISHANDLING OF "TERMITE REPORT FACTS" UNDER SCRUTINY

Recent incidents of mishandling of pest control information by licensees illustrate an area of unacceptable practice now being given special attention by the Division of Real Estate.

In a typical case, a salesman secured a signed offer containing a standard "termite clause," calling for a structural pest control report, with sellers to pay for curing existing damage and buyers paying for the report. Operator A checked the property and sub-

mitted a report showing infestation and damage to the extent of an estimated \$490. Later, Operator B reported no damage.

The salesman then, having full knowledge of both reports, presented only Report B to the buyers and thereby clearly violated the full disclosure provisions of Section 2903 of the Commissioner's Regulations relative to structural defects. At the hearing he sought to justify his conduct

by stating that he had given Operator A the buyer's name, address, and the escrow file number and "assumed" they would get Report A. The employing broker stated that she had not been active in the negotiations and supposed the buyers had received both reports.

The facts indicate that too much "assuming" was done by both broker and salesman—a practice not sanc-

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**DIVISION OF REAL ESTATE**

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**TERMITE REPORT PROBLEMS**

(Continued from page 653)

tioned by real estate law. The hearing officer, in the case of the salesman, concluded that a sufficient degree of intent was shown to justify license suspension.

Section 2903 is specific as to full disclosure and to whom and when disclosure shall be made. It is recommended that licensees refresh themselves on the content of Section 2903 because it is germane to so many transactions.

**Disciplinary Action—January-February, 1964**

NOTE: A list of actions is not published in this Bulletin until the 30-day period allowed for court appeal has expired; or, if an appeal is taken, until a final determination of the court action. Names of persons to whom licenses are denied upon application are not published.

**Licenses Revoked During January-February, 1964**

Name	Address	Effective date	Violation
Trainor, Walter Elliott, Jr. dba Trainor Realty Co. Restricted Real Estate Broker	920 Duchow Way, Folsom	1/ 2/64	Failure to comply with conditions.
Ballard, Marion Viola Real Estate Broker	761 Orchard Ave., Hayward	1/ 6/64	Secs. 10176 (c), (i); 10177 (d), (f) and Sec. 2830 of R.E. Comm. Reg.
DeBock, Ernest Wesley Restricted Real Estate Broker	2427 Walnut Ave., Carmichael	1/ 6/64	Secs. 10160; 10162; 10164 and 10177 (f)
Hartman, Alvin James dba A. J. Hartman Realty Com- pany Real Estate Broker	5420 San Pablo Ave., Oakland	1/ 6/64	Secs. 10177 (b), (f); 10240 and Sec. 2842.5 of R.E. Comm. Reg.
(Granted right to restricted license on terms and conditions)			
Morgan, Edwin Henderson Restricted Real Estate Salesman	1481 Burlingame Ave., Burlingame	1/10/64	Sec. 10177 (k)
Deal, Thomas Emeroh Real Estate Salesman	385 Pine Hill Rd., Mill Valley	1/13/64	Sec. 10177 (b) and (f)
Kelly, David Hy Real Estate Salesman	3801 Opal St., Oakland	1/13/64	Sec. 10177 (a) and (f)
(Granted right to restricted license on terms and conditions)			
Tensfeldt, Roy Lawrence Restricted Real Estate Salesman	907 Taraval St., San Francisco	1/20/64	Secs. 10176 (c), (f) and 10177 (f)
Merrill, Alberta Leona Real Estate Salesman	P.O. Box 2032, Orcutt	1/22/64	Sec. 10177 (b) and (f)
(Granted right to restricted license on terms and conditions)			
Beasore, Wilson H. Real Estate Broker	P.O. Box 9196, Sacramento	1/27/64	Secs. 10176 (a), (c), (i); 10177 (d), (f) and Sec. 2723 of R.E. Comm. Reg.
Sergent, Ivan Oscar, Jr. Real Estate Salesman	4132 Schofield Way, North High- lands	1/27/64	Secs. 10176 (c), (f) and 10177 (f)
Wright, James Smith Restricted Real Estate Broker	131 W. Main St., Los Gatos	1/27/64	Sec. 10177 (d)
Boylan, Delmer Reese dba Del-Con Realty Real Estate Broker	4625 Auburn Blvd., Sacramento	2/ 7/64	Secs. 10160; 10162; 10164; 10176 (c), (i) and 10177 (f)
Ward, Burrell E. Real Estate Salesman	313 W., 1st. Box 253, La Habra	2/13/64	Sec. 10177 (b) and (f)
Angelini, Gerald Robert Real Estate Salesman	6103 Castana Blvd., Lakewood	2/14/64	Sec. 10177 (b) and (f)
Hinski, Constance Faith Real Estate Salesman	7529 W. Norton, Apt. 7, Los Angeles	2/18/64	Sec. 10177 (b) and (f)

**Broker's License Suspended for "Lack of Supervision"**

Every employing broker is required by law to exercise reasonable supervision over the activities of his sales personnel. This is an important requirement basic to the broker-salesman relationship in the real estate structure and in relationships with the public. But too often this responsibility is neglected, and a case in point is a recent action resulting in suspension of an individual's real estate and business opportunity brokers' licenses. This broker maintained a duly licensed branch office in a community distant almost the length of the State from his main office. The Division of Real Estate received some inquiries about the type of service offered in the branch office and about the nature of the supervision presumably exercised. This led to an examination of conditions at the branch office and eventually an accusation against the broker which culminated in a formal hearing. Here is the record of the broker's "supervision":

"At all times herein mentioned," read the findings of the hearing officer after testimony was taken in the hearing, "(the) respondent has failed to regularly visit said branch office . . . to maintain regular and reasonable communication with the real estate salesmen at said branch office . . . to give reasonable assistance or advice to the real estate salesmen at said branch office . . . to exercise reasonable supervision over the activities of salesmen at said branch office."

The hearing officer also said the broker had failed to maintain copies of listings and deposit receipts pertaining to transactions at the branch office.

The broker submitted what he considered mitigating circumstances, but the hearing officer recommended a brief suspension of the broker's license and an order to that effect was forthcoming.

## Licenses Suspended During January-February, 1964

Name	Address	Effective date and term	Violation
Davis, Richard Harrison Real Estate Salesman (Last 50 days of suspension stayed on terms and conditions)	12764 San Pablo Ave., Richmond.	1/ 3/64 60 days	Secs. 10176 (a); 10177 (f) and (g)
Robey, Jesse dba Capital Mortgage Investment Company dba J. E. Robey Realty Company Real Estate Broker Business Opportunity Broker (Execution of suspension shall be permanently stayed)	4630 West St., Oakland	1/ 6/64 15 days	Secs. 10177 (d), (f); 10302 (d), (e) and Sec. 2842.5 of R.E. Comm. Reg.
Ferris, Zita Adele Real Estate Salesman (Said suspension shall be stayed for 6 months on terms and conditions)	2111 MacArthur Blvd., Oakland	1/20/64 60 days	Secs. 10176 (a), (b), (g) and 10177 (f)
Polberg, Harry Real Estate Broker (Last 25 days of suspension stayed permanently)	Ste. 1, 3400 El Camino Real, Santa Clara	1/20/64 30 days	Secs. 10177 (d); 11012; 11018.1 and Sec. 2800 of R.E. Comm. Reg.
Fredell, B. August Real Estate Salesman (Execution of suspension stayed permanently)	791 Shamrock Dr., Campbell	1/20/64 10 days	Sec. 10177 (b) and (f)
Bay, Francis (Frank) C. Real Estate Broker (Execution of suspension shall be stayed permanently)	1231 Market St., San Francisco	1/27/64 10 days	Secs. 10160; 10162; 10164 and 10177 (f)
Butler, Robert Duane Business Opportunity Salesman Member, Wright-Butler and McLellan Business Opportunity Broker (Execution of said suspension stayed for one year on conditions)	1408 W. Whittier Ave., Brea	2/ 4/64 30 days	Sec. 10301 (a)
Harris, Edith Jeannetta Real Estate Broker (Said suspension shall be permanently stayed)	4112 Market St., San Diego	2/ 4/64 15 days	Secs. 10145; 10177 (d) and Sec. 2830 of R.E. Comm. Reg.
Sheehy, Thomas LeRoy Real Estate Salesman	10515 Alskog St., Sun Valley	2/ 6/64 30 days	Sec. 10177 (b) and (f)
Drucker, George Oswald Real Estate Salesman	308 El Camino Real, Burlingame	2/ 7/64 60 days	Secs. 10176 (a), (b), (g), (i) and 10177 (f)
Long, Melvin Melton Real Estate Broker (Stayed permanently on terms and conditions)	3771 Dam Rd., El Sobrante	2/25/64 15 days	Secs. 10176 (a), (i); 10177 (d), (f) and Sec. 2903 of R.E. Comm. Reg.
Rhoades, Virginia Lee dba Rhoades Realty Real Estate Broker Business Opportunity Broker	288 E. Central Ave., La Habra	2/25/64 30 days	Secs. 10176 (a), (i); 10177 (f) and 10302 (e)
Stratton, Douglas Lagatu Real Estate Broker (Stayed permanently on terms and conditions)	3823 Macdonald Ave., Richmond	2/25/64 30 days	Secs. 10176 (a), (i); 10177 (d), (f) and Sec. 2903 of R.E. Comm. Reg.

## SALESMEN! APPLY ON TIME FOR RENEWAL LICENSE EXAM

Some salesmen, who have held a second, successive original salesman license, are finding themselves out of business and unable to apply for a new license for a full year. Two basic causes are involved: Misunderstanding and procrastination. The only cure for the latter lies with the licensee. To help eliminate the misunderstanding, however, every employing broker and every salesman who wants to stay in real estate is advised to read the following two paragraphs with particular care.

### *Applicant Bears Sole Responsibility*

The law provides that the holder of a second, successive original one-year salesman license is entitled to apply for an examination for a four-year renewal salesman license. *The responsibility to apply for the renewal license examination rests with the applicant.* The Division of Real Estate does, however, mail an application with the

second, successive original license. Should this notice be lost there is no followup, hence the burden rests with the applicant. The examination for renewal license should be taken some time during the first nine months of the second, successive original license year. This allows the applicant to apply for and take a reexamination should he fail the first test.

*Remember:* The applicant should file his renewal examination application at least 90 days before expiration of his second, successive license. This allows for processing and scheduling of the examination which must be taken before expiration of the license. Also, early filing will ensure eligibility for a reexamination in case of failure. The reexamination application and fee must be filed before expiration of the second, successive original real estate salesman license, and the reexamination taken within 60 days after the license has lapsed.

## New Deputy Commissioner Classification Approved

The job classification "deputy real estate commissioner I" has been changed to allow recruitment by the Division of Real Estate of college graduates with major study in appropriate fields. The former grade I position becomes grade II, the grade II position becomes grade III, and so on. There are no changes in salaries involved in this adjustment. The entrance salary of the new deputy grade I position will be \$486 with merit raises up to \$536.

An orientation program has been planned which will acquaint new deputy grade I appointees with the various functions in the Division of Real Estate, while performing the less difficult technical work involved, and prepare them for promotion to the journeyman class of Deputy Real Estate Commissioner II.

The new position has been established to enable the Division of Real Estate to recruit directly from colleges and universities young people whose educational background would appear suitable for the type of work done by Deputy Real Estate Commissioners. The entrance level under the old specifications for deputy, grade I, required the equivalent of graduation from college plus two years of real estate or related experience. This automatically eliminated recruitment of recent graduates and, after two or more years of required experience, likely prospects were not apt to surrender an established position in private enterprise to enter public service.

The written examination for the new deputy I job is scheduled for June 6, 1964, and the final date for filing applications is May 15. Persons interested in the work are advised to get in touch immediately with one of the State Personnel Board offices.

### ORDERS FOR APPLICATION BLANKS

Brokers: When ordering a supply of license application forms, please ask for only enough to take care of your reasonable needs in the near future.

## Careless Brokers Endorse Doubtful Experience Claims

A local real estate board devotes a major part of one issue of its newsletter to its broker members' carelessness and lack of responsibility in failing to make sure of the return of lockbox keys assigned to salespeople who had left their employ.

This is mentioned because it is symptomatic of a far more serious aspect of the failure of some brokers to measure up to their responsibility under the law for the acts of their salespeople.

A series of incidents have been reported involving broker signatures on claims of experience qualification presented by salesmen with their applications for real estate broker license. Brokers should know that any signs of falsification or discrepancies are being checked out thoroughly and appropriate action taken.

The point of this article is simply to emphasize that an employing broker signs these claims under penalty of perjury; that if he is exercising reasonable supervision as required by law he cannot be ignorant of misrepresented experience claims; and that his signature upon the application makes him, along with the salesman making the dishonest claim of experience, subject to possible disciplinary action.

### GOOD ADVICE FOR EVERYONE

"One of the very first things that we must teach every *young* person in our business, and the thing which must constantly be renewed in the minds of those of us who perhaps are not classed as young any more, is that when we use that old overworked word 'service' we have to back it up with that much underworked *act* of 'service.' We may like our own business but the only things that our clients like about it are what it does for them."

Oroville Title Company  
Newsletter

## The Use of Real Property Sales Contracts

People taking license examinations and others calling in with questions often betray an extremely hazy knowledge of real property sales contracts. This prompts a discussion of this legal instrument much used in the transfer of interest in real property, particularly by developers of large areas of unimproved land and by those selling improved properties to buyers on small down payments.

Although it is variously designated "installment sales contract," "agreement for purchase and sale," and "agreement to convey," we choose what seems to be the most universally acceptable term, "real property sales contract," a device which must be in writing to be enforceable. It is defined in Section 2985 of the Civil Code.

In simple terms, the seller of a property agrees to convey title to a purchaser upon the performance by the latter of certain acts or conditions set forth in the document. As a matter of common practice it grants control, use, or possession, as the case may be, of the property upon a given date and pledges the transfer of fee simple title subsequent to the fulfillment by the purchaser of all the acts or conditions prescribed.

The presumed advantage of such an instrument to a seller is the ease with which he may eliminate a purchaser's interest in the event of a default. This presumption, however, was considerably weakened by court conclusions that California Civil Code Section 3275 was a sufficient barrier to harsh and unreasonable forfeiture proceedings.

In the light of this fact, except in the special area of large land developments, the advantage which a sales contract may have held as a security device seems to have dissipated in favor of the use of a deed of trust with power of sale.

The disadvantages of a sales contract to the buyer are several, the chief of which are:

1. Covenants in restriction of assignment or transfer of the land contract which hamper or prevent the transfer of his interest therein.

2. A prevailing opinion among financial institutions that a land contract is poor collateral because it is subject to a more rapid termination in the event of default.

3. After full performance by the buyer he may receive defective title or no title at all, although normally the contract will require delivery of a policy of title insurance.

4. Lack of assurance that the seller has good title at the time the contract is made, coupled with the fact that prior to full performance by the buyer the latter may not rescind the contract on these grounds, in the absence of fraud or incurable defects.

5. If during the interim from the execution of the contract to full performance by the buyer, the seller should be adjudicated a bankrupt, die and title pass to his heirs, be adjudicated an incompetent or have a conservator appointed, the buyer may encounter time-consuming, frustrating and expensive litigation before he obtains his deed and policy of title insurance.

## REAL ESTATE CLASSES BULGE AT JUNIOR COLLEGES

A typical picture of the increasing interest in college-level real estate courses is presented by the following chart comparing attendance in four courses at Chaffey College, Alta Loma. The figures were included in the college's midyear report. The same pattern obtains to a considerable degree at most of the junior colleges reporting.

JUNIOR COLLEGE REAL ESTATE ENROLLMENT GROWTH

Course	Fall 1962		Fall 1963		Percent increase final enrollment. 1963 over 1962
	Registered	Final	Registered	Final	
Principles of Real Estate.....	88	50	165	128	156%
Real Estate Practices.....	13	6	45	32	435%
Trends and Factors Influencing Real Estate.....	5	4	20	11	175%
Legal Aspects of Real Estate Transactions.....			48	36	

## INTENSIFIED TEACHER TRAINING ENDORSED BY COMMISSIONER

Commissioner Gordon has endorsed an intensified effort to encourage those in the real estate industry, qualified by education and experience in subject matter, to offer their services as part-time teachers.

With almost 60 junior colleges throughout the State taking part in an organized real estate education program there is a shortage of well-qualified teachers for real estate courses in principles, practice, finance, appraisal and legal aspects. University extension has also had difficulty in securing instructors for its real estate courses in some areas.

Workshops in methodology provide encouragement by giving the novice some preparation for teaching before he sets foot in the classroom, also sharpening the skills and techniques of those already qualified as teachers. Commissioner Gordon believes that highly qualified teachers, are essential to the real estate education program, and that the part-time teacher not only can perform a community service but will also find the time spent with his classes a richly rewarding personal experience.

The Division of Real Estate, through the Real Estate Education, Research and Recovery Fund, is again sponsoring a "methodology workshop for real estate teachers." The workshop will be held on the Berkeley campus of the University of California from July 26 to August 1.

Most of the participants will be part-time teachers or junior-college-sponsored candidates who are also full-time real estate brokers, salesmen, appraisers, bankers or attorneys.

For further information on this or future workshops, contact the deans of instruction or real estate coordinators at the junior colleges in your local area, or write to Education and Publications Section, Division of Real Estate, 1015 L Street, Sacramento.

### FOUR-DOLLAR FEE

\$4—not \$1—is the fee for change of address, name, or employing broker; for reinstatement of canceled or inactive license, for change of address on a canceled or inactive license or for a branch office.

## Salesman and Broker Examinee Pass and Fail Comparison

### COMPARATIVE EXAMINATION FAILURE RATE

Type of examination		1961-1962		1962-1963	
		Passed	Failed	Passed	Failed
Salesman original	Real estate	14,135	6,135	15,709	7,630
	Business opportunities	205	135	250	130
Percentage of failure		30.4		32.7	
Broker original	Real estate	2,244	1,128	2,296	1,759
	Business opportunities	179	94	182	79
Percentage of failure		33.6		42.6	

The above chart, showing a comparison of take-pass-fail statistics for real estate broker and real estate salesman examinees for the two consecutive fiscal years 1961-62 and 1962-63 should provide a facet of interest to inquiring minds, particularly those concerned about the role of the examination process as a screening device in the interest of raising the status of the industry by raising the caliber of applicants admitted to practice.

An analysis of failure rates in license examination given by the Division of Real Estate over the years reveals a general overall ratio of 30 failures to 70 who passed.

The increase of failure to pass ratios in 1962-63 over 1961-62, along with the definite promise discernible in figures still being compiled that this is a long-term upward trend rather than a temporary phenomenon or statistical accident, gives rise to two pertinent questions. These are: (1) Why the sharp increase in failures during the past two years? (2) Does this increase reflect strength or weakness in the examination program?

### Examinations Strengthened

To the first query, the upsurge would seem clearly attributable to the wider range of coverage and the greater number of questions included in examinations over the period being considered. The original salesman examination, for example, has been expanded from 100 multiple-choice questions to 130. The original broker examination is currently an all-day test comprising a morning session devoted to measuring the applicant's knowledge of, and skill in handling, business practice forms; and an afternoon session eliciting essay-type re-

sponses to various problems and mathematical computations.

To this, of course, must be added the additional one-half day of separate examinations on legal aspects of real estate and real estate practice for those applicants unable to offer evidence of having completed three-unit courses in these subject areas at an approved institution of higher learning.

The more searching examination is the final step in a screening procedure, the first of which is the employing and sponsoring broker's certification that he has ascertained the person named in the application for real estate salesman to be "honest, truthful, and of good reputation." Step two is a thorough check, through the files of the State Bureau of Criminal Identification and Investigation and the FBI, for any history of law violations.

Then comes the examination. But this is not the actual end of screening. The law both presumes and specifically provides for following through with adequate and continuous supervision by the employing broker, and firm regulatory oversight by the State's licensing officials. It adds to this a directive to the commissioner to promote professional status in every constructive manner through his administration of the Real Estate Education, Research and Recovery Fund; a directive solidly based upon the assumption that the real estate industry needs and will utilize and profit by the product of this process.

To answer the first question is to answer all questions about stronger examinations. The higher failure rate unquestionably reflects strength in the testing for technical competence.



## Berkeley Researchers Study Urban Renewal and Investment Trends

For many years, our nation's big cities have been in big trouble.

In response to the city's plea for help, Congress enacted the U.S. Housing Act of 1949, and this legislation, with frequent amendments, has been employed to achieve "a decent home in a suitable living environment for every American family." At the present time there are about 1,400 federally-assisted urban renewal programs underway in 700 cities and towns across America, representing a continuing investment of billions of dollars to renew, rehabilitate, and rebuild.

But slums and the poverty surrounding them remain with us. Moreover, there has been increasing criticism of renewal efforts. In her book, *The Death and Life of Great American Cities*, Jane Jacobs leveled a devastating attack on the environmental effects of many renewal projects.

More recently, A. H. Schaaf of the Center for Real Estate and Urban Economics at the University of California at Berkeley asserted that "the usual arguments advanced to justify urban redevelopment are at best improbable."

Writing in the current issue of the journal, *Land Economics*, Schaaf evaluates renewal policies—specifically those policies that enable a local renewal authority, acting with eminent domain powers, to acquire property at current market value, remove existing improvements, and resell the cleared site at whatever price is necessary to stimulate private development.

Schaaf finds that such use of public authority and money to achieve private reuse of urban land "represents a misallocation of resources by the yardstick of the private market."

"In a market economy," he points out, "the chief test of the worth of something, of the benefits derived from it, is its value. The presence of unprofitability signifies that the benefits to be gained by renewal are not equal to the costs of obtaining them."

He adds: "Even if the prer renewal buildings are deemed to be socially worthless, the postrenewal uses probably do not represent an improved allocation of scarce urban sites."

Furthermore, the new buildings in the renewal area do not represent a net gain in the shelter stock or the urban environment, and any increase in property taxes that they generate are likely to be offset by losses or unrealized gains elsewhere.

### *The Positive Side of Urban Renewal*

However, Schaaf finds that several arguments may be advanced to justify subsidized renewal:

*First*, public purchase and clearance is an efficient and equitable way of removing structures that may have some private market value but fail to meet socially acceptable standards of design or shelter.

*Secondly*, clearance programs may provide strong impetus for credit and housing subsidy policies that do increase the quantity or quality of aggregate land improvements.

*Finally*, such renewal provides a vehicle for achieving changes in the location of land uses that are considered desirable on social or nonmarket grounds, changes that could not be accomplished by the action of the private market.

He concludes that: "Slum clearance is not slum elimination. But it may be the necessary, if somewhat inefficient and wasteful, first step in the housing improvement and city rebuilding that would appear to deserve top priority in an affluent and underemployed economy."

### INSTITUTIONAL INVESTMENT TRENDS

R. Bruce Ricks, former researcher with the Berkeley Center and currently assistant professor of business administration at UCLA, commented recently on the "overly conservative view of real estate investment taken by insurance companies and other institutional investors."

Speaking before a conference sponsored by University of California Extension, Ricks explained: "Return calculations of these institutions fail to reflect future benefits from renewal rents, purchase options or reversionary values—and this kind of projection is unrealistically low."

Ricks argues that real estate—a mainstay of the United States economy in the postwar years—is perhaps the most neglected alternative among equity choices open to institutional investors. The researcher bases his conclusion on personal interviews with officers of life insurance companies, banks, colleges and universities.

The results of Ricks' survey have been published by the Berkeley Center as a research monograph—*Recent Trends in Institutional Real Estate Investment*.

### *Reasons for Investor Reluctance*

Why are institutional groups reluctant to participate in real estate investment?

Ricks states: "Certainly there is a paucity of information concerning the evaluation of return on real estate and the suitability of real estate as a component of institutional portfolios."

On top of this "there is the problem faced by many institutions of acquiring the investment techniques and skills necessary in handling the web of regulatory authority restrictions surrounding large-scale real estate transactions."

In his report the researcher compares objectives and approaches of the three institutional groups. He also covers methods used in estimating real estate investment returns and reviews alternate rate of return calculations, devoting special attention to the influence of taxation upon the investment decision. In addition, he makes recommendations for improving existing techniques for calculating rates of return on equity real estate investments.

(Continued bottom col. 1, page 659)

## Further U.C.-Berkeley Research Studies

### APARTMENT CONSTRUCTION BURGEONS

In Northern California the volume of apartment construction has been skyrocketing, doubling over the past five years, with the San Jose and San Francisco Bay areas accounting for the bulk of new building.

Wallace F. Smith of the Berkeley Center, has been keeping his eye on recent increases in this dynamic sector. From preliminary data obtained in his survey of low-rise speculative apartment development in San Francisco East Bay communities, he observes:

"A typical project consists of only 12 units, these being primarily one-bedroom units averaging 635 square feet in area and renting for about \$107 per month unfurnished."

The researcher found that families with children occupied only one unit in seven, and that about one-third of the dwellings were occupied by single persons.

#### *Investor's Motives Studied*

According to Smith, the most important single reason given by permanent investors for purchase of apartment property is "accumulation of equity." Another important factor is use of the property as a "tax shelter."

Only about 10 percent of those interviewed by the researcher gave "present cash flow" as a reason for purchasing apartments.

"That immediate cash flow is usually not substantial seems apparent from the fact that estimated loan payments typically represent 40 to 50 percent of gross income from the investment," he explained.

Smith also noted, "These permanent investors generally have cash equities in the property amounting to about 30 percent of the purchase price."

*(Continued from page 658)*

The Ricks study may be obtained by writing the Center for Real Estate and Urban Economics, University of California, Room 208, Stephens Memorial Hall, Berkeley, California 94704. Price \$2 each.

### FUTURE USE OF URBAN LAND

Currently available in reprint form is an article by Roland Artle on *Public Policy and the Space Economy of the City*. Originally published as an essay in the book, *Cities and Space—The Future Use of Urban Land*, Professor Artle's work investigates the role of communication in the urban economy and describes this in the form of a loose decision model which includes conditions and processes associated with urban development.

Also available as a reprint is an article by Professor Sherman J. Maisel, published originally in the *American Economic Review*, *A Theory of Fluctuations in Residential Construction Starts*. Other recent reprints include Eugene A. Brady's *Regional Cycles of Residential Market Construction and the Interregional Mortgage Market: 1954-59*; *Junior Mortgage Financing in Alameda County, 1953-60* by

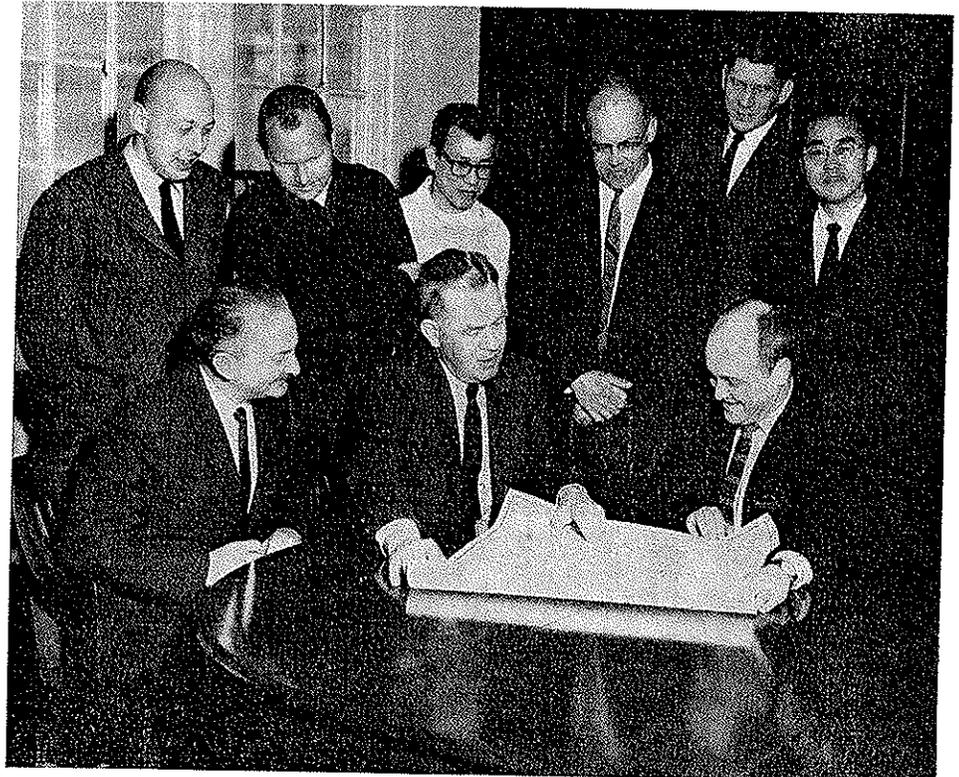
### RESEARCH VALUES

"For real estate to make its contribution, there must be research that outlines the industry's role in guiding and improving the use of real estate resources—study that produces new knowledge. Institutions of higher learning have a key role in this advancement of knowledge through research. Underlying their endeavors is the notion that successful teaching cannot be based on outdated knowledge and that the boundaries of knowledge must be constantly extended."

PAUL F. WENDT, *Chairman*  
Center for Real Estate and  
Urban Economics, Berkeley

From an address given before  
a recent Real Estate Education Conference in San Francisco.

A. H. Schaaf; and *Analysis of Multiple Listing Data in the East Bay and San Francisco, 1956-61* by Gabriel A. Zimmerman.



Professor Paul F. Wendt, Chairman of the Berkeley Center, reviews the pattern of low-rise apartment development in the San Francisco East Bay with Professor Wallace F. Smith (seated, right), who has charted growth of this type of construction as part of a recent research project. Also seated is Professor William Goldner of the center. Others pictured are (left-right) Andrew L. Pierovich, Editor; Graduate Research Assistants Michael Soper and Sui Wong; Professor A. H. Schaaf; Brian Bertha, Graduate Research Assistant; and visiting Researcher, Professor James C. T. Mao.

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## Contractor Loan Soliciting Now Being Investigated

Under investigation are reports that some home improvement building contractors are engaging in certain loan solicitation activities which would require a real estate broker license. Not having this license, they would be in violation of Section 10131(d) of the Real Estate Law, which states that a real estate broker is one who performs one or more of the following acts: "Solicits borrowers or lenders for or negotiates loans or collects payments or performs services for borrowers or lenders or note owners in connection with loans secured directly or collaterally by liens on real property."

There may be several variations in individual situations, but the plan of

operation reportedly proceeds along these lines. A contractor, either in person or through employees, solicits home improvement jobs, offering to finance the improvements with a note secured by a deed of trust on the property. Allegedly, he further offers to incorporate in the amount of the note other personal loans and debts of the home owner. Prior to making the offer the contractor would have arranged to discount the paper involved, with all cash financing provided by an investor or investment group. How widespread this type of operation is remains to be seen; but, as cases come to light, appropriate action is taken.

## Commissioner Gordon Commends Reference Book

Commissioner Milton G. Gordon, in his foreword to the 768-page 1964 edition of the *Reference Book*, now off the press and ready for distribution, emphasizes that, "Every applicant for a license, every practitioner in a field of effort related to real estate, and, above all, every licensee is well advised to keep the latest edition available at his fingertips."

"This 1964 edition," he states further, "will spell out the level of ethical conduct expected of all licensees . . . , will supply answers to technical questions . . . and mark the pathway to attainment of the optimum performance demanded of the truly professional broker or salesman."

To merit the commissioner's and other user's confidence, efforts have been made to make the treatment comprehensive, accurate, and under-

standable. The 1964 edition has grown by 60 pages over the previous edition.

This new volume contains the latest law and regulations and much in commentary upon the various facets of real estate practice. Basing one's professional decisions upon anything but currently effective laws and regulations is courting disaster, and, since the *Reference Book* has always been priced low enough to justify discarding and replacement when a new edition appears, most licensees might be expected to want the current edition upon their desks.

The *Reference Book* may be purchased at any Division of Real Estate office or by mail for \$3.12, including state sales tax. All offices are listed on page 654 of this *Bulletin*. When ordering by mail enclose check or money order for the exact amount. *Do not send stamps or C.O.D. orders!*

## Correction! Agreement to Procure Option Should Be in Writing

In an article in the March *Bulletin* this statement was made: "an oral agreement to procure an option from the owner of land does not come within the statute [of frauds]. An option merely gives the optionee the right of election to purchase; it vests no interest in property." **This statement is erroneous in view of a more recent decision by the California Supreme Court.**

In the case reviewed by the court, the plaintiff broker under the terms of an oral agreement performed services in connection with the procurement of an option to purchase real property, and brought suit for commission when the defendant refused payment. The trial court held the defendant was not entitled to recover on an oral contract; the district court of appeal reversed the trial court decision; then the Supreme Court in a 4-3 decision reversed the appellate court and held that such an agreement was within Civil Code Section 1624 (5) (Statute of Frauds) and Code of Civil Procedure Section 1973 (5) and therefore must be in writing to be enforceable.

### License Application Forms

Every license application form must be filled in completely before it is acted upon. Partially completed forms merely result in two-way correspondence.