

REPAIRING THE LADDER: Toward a New Housing Policy Paradigm

by Howard Husock

EXECUTIVE SUMMARY

This report examines the reasons why housing policy for the poor has arguably been troubled and ineffective, and sketches both an overall vision and specific details of an alternative policy, one based on ongoing, already-successful initiatives. Among the key points in this guide:

- 1) The problems of public housing and related subsidy programs are less the result of poor maintenance and design than a fundamental misunderstanding of the role which housing plays in social and economic life.
- 2) Replacement policies which emphasize subsidized rentals, whether in renovated buildings or through individual housing subsidies (“vouchers”), risk creating a new generation of problems and complications, including the further undermining of the social structure of civil society in poor neighborhoods.
- 3) Housing must be seen as more than a physical good. Instead, it must be viewed as part of a social system, a system which this report calls the housing ladder. The concept of the housing ladder is based on the notion that to best serve the most people, the fullest possible range of privately-owned housing types must be built—ranging from single rooms which

may not even have a full bath to mansions on large acreages. The combination of striving to move up the ladder from one type to another, and the need to protect the value of one's housing investment, play a key role in maintaining the social fabric of neighborhoods, especially very poor ones.

4) The concept of the housing ladder is based on a reading of historical data which shows that private, owner-occupied or "owner-present" housing has played a key role in the lives of those of modest means.

5) The report identifies initiatives—private, public and nonprofit—which have begun to "repair": the housing ladder—that is, to build, or facilitate the construction of types of housing which regulation or a preference for deep subsidy programs had in recent decades made difficult to build. These examples are chosen to point the way toward a new housing vision.

Table of Contents

INTRODUCTION 1

Part I: The Failure of Public Housing and The Lessons of the Housing Ladder 4

CHAPTER 1: The Concept of the Housing Ladder 5

A. The Housing Ladder as Social System.....6

CHAPTER 2: The History of Housing Reform: Ignoring the Rules of the Housing Ladder 9

A. Public Housing Is Born10

B. The Problems of Public Housing11

C. Risking New Mistakes: Responding to the Failure of Public Housing.....15

Federal Housing Studies: A Primer.....17

CHAPTER 3: What Was Good About Housing's "Bad Old Days"..... 21

A. Homeownership Thrives in the "Slums"22

PART II: Fixing the Ladder's Lower Rungs: What Government Should Do 25

CHAPTER 4: San Diego's SRO Housing: Restoring the Lowest Rung on the Ladder 26

NUTS AND BOLTS REFORMS FOR POLICYMAKERS: Key Steps in San Diego's SRO Resurgence28

A. The New SRO Ladder.....29

CHAPTER 5: Climbing the Housing Ladder: Baltimore's Minimal Rehab Model..... 31

A. The Failure of Subsidized Rehabilitation Programs.....31

B. City Homes: the Minimal Rehab Alternative33

NUTS AND BOLTS REFORMS FOR POLICYMAKERS: The Minimal Rehab Alternative.....34

B. Limited Public Subsidy36

C. Creating a Housing Rung37

D. Challenges to the Minimal Rehab Approach.....39

CHAPTER 6: Creating Homeownership Opportunities on the Ladder's Lower Rungs..... 40

A. Nehemiah Plan Homes.....41

B. Habitat for Humanity.....43

C. Creating Good Neighborhoods: The Importance of Homeownership44

D. The Need to Screen45

E. Limited Resale Restrictions46

NUTS AND BOLTS REFORMS FOR POLICY MAKERS: Setting the Stage: How to Foster Construction46

F. Avoiding the Pitfalls49

G. What about the Poorest of the Poor?.....50

H. The Subsidy Issue

CHAPTER 7: Adjusting a Rung: Accessory Apartments in Suburban Long Island 53

A. Expanding Opportunity Through Modifying Zoning Laws54

B. Reconciling Accessory Apartment Benefits with Residents' Fear of Neighborhood Decline55

NUTS AND BOLTS REFORMS FOR POLICYMAKERS: Sample Accessory Apartment Ordinances57

CHAPTER 8: Conclusion 58

About the Author..... 62

Appendix I: Selected Local Programs Designed to Encourage Low-Income Homeownership:..... 63

Appendix II: Associations Between Variable Sets & the Socioeconomic Factors for 13 Urbanized Areas..... 66

“It is hereby declared to be the policy of the United States to alleviate the acute shortage of decent, safe and sanitary dwellings for families of low income”

–United States Housing Act of 1937

“There is little disagreement that housing constitutes one of the Nation's most serious economic and social problems today.... Over the years, we have never been able to produce enough housing at prices which a large proportion of the American people can afford.”

–National Housing Act, 1949

“The objective of national housing policy shall be a) national commitment to decent, safe and sanitary housing for every American by strengthening a nationwide partnership of public and private institutions able to increase the Nation's supply of housing that is affordable to low-income and moderate-income families.”

–National Affordable Housing Act of 1990

INTRODUCTION

Throughout the 20th century, American government has tried and tried again, with decidedly mixed results, to find the right public policy to ensure adequate housing for those of modest means. An array of regulations, public housing and subsidy programs have sought to help improve the housing of the poor, while an equally complicated group of mortgage insurance and financing instruments have sought to insure that families will be able buy their own homes. By some measures, U.S. housing policy must be judged successful: two-thirds of all American families do live in houses they own.

Still, it is no secret that government housing policy toward those of lower incomes has been among the most disappointing and distressing aspects of American domestic policy. Despite our efforts, housing problems persist. The high hopes which accompanied the birth of public housing have been largely dashed by the reality that housing projects are as bad or worse than the low-income neighborhoods which they replaced.

A series of policy alternatives, meant to improve on public housing projects, has led to other problems. Subsidized housing, managed by churches and other private or non-profit organizations, has not been immune from physical decay and social problems. Attempts to disperse the poor through the use of “scattered-site” projects or housing vouchers have led to divisive protest in communities asked to host the incoming poor. A new generation of subsidized inner-city projects, built by non-profit community development corporations, has depended on subsidies and tax credits that may not survive the current period of severe fiscal restraint and tax code overhaul; nor is there any guarantee that such groups will be able to provide high-quality, long-term management. There have, of course, been individual “affordable” housing projects built which seem to be providing good housing in a good environment. But such projects often require long and arduous efforts by local officials, expensive subsidies and may over time, go the way of public housing.

In this context of failure, frustration and uncertainty, local officials face a variety of politically threatening crossfires. In suburbs, state laws calling for communities to plan for a percentage of “affordable housing” run counter to local political attitudes or fear toward such an influx. In cities, officials who seek to develop alternatives to public housing have come to believe that “affordable housing” must also be subsidized housing—and view with alarm the possibility of dwindling federal support for such construction. Both urban and suburban jurisdictions find themselves in a crossfire between those who would decrease building costs by relaxing code regulations—as recommended most notably by the 1991 Department of Housing and Urban Development Advisory Commission on Regulatory Barriers to Affordable Housing—and their own fire departments and others who defend codes in the name of safety.

This guide tries to offer a way out of our housing dilemmas. It offers both urban and suburban officials practical suggestions about housing innovations which are currently working, and which, in most instances, are neither politically divisive nor dependent on extensive government subsidies. It suggests [that major government spending is not necessary to help those of low and moderate income find good housing in good neighborhoods.] Instead, it looks at privately built and maintained neighborhoods, and tries to apply lessons from those experiences to housing policy for the lower ends of the income spectrum. *At its core is a concept called “the housing ladder”: the idea that neighborhoods and the types of homes in them are the key building blocks of how we organize our society and its social structure.* Because housing is an industry in which private developers and public regulators combine to make key decisions, officials who understand the concept of the housing ladder can take steps to enable as wide a range of people, from poor to rich, to have the best possible homes and neighborhoods in which to live and, whenever practical, to own homes of their own.

Implicit in what follows is the view that subsidized housing—defined here to mean housing in which the direct cost of construction and/or the monthly rents of tenants has

been or continues to be paid through public funds—may produce physically-attractive housing in the near-term but poses long-term management problems and undesirable consequences for our social structure. The author acknowledges that some sort of subsidies are involved in some of the examples cited here as pointing in a constructive, new direction. Such subsidies, however, are limited and not necessary for the long-term financial management of the projects. Moreover, they are balanced, by the value of such examples in emphasizing other attributes: low-cost construction, home-ownership, and zoning and building code changes which encourage housing supply. This report tries to highlight projects which do far more good than harm—and point the way toward a long-term, minimum-subsidy policy which encourages the creation of spontaneous social structures which help hold society together.

Although this report highlights a variety of specific housing efforts, its overall goal is not to advocate specific new programs as much as re-examination of our housing policy principles.

PART I:

The Failure of Public
Housing and The Lessons
of the Housing Ladder

The Concept of the Housing Ladder

Every municipality, indeed every residential neighborhood in every municipality, plays a role in housing policy. Every house has its place in our housing system. Every local jurisdiction makes key decisions which affect housing policy. In fact, notwithstanding the existence of the federal Department of Housing and Urban Development (HUD) and an array of federal subsidy and tax credit programs, housing policy—like education policy—is generally a very local matter. How big should minimum house lots be in a given community, or on a given block? How far back from the street should a house be set? How much parking should be required? Should zoning permit one-family, two-family or multi-family structures? The answers to these and similar questions both reflect and help determine a community's sense of where it fits within the context this report will call “the housing ladder.”

The private market does a good job producing both housing and setting in motion the dynamics that create the social fabric which binds our communities.

In his 1979 book, *Residential Patterns in American Cities*, geographer Phillip Rees looked at census data and found that “socioeconomic status is a universal sorting principle in American cities”.¹ Rees found that people of similar incomes and educational backgrounds choose overwhelmingly to live together.² The result: a prevalence of neighborhoods filled with lots of similarly-sized houses. Some communities have primarily attached row houses or condominiums, others have ranch houses on quarter-acre lots, others have mansions on many acres. When sufficient demand by wealthy families exists, a community can require a minimum of five acres per house and still

¹ Phillip H. Rees, “Residential Patterns in American Cities,” The University of Chicago, Department of Geography, Research Paper No. 189, 1979.

² Specifically, Rees found three variables about level of education, two variables about types of occupation and three variables based in income all “loaded positively” when compared with “spatial patterns”. In Appendix II, reprinted from the Rees book, the figures are notable. Education, occupation and income are strongly correlated with residence, explaining high percentages of variation. In contrast, other factors such as age, family size and even racial status, are generally much less indicative.

realize enough in property tax revenues to pay its bills. More commonly, reflecting the demand for other types of housing, communities will permit other kinds of structures, built at greater density, such that many more families can live closer together in smaller, less expensive houses. Each type of neighborhood is linked roughly to an income group. Each type of neighborhood represents a rung on the housing ladder.

A. The Housing Ladder as Social System

The housing ladder is not just a system of physical structures. It's a social system, as well. Families strive to improve their economic position—to climb the ladder to a higher rung. Better houses in more affluent neighborhoods are some of the rewards of market economies.

Americans group themselves on the basis of how much money they earn and how much education they've had (the two are, of course, related). Not everyone approves of this process. But such are the unwritten rules of the housing ladder.

At the same time housing is like no other consumer good, for the demand for one's individual houses is, in part, determined by the condition of one's neighborhood. Thus are neighborhoods drawn together in a common enterprise. They may, for instance, fear neighborhood deterioration and work to forestall it—to avoid falling to a lower rung. It is through mutual interest in creating a safe residential area with stable or increasing home resale values that resident owners are drawn to create neighborhoods, which are here defined as more than just locations on a map. Neighborhoods are the civil societies which their residents create through myriad activities—whether organized crime patrols, volunteering at a local school or simply doing favors for neighbors—which make an area a better place to live.

Physical maintenance of homes is a key part of these mutually beneficial efforts which neighbors undertake. Such maintenance helps to ensure that there will be new buyers for homes which come onto the market—a prospect which benefits all residents, not simply those who sell. Overall, an elaborate sort of confidence-building enterprise is going on every day in small, incremental ways—ways which reassure occupants of any given rung on the housing ladder that their neighborhood will remain attractive to new buyers, will remain a good place to live if they are going to stay there for the long term, or will increase in property value such that ownership at one level of the housing ladder can be a means of moving up to a higher level.

Indeed, moving to a more expensive neighborhood is one of the rewards for the economically successful. Whether one hopes to move up or simply to stay put in a good neighborhood, keeping a neighborhood safe and well-kept is in all residents' interests. Maintaining neighborhood property values is a key part of the glue that helps hold neighborhoods together—and draws citizens into community activities. Put another way, the private market does a good job producing both housing and setting in motion the dynamics that create the social fabric which binds our communities.

First-time homeownership in Georgia.

“Ladders” of various goods and services are ubiquitous in consumer societies: one can buy clothes at K-Mart or Nieman-Marcus. Nor is the impulse to sort by income and to improve oneself confined to housing. It has parallels throughout society—even, for instance, in our choice of automobiles. Alfred Sloane, chief executive, of General Motors during the 1920s, transformed the company into the dynamo of the automobile industry by virtue of the decision to “produce a line of cars in each price area, from the lowest price up to one for a strictly high-grade quantity-production car.”³ GM tailored cars to each income and status range—from Chevrolet to Cadillac and it encouraged buyers to try to move up the auto ladder; buyers of Oldsmobiles could expect sales literature extolling the virtues of moving up to a Cadillac.

In designing housing policy, we ignore the essential truth of the housing ladder at our own peril. If we understand its rules, its social dynamics, government can help extend housing opportunities, even in an era of limited or nonexistent subsidies.

Like Alfred Sloane, individual communities respond to a multi-faceted, status-aware market in housing. Local governments have the key roles to play. Without consciously setting out to do so, communities set their land use rules, as well as their building codes, in ways that reflect their place on the housing ladder. It is not always obvious how such rules should be set. Within any community is some range of incomes. Those at the lower end may push to allow construction of more homes, closer together. Those at the upper end may push to limit parking, or stop families from renting out rooms in their homes. Sometimes people will push to make their neighborhood follow rules which make more sense in a wealthier community, in hopes that demand will follow and property values will rise.

By setting rules and allowing the construction of homes, we build the housing ladder, though we seldom say so openly. It can be awkward to acknowledge that Americans group themselves on the basis of how much money they earn and how much education they've

³ Alfred P. Sloan, Jr., *My Years with General Motors* (Garden City, New York: Doubleday and Company, 1964) p. 65.

had (the two are, of course, related). Not everyone approves of this process. But such are the unwritten rules of the housing ladder.

This is by no means to say that neighborhoods and/or jurisdictions are rigidly stratified along income and education lines. There is a range within neighborhoods and municipalities; things can change street by street, block by block, from the top of the hill to the bottom—although it is uncommon for the variation to be too great. Still, in designing housing policy, we ignore the essential truth of the housing ladder at our own peril. If we understand its rules, its social dynamics, government can help extend housing opportunities, even in an era of limited or nonexistent subsidies.

How does such a view square with the conventional wisdom that American suburbs are “exclusive” communities, places in which a combination of zoning and price keep out the aspiring minorities, in particular? Such a view not only ignores the great range of economic levels of American communities but fails to understand how the dynamics of the housing ladder can actually serve as a means by which Americans transcend ethnic difference. In his classic 1962 essay, “The Balanced Community: Homogeneity or Heterogeneity in Residential Areas” the sociologist Herbert Gans observed that, contrary to the goal of increasing tolerance by mixing ethnic and income groups, “A mixing of all age and class groups is likely to produce at best a polite but cool social climate, lacking the intensity of relations that is necessary for mutual enrichment. Instances of conflict are as probable as those of cooperation.”⁴ Conversely, Gans found that once neighbors can be spared the tensions that come from social class difference (eg. jealousies and fears that may arise from such factors as differences in child-rearing techniques or educational goals), they can, ironically, be freed to be tolerant. In the American post-war suburb, wrote Gans, “the fact that most people were similar enough in age and, to a lesser extent, income, enabled them to become friendly with people of different occupations, religions, ethnic backgrounds or regional origins for the first time in their lives.” In other words, a rung on the housing ladder is the foundation on which tolerant, civil society can be built.

Can this tolerance extend to race? There is good reason to believe it can, if one examines the atmosphere of tolerance which can develop in communities in which white and black are of similar income levels. Sadly, too often, public policy—such as the Clinton Administration’s “Moving to Opportunity” program designed to relocate poor, urban minority group members to subsidized suburban apartments—has confused the goal of racial integration with income mixing. Asking whites to accept as neighbors those with whom they might be uncomfortable even if the new, poorer neighbors were white, is the worst way to address the race issue. The housing ladder offers a different approach: enforce non-discrimination laws and let diffusion occur of upwardly-mobile minorities into communities in which their income is similar to that of neighbors. This is the surest way for racial division to blur over time.

⁴ Herbert J. Gans, “The Balanced Community: Homogeneity or Heterogeneity in Residential Areas?,” *Ethnicities* (January 1962), Vol. 13, No. 75.

The History of Housing Reform: Ignoring the Rules of the Housing Ladder

The long history of American housing policy has been plagued by tensions and contradictions—contradictions with which we still struggle. One might characterize them as “standards versus supply” and “equity versus incentives.” As logical and powerful a concept as the housing ladder is, it poses a vexing problem. At the lowest rungs of the ladder, private builders and real estate owners may provide structures that the larger society believes should not be permitted to be built. Shacks, windowless tenements, urban shanties, and converted garages and cellars have traditionally shocked the conscience of reformers and legislators. Time and again, legislation has set out the goal of “decent” housing for all, a goal based on the belief that “substandard” housing is not simply smaller and less ornate than middle-class housing but can handicap the life chances of its inhabitants and threaten their health and safety in ways a wealthy society should not tolerate.

It turns out, however, that trying to “do something” about housing conditions of the poor leads to a morass of complications when considered in the context of the housing ladder. The resulting dilemma can be described as this: is there any way to assure some minimum standard of housing—either through regulation or subsidy—without undermining the social and economic virtues of the housing ladder?

This dilemma goes back at least to the beginnings of housing reform in the United States. In 1891, the landmark book *How the Other Half Lives*, by Jacob Riis, the Danish-born New York police reporter and photographer, exposed housing conditions, primarily on New York's Lower East Side, which Riis believed government had a duty to correct.⁵ Thus began the housing reform movement, led by Lawrence Veiller and the New York-based National Housing Association, through whose efforts the first building codes—or model housing laws—were adopted in municipalities around the United States. According

⁵ Jacob A. Riis, *How the Other Half Lives: Studies Among the Tenements of New York* (New York: Charles Scribner's Sons, 1897).

to Veiller, the state had the obligation to say, “this far you may go but no farther. You shall not be permitted to build a house in which people ought not to live.”⁶

But Veiller was well aware that economic factors and housing conditions were interrelated: builders built what the poor of that era could afford to pay. He knew higher standards, in the form of government regulation, held their own risk, as summarized by the historian of the housing reform movement Roy Lubove: “excessively high standards, if enforced might discourage building altogether and thus create a serious housing shortage”. Indeed, even Jacob Riis, after passage of a tough new tenement control law in New York in 1901, worried that the new law “tended to make it impossible for anyone not able to pay \$75 (a month) to live on Manhattan Island.”⁷ Here lies the major dilemma of housing the poor: standards versus supply.

Fears of pricing housing beyond the means of the average wage-earner led the first generation of housing reformers to hold the view that housing regulation should be minimal, that it must be acutely sensitive to the economics of the private housing industry. Veiller, the founding father of American housing regulation, believed that only private builders could supply the sheer volume of housing which the country needed. “Housing legislation,” he wrote, “must deal solely with necessities, with things that relate to the public welfare. It must distinguish between what is desirable and what is essential.”⁸

A. *Public Housing Is Born*

Any form of regulation has an impact on the housing ladder. For instance, if the lowest rungs are cut off through government regulations, the poorest must devote a larger percentage of their income to more expensive housing. But the direction housing policy in the United States would take had far deeper implications for housing supply and the housing ladder. Over Veiller's strongly voiced objections, reformers moved toward government-built and-operated housing. Public housing was championed by proponents like housing economist Edith Elmer Wood, who proposed “constructive” not simply “restrictive” housing legislation. The private sector, she argued, could not “supply the demand for good cheap houses.”⁹ Wood even argued that lower-income homeowners who saved their money to make mortgage payments were foolhardy, because the structures which they purchased were less-than-ideal.

⁶ Lawrence Veiller, *Housing Reform: A Handbook for Practical Use in American Cities*, The Russell Sage Foundation (Philadelphia: William F. Fell Press, 1910).

⁷ Roy Lubove, *The Progressives and the Slums* (Pittsburgh: University of Pittsburgh Press, 1962), pp. 180–181.

⁸ Veiler, *Housing Reform*, p. 86.

⁹ Edith Elmer Wood, *Recent Trends in American Housing* (New York: The Macmillan Company, 1931).

Ultimately, the view that government must replace, not merely regulate, the private sector in housing those of modest means would be amplified by author Catherine Bauer. Her 1934 classic work, *Modern Housing*, capped the growing public housing movement. It called for architect-designed high-rise complexes with open spaces and other ostensible amenities, modeled on those being built in Europe and the young Soviet Union (the book included photos of new projects in Moscow). Bauer's proposal rested on the incorrect premise that “in America, almost no new housing is built for any but the upper third income group.”¹⁰ The idealism of reformers was matched by Franklin Roosevelt's desire to jumpstart the housing construction industry during the Depression and, by 1937, with the passage of the U.S. Housing Act, public housing in the United States was born.

B. The Problems of Public Housing

Lawrence Veiller anticipated the problems which would plague the utopian vision of public housing long before the first projects were built. Publicly owned housing, feared Veiller, would drive out the private builder, who could not compete with housing not designed to make a profit. But housing run by public bureaucracies—politicians with an eye toward patronage—would inevitably deteriorate. At the same time, it would discourage “self-dependence” among its tenants.

... the main flaw of public housing lies in the fact that it has been designed with little sensitivity to the powerful, if unwritten rules, of the housing ladder.

Still, public housing and its subsidized successors have not foundered simply because they have not been managed well. Nor have they foundered simply because of their high-rise design.¹¹ Rather, the main flaw of public housing lies in the fact that it has been designed with little sensitivity to the powerful, if unwritten rules, of the housing ladder. When those of lower incomes become exclusively tenants, they lose any incentive to maintain and improve property and neighborhood—activities which, especially among the poor, are very much do-it-yourself projects.

Here lies the dilemma of equity versus incentives. Public housing offers equity—accommodations physically equal to those for which persons of greater means might pay. But it undermines the incentives to maintain housing stock which help form the social fabric of poor communities. Those of modest means often cannot afford contractors for home improvements. In poor neighborhoods in which owners themselves live, as historically had been the case before public housing, repairs were done via sweat equity—

¹⁰ Catherine Bauer, *Modern Housing* (New York: Houghton Mifflin, 1934).

¹¹ This design critique is most commonly associated with Oscar Newman and his book *Defensible Space: Crime Prevention Through Urban Design* (New York: MacMillan, 1972).

poor owners and so-called “tenement landlords” (owners of small, multifamily buildings) contributed their own time and hired neighborhood tradesmen, not all of them licensed and certainly none of them unionized. Tenants, too—sometimes members of the landlord's extended family—performed repairs in exchange for lower rents. As one study of a low-income neighborhood in Montreal has observed, “owners can maintain their buildings and keep their rents low through the cooperation of their tenants on maintenance and through their own hard work and willingness to sustain a low rate of return.”¹²

Public housing does away with this type of informal system; suddenly a public bureaucracy, with all its bidding rules and standardized procedures, must arrange all repairs. Costs which were absorbed become explicit. The result is decline both of physical structures and the networks of relationships, or civil society, of poorer neighborhoods. As authors of one study of Philadelphia's notorious Richard Allen Homes public housing project put it: “We see postwar federal policy, particularly public housing and urban renewal policies, posing obstacles that intensified social isolation and impeded the adaptive strategies that had historically facilitated survival in the depriving world of the inner city.”¹³ Not only does public housing itself lead to a social structure in which problems are likely to emerge, but its siren song of subsidies—larger, less expensive accommodations than families could otherwise afford and which may be attractive when new—can lure families out of surrounding neighborhoods and thereby undermine them. Public housing specifically can deny small, tenement landlords their supply of tenants, leading to foreclosures and abandonment as government-subsidized structures compete with a fragile private housing market in poor neighborhoods.

Public housing denies those of low-income who are ambitious and self-sacrificing a way to distance themselves from those among the poor who are not.

Public housing, too, contravenes the unwritten rules of the housing ladder in another significant way. It rewards those who have not worked and sacrificed to gain their accommodations; their need alone is considered qualification enough. Absent subsidies, the price of housing serves as a way to separate those among the poor with good work habits and strong family lives from those who lack these virtues. Public housing denies those of low-income who are ambitious and self-sacrificing a way to distance themselves from those among the poor who are not. In the process, it inhibits the formation of strong communities which form the important lower rungs on the ladder of upward mobility. Public housing, and other forms of subsidy, are based on the premise that housing is a

¹² Roger G. Krohn and E. Berkeley Fleming, “The Other Economy and the Urban Housing Problem: A Study of Older Rental Neighborhoods in Montreal,” Harvard-MIT Joint Center for Housing Studies.

¹³ John F. Bauman, Norman P. Hummon, and Edward K. Muller, “Public Housing, Isolation and the Urban Underclass: Philadelphia's Richard Allen Homes: 1941–65,” *Journal of Urban History*, Vol., 17, No. 3 (May 1991), pp. 264–292.

simple, physical need which can be addressed by providing apartment buildings. The decay and dangerousness of housing projects demonstrate that housing is only part of the structure of neighborhood. Only individual families with reasons to care can create the social fabric that holds neighborhoods together.

Sadly, we have reaped the whirlwind of our failure to understand the ways in which public housing contravenes the rules of the housing ladder. Huge investments of public dollars have either caused or, certainly, not corrected the social problems they were designed to effect. Since 1962, we have spent \$384 billion on the Department of Housing and Urban Development (HUD) and its predecessor agencies. The current HUD annual budget of \$26 billion includes \$7.6 billion for rental housing subsidies and \$4.8 billion for repairs to public housing—where one-third of the 4 million families in the U.S. receiving housing assistance live.¹⁴ The notoriety of their surroundings is not an exaggeration; it is well-deserved.

Physical maintenance of housing projects is abysmal (see Table 1). Lawrence Veiller's fears about what he imagined would be “municipal housing” have played out far worse than he could ever have imagined. A 1988 study estimated that making necessary repairs and improvements to the nation's public housing stock would cost at least \$30 billion.¹⁵

Social maladies—crime, drug abuse, teen pregnancy to unwed mothers—are concentrated in public housing. A 1993 study found that crime in Los Angeles housing projects, for instance, was three times greater than crime in surrounding high-crime neighborhoods.¹⁶ Chicago's Robert Taylor Homes, with .5 percent of that city's population, has accounted for 11 percent of its murders.

The availability of public housing may exacerbate social problems. According to HUD surveys, 48 percent of those moving into public housing each year do not do so primarily to escape substandard housing conditions but to establish their own households. A 1989 HUD study, for instance, found that less than 10 percent of housing project families with children are headed by a married couple.¹⁷ Once in the projects, such single-parent families tend to stay, and to stay on public assistance. More than 25 percent of project families have lived in their units for more than 10 years; 47 percent for more than five.

¹⁴ 1996 HUD funding request, Budget of the United States, Office of Management and Budget.

¹⁵ Abt Associates. “1988 Study of the Modernization Needs of the Public and Indian Housing Stock: National, Regional and Field Office Estimates” (Washington, D.C.: U.S. Department of Housing and Urban Development).

¹⁶ Terence Dunworth and Aaron Saiger, *Drugs and Crime in Public Housing: A Three-City Analysis*, Rand Corporation for the National Institute of Justice (August 1993).

¹⁷ *Characteristics of HUD-assisted Renters and their Units in 1989*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, Housing and Demographic Analysis Division (March, 1992), p. 60.

This survey data paints a grim picture of new mothers receiving public assistance getting their own apartments in public housing and staying for a long time. Indeed, the fastest-growing cohort of tenants in public housing is that of households earning less than 10 percent of median income.¹⁸ These desperately poor families are likely to be the least able to forge the kind of social fabric which would prevent the continuation of the atmosphere of lawlessness and decay which characterizes a program designed to correct alleged abuses inherent in the private housing market.

Table 1: Public Housing Maintenance Problems		
	Number of Tenants	Percent of Tenants
Total Households	1,360	100
Equipment failures in past 3 months		
• Water supply stop	86	6
• No working toilet	169	12
• Public sewage disp.	35	3
• Electric fuses/breakers	204	15
• Heating Equipment	73	5
• Water leakage (inside)	242	18
• Water leakage (outside)	107	8
Selected Deficiencies		
• Signs of rats	163	12
• Holes in floor	17	1
• Open cracks/holes	109	8
• Broken plaster/paint	140	10
• No electric wiring	0	0
• Exposed wiring	18	1
• Rooms without electric outlets	26	2
Severe Problems	60	4
• Plumbing	35	3
• Heating	11	1
• Electric	0	0
• Upkeep	15	1
• Hallways	0	0

Source: *Characteristics of HUD-Assisted Renters and their Units in 1989*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March 1992

The physical maintenance problems which plague public housing are particularly ironic, given the original goal of public housing: to replace “slums.” Such decay is not surprising, however. It is difficult within the political process to earmark funds for

¹⁸ Lawrence J. Vale, “Beyond the Problem Projects Paradigm,” *Housing Policy Debate*, Vol. 4, No. 2 (1993), p. 155.

maintenance. There is greater incentive for new construction and the accompanying ribbon cuttings. The consequent physical decay of public housing simply cannot be overstated. The 1992 report of the National Commission on Severely Distressed Public Housing estimated that necessary repairs to only the absolute worst six percent of public housing stock would cost \$7.5 billion. Nor should one conclude that serious problems affect only a small percentage of public housing. As Lawrence Vale has written, “The most recent demographic figures suggest that distress of one severity or another may well run much deeper.” Noting that a 1979 internal HUD study found that 15 percent of all projects were in significant distress, Vale observes that, “Given the escalating rates of poverty and unemployment, not to mention how deterioration of buildings has outstripped efforts at modernization, few would doubt that overall conditions in public housing have declined in the past decade....It is only our definition threshold of unacceptable distress that has risen.” A 1989 HUD survey of subsidized tenants, including those in public housing, buttresses Vale’s point. That survey found that 12 percent of tenants had had no working toilet in the previous three months, 18 percent had had water leaks, and 12 percent had seen signs of rats. Forty seven percent describe themselves as living in problem neighborhoods (see Table 2)—a higher percentage than unsubsidized renters at similar income levels. It is particularly worth recalling that this is a system in which four million Americans reside.

	Total Assisted Renters		Public Housing Tenants		Certificate or Voucher Tenants	
	Number	Percent	Number	Percent	Number	Percent
Neighborhood problem	1,735	43	640	47	439	41
• Crime	670	16	249	21	141	13
• Noise	387	10	137	9	116	11
• Traffic	199	5	63	5	80	8
• Litter/housing rundown	192	5	90	7	58	5
• Poor local services	52	1	61	2	9	1
• Undesirable comm., indust., instit.	38	1	10	1	15	1
• People	797	20	247	18	229	22
• Other	314	8	156	11	46	4
Near vandalized buildings/interiors exposed	191	5	127	9	47	4
Near buildings with bars on windows	318	8	151	11	78	7
Trash, litter, junk on streets/properties	1,021	25	433	32	227	21

Source: *Characteristics of HUD-Assisted Renters and their Units in 1989*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March, 1992

C. Risking New Mistakes: Responding to the Failure of Public Housing

It can be argued, of course, that we have learned our mistake about public housing. With few exceptions, we have not built major new projects since the Nixon Administration. But despite its notoriety, we have resisted learning hard lessons from the failure of public housing. We've emphasized its design flaws, as if building it differently would have led to a significantly different result. Because we've failed to understand the ways in which public housing undermines community and violates the norms of the housing ladder, we've developed alternative public policies that offer no significant improvement. Housing vouchers, which now account for a third of the nearly \$8 billion spent annually in federal housing subsidies, offer a dangerous, even perverse incentive. In effect, they offer tenants a chance to move to higher-income or simply slightly less-poor neighborhoods without having gained higher incomes. By rewarding need, not achievement, vouchers send the wrong message to those they subsidize and threaten to introduce social problems into the neighborhoods in which voucher-holders move.

By rewarding need, not achievement, vouchers send the wrong message to those they subsidize and threaten to introduce social problems to the neighborhoods into which voucher-holders move.

One Boston study of a blue-collar neighborhood to which many housing voucher holders were suddenly introduced found widespread public concern that “the Section 8 tenant-based assistance program and neglected absentee landlord-owned properties were destabilizing whole streets and neighborhoods.”¹⁹ Put another way, any form of housing subsidy has an effect not just on the price of shelter but on the American social structure, so intimately is it tied to our residential patterns.

Vouchers, at least, have the virtue of not necessitating construction of large, new subsidized housing complexes, with all the financial and management implications they pose for government. But, even as our cities are littered with the remains of previous utopian housing visions, we have embarked on a vast new round of subsidized housing construction—one in which government's role is indirect but crucial. This new approach persists in the production of subsidized rental complexes but relies on non-profit community management groups to oversee them. The implicit theory: that public housing authorities and their management approaches have been the key problem with public housing. Non-profit groups, it is thought, will do better. (The even more deeply implicit assumption, of course, is that for-profit private management and ownership cannot or will not do the job in poor neighborhoods.)

Federal Housing Subsidies: A Primer

¹⁹ See Lisa Bouchard, “A Street of Strangers: A Case Study Submitted to Mayor Raymond L. Flynn by the Mayor's Committee on Subsidized Housing/Absentee Landlord Issues” (August, 1992).

The federal housing assistance programs to which this study refers fall generally into the following categories:

1. Public Housing

The nation's public housing projects—the first of which were built during the Roosevelt Administration—were federally-financed but set up to be administered by local housing authorities. As originally envisioned, project capital costs were paid by the federal government (through the purchase of locally-issued project bonds) and were to be self-sustaining through rent collections. The increasing poverty of tenants, however, as well as congressionally-passed legal limits on the percentage of income public housing tenants may pay in rent, have tended to make it very difficult for local authorities to pay their operating costs and to maintain their premises in good condition.

As a result, the Department of Housing and Urban Development (HUD) today provides both “operating assistance” to local public housing authorities and “modernization” funds, to pay for capital improvements. Such assistance was approximately \$4.1 billion in fiscal year 1995. In addition, \$100 million was allocated for renovation of the nation's worst public housing, designated as “severely distressed.”

2. Rental Assistance: (Section 8)

Named for Section Act of the amendments to the National Housing Act passed in 1974, Section 8 provides rent payments to private or non-profit property owners. The payments are the difference between 30 percent of tenant income and the so-called “fair market rent.”

It is common today for Section 8 payments to take the form of so-called “vouchers,” a guarantee issued to a specific tenant that public monies (often federal funds administered by a local housing authority) will be available for that tenant to rent a privately-owned apartment. But Section 8 payments historically have also taken the form of so-called “project-based assistance,” wherein a property owner obtains a contract with HUD which guarantees a specific number of Section 8 units. Developers counted on such Section 8 subsidies, whether for new or renovated buildings, to provide a guaranteed income flow with which to make mortgage payments. Historically (as per sections 236 and 221d3 of the National Housing Act), developers used such rent subsidies in conjunction with federally-subsidized low-interest construction financing.

HUD distinguishes between Section 8 “certificates,” which limit a tenant to apartments charging no more than the HUD-determined fair market rent, and “vouchers,” which allow recipients to spend more than 30 percent of their income in rent, if they choose to do so.

Taken together, all forms of Section 8 spending totalled about \$8.9 billion in fiscal year 1995.

3. Low Income Housing Tax Credit

Since 1986, when it was included in that year's federal Tax Reform Act, the Low Income Housing Tax Credit has been the key to subsidized housing “production”—ie., the construction or rehabilitation of housing for those of low income. The tax credit allows either for-profit or non-profit developers who promise to set rents in ranges “affordable” to those who meet HUD-determined income levels to syndicate tax credits to investors, generally corporations. This has proven to be a magnet for funds; the LIHTC has, since

its inception, helped to fund 500,000 low-income units and is expected to spur production of 120,000 more units annually. Generally, the tax credit is linked to a variety of other state, local or foundation grants in order to bring rents down.

It is common for LIHTC projects to have a mix of income classes. In Massachusetts, a variety of subsidy programs aimed at different income groups means that units in some buildings may be divided among as many as six distinct income groups. In sharp contrast to the Section 8 program, moreover, tax credit-financed projects do not come with a ceiling on how much rent a tenant can pay. In other words, the 30 percent of income rule does not apply. Instead, tenants qualify on the basis of low income and are chosen, in part, on the basis of their ability to pay. Thus, it's less likely that very low-income tenants will be chosen for LIHTC-funded projects.

In general, the tax credit is used to fund multi-unit new or renovated apartment buildings. Less commonly, it's used to finance freestanding, single-family homes. Occupants can qualify to purchase the homes but only after a 15-year residence period.

4. HOPE (Homeownership and Opportunity for People Everywhere)

This smaller program, first funded in 1992, is, in essence, a downpayment assistance program to help low and moderate-income families (as designated by HUD as per the standards of various metropolitan areas) purchase apartments or houses. Hope 1 aims to convert public housing apartments to owned units; Hope 2 applies to multi-unit apartment buildings which have come into government ownership; and Hope 3 is for single-family homes which have come into government ownership. (The government may own units whose mortgages were federally-insured or which were held by financial institutions which failed.) The fiscal 1995 federal budget includes \$100 million for the HOPE programs.

5. HOME Investment Partnership Program:

The Home program, first authorized by the National Affordable Housing Act of 1990 (the so-called Cranston-Gonzalez Act) has four main purposes: rental assistance paid directly to public housing tenants (not to housing authorities); rehabilitation of public housing projects; construction of new low and moderate-income housing units, and first-time, homebuyer downpayment assistance targeted to low-income households and public housing residents. Some 15 percent of HOME funds are to be directed to non-profit Community Housing Development Organizations (so-called CHODOs), of the type which typically make use of the low-income housing tax credit. It is possible, then, to purchase a home whose construction was financed through the low-income housing tax credit, and to do so with down payment assistance through HOME. The fiscal 1995 budget authorized \$1.199 billion in HOME spending.

The scale of this new, ostensibly non-profit-based approach has been very significant. The National Congress for Community Economic Development has estimated that there are more than 2,000 non-profit, community-based development organizations (CBDO's) in the U.S., most of which—about 88 percent—are involved in creating what's called affordable housing: meaning subsidized units for those of lower income. Between 1987 and 1991, these organizations produced no less than 87,000 housing units, many of them renovations of older apartment complexes in poor neighborhoods. In doing so, they have relied fundamentally on federal support. The linchpin has been the Low Income Housing Tax Credit of 1986. This has allowed non-profit groups to syndicate shares of their projects to outside investors, who receive tax credits for their investments. In addition, the Cranston-Gonzalez National Affordable Housing Act of 1990 earmarks at least 15

percent of the new federal housing subsidy funds to “community housing development organizations.”

If renovated buildings offer the local pool of tenants amenities they could not afford on the private market, they will inevitably abandon the private market for the subsidized alternative.

Many mayors and business leaders view the work of such community development corporations with great enthusiasm. Without a doubt, they have completed many housing units. Notwithstanding the early enthusiasm that greets renovated buildings in poor neighborhoods, there is reason to be concerned about this new version of housing reform. After all, when public housing was inaugurated, it too was initially well-received—before proving unsustainable in far too many instances. Community Housing Development Organizations can be thought of as an alternative, quasi-public delivery system for subsidized housing. But some of the same problems which came to dog public housing are developing in these new projects, as well. A report by the Community Development Research Center of New York's New School for Social Research found incipient maintenance problems in relatively new projects. In examining 34 developments, the report wrote: “Beyond an initial snapshot of well-being loom some major problems which, if unaddressed, will threaten the stock of affordable housing included in this study. We have found indicators that signal concern and warrant attention.”²⁰ These indicators include the fact that 62 percent of the projects examined had already developed maintenance problems in at least one of the following areas: exteriors, interiors, systems or security. Twenty nine percent already had maintenance problems in two or more areas.

In addition to the maintenance problems, the New School study found other warnings signs, as well. It determined, for instance, that the non-profit managers of Low Income Housing Tax Credit-financed projects often fail to set aside capital reserves for potential large-scale repairs and improvements—a key to prudent long-term management. “The properties examined display a problematic pattern in both capital and operating reserve balances,” the study found, noting that only 6 of 23 developments examined had reserves equal to two percent of the replacement value of the property, a common industry standard. The report also found that nonprofit-managed projects often balance the books through the use of “nonrecurring funds”—ie., grants or one-time savings, as opposed to relying only on the rental income stream. The question of whether we have, as we did with public housing, laid the basis for future problems is unavoidable.

This is especially sobering if one looks at the history of so-called philanthropic housing in the U.S. In 1854, for instance, an organization called the New York Association for

²⁰ Rachell Bratt, et al., *Confronting the Management Challenge: Affordable Housing in the Nonprofit Sector*, Community Development Research Center, Graduate School of Management and Urban Policy, New School for Social Research, 1994.

Improving the Condition of the Poor erected an 87-unit apartment building it called a model tenement. (Investment was private but dividends limited by agreement.) Within a few short years, as recounted by historian Roy Lubove in his classic work *The Progressives and the Slums*, the model tenement had become “one of the worst slum pockets in the city” and was sold.²¹ By 1880, a committee of the same organization which had originally built it condemned it as unfit for human habitation.

There are other potential problems implied by this subsidized renovation model. Many projects rely on continuing streams of “back-end” subsidies—ie., rent subsidies to individual tenants. These are not only expensive but can be viewed too, as an arbitrary reward, given the scarcity of rent subsidies relative to those who are income-eligible. But even if new, publicly-financed, nonprofit-managed low-income housing is well-run and well-maintained it poses a threat not considered by its advocates: the effect on its surrounding neighborhood. Although intended as a means of uplifting poor communities, it can have the effect of further undermining areas contiguous to new projects. Specifically, if renovated buildings offer the local pool of tenants amenities they could not afford on the private market, they will inevitably abandon the private market for the subsidized alternative. This will deprive privately owned housing in the area of part of its pool of tenants: owner-occupants of two or three-family homes, or those who would rent rooms on their third floors, find themselves competing with stylishly renovated apartments. As tenants leave privately-owned housing, logic dictates that foreclosure and abandonment will visit the streets in which private ownership dominates—leading to more “distress” and calls for new subsidies to renovate newly “blighted” areas.

Whether New York philanthropists of long ago, public housing advocates of the 1930s, or contemporary, “affordable housing” enthusiasts, a common belief can be found: that private ownership and production of housing will inevitably ill-serve those of modest means. There is good reason to question this core belief.

²¹ Lubove, *The Progressives and the Slum*, p. 9.

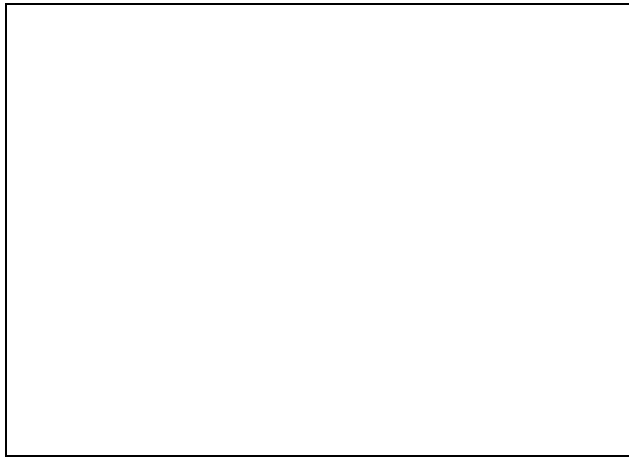
What Was Good About Housing's “Bad Old Days”

The difficulties and unintended consequences of public and subsidized housing are well known. But how can we have any assurance that a less-regulated—though by no means unregulated—private housing industry would perform any better? In particular, could private builders really provide for those of modest means? One way to judge this is to look back at the era before major government involvement in housing production, the “restrictive” not “constructive” era when Lawrence Veillier's building codes—regulating windows, stairways, air shafts and light—were in effect but government did not try to supplant the private sector at the lower levels of the housing ladder.

...even at the lowest rungs of the ladder, the private, lightly-regulated market was able to help those of modest means form good neighborhoods.

According to conventional wisdom the period coinciding with the great growth of American cities, roughly 1880–1930, was a time in which heartless slumlords provided dark, unhealthy housing to millions of new urban dwellers. There is, however, a body of evidence to the contrary. Housing data from the first full-scale federal census of residential structures (1940) shows that, between 1870 and 1940—the pre-public housing era—private builders were assiduously filling in the rungs of the housing ladder, building at strikingly high volumes, particularly for the emerging urban working class. During that period in Philadelphia, no fewer than 299,000 attached, single-family row houses were built. In Boston, 21,000 three-family homes went up. Chicago, in 1940, had more than twice as many housing units in two- three-and four-family houses (382,028) as it had single-family homes (164,920). These were both large absolute numbers and significant in terms of the percentage of population they represented. Boston's three-deckers, for instance, may have housed as much as a third of the city's pre-World War II population of 800,000.²²

²² This is an estimate based on the assumption that there was an average of 5 persons in each three-decker unit. (Twenty-one thousand three deckers comprise 63,000 individual dwelling units.)



But even at the lowest rungs of the ladder, the private, lightly-regulated market was able to help those of modest means form good neighborhoods. Data from a number of special federal investigations of conditions in “slum” neighborhoods found some of the problems associated with poor neighborhoods in popular imagination.²³ A 1894 report by the Commissioner of Labor Statistics found, for instance, that the majority of residents of “slum districts of Baltimore and Philadelphia had neither their own bathrooms or flush toilets.”

Three Decker Homes in Boston

And there was congestion: a 1907 U.S. Immigration commission report showed there was an average of 134 persons for every 100 rooms.²⁴ Yet these reports did not, for the most part, paint a bleak picture of life in pre-subsidy poor neighborhoods. Nor did they find fault with the housing per se. “Eighty four in every 100 of the homes studied are kept in either good or fair condition,” wrote the Immigration Commission. “The neglected appearance of many of the streets is a result of indifference on the part of public authorities.” Outside of New York, there were few large tenements: in the poorest parts of Chicago 83 percent of families lived in structures of six units or less. And rents were relatively low. A 1909 study by the President's Homes Commission of 1251 poor families in Washington, D.C. found that a majority of families paid 17.5 percent of income or less; even among the very poorest, rents averaged only 21 percent of income—less than what is charged in public housing today.

Poor neighborhoods in which tenants know owners and owners screen tenants, and are responsible for the upkeep of their properties, could not differ more dramatically from public housing—where, in a sense, there is no owner.

A. *Homeownership Thrived in “the Slums”*

Perhaps most noteworthy, however, is the large extent to which “slum”-dwellers either owned their own homes or lived in homes in which there was an owner present (see Table 3). The 1894 Labor Statistics report found that 36 percent of families in the Chicago neighborhood studied lived in buildings they either owned or in which the owner lived. (This figure does not even take into account the large number of lodgers who often rented from owners: the 1907 Immigration Commission found that 30 percent of poor

²³ See, for example, “Slums of Cities,” issued by the Commissioner of Labor Statistics in 1894, and “Immigrants in Cities,” issued by the U.S. Immigration Commission in 1907.

²⁴ *Ibid.*

families took in boarders—in effect, another form of owner-presence.) In his study of the development of Detroit in the early 20th century, social historian Oliver Zunz found that, thanks to informal methods of construction and finance:

*Working class immigrants owned their homes proportionately more often than middle-class, native white Americans...As a result of the high rate of home ownership and the plethora of single-family dwellings, only limited sections of Detroit resembled physical ghettos—downtown areas inhabited by minority group members who rented dilapidated homes from absentee owners.*²⁵

Structure Type	No. of Owner-Occupants	Renter Units in O/O Housing
2-Family	73	73
3-Family	68	136
4-Family	51	153
5-Family	48	192
6-Family	48	240
7-Family	11	66
8-Family	13	91
10-Family	1	9
11-Family	3	30
13-Family	1	12
14-Family	2	26
15-Family	1	14

Source: *Slums of Cities, Seventh Special Report of the United States Commissioner of Labor*, U.S. Bureau of Labor, 1894.
 Total (Renters in O/O Buildings) = 1,042
 Total number of renter families = 3,484
 Percent of renters in owner-occupied structures = 29.8%
 Numbers of owners = 397
 Total O/O Renter and Owner Structures = 1,439
 Total Number of Residential Structures = 3,881
 Percentage of families either owning or living in owner-present building = 37%
 10.2% homeownership yields 37% owner presence
 Ratio = 3.5

Poor neighborhoods in which tenants know owners and owners screen tenants, and are responsible for the upkeep of their properties, could not differ more dramatically from public housing—where, in a sense, there is no owner. So it was that in poor neighborhoods as in wealthier neighborhoods, the housing ladder—the types of structure and the pattern of ownership—helped to create the social fabric. This was a pattern that would be repeated in the boom years following World War II when new housing rungs in the expanding suburbs were created by private builders alert to what Americans wanted. There were mobile homes; there were William Levitt's tract homes in the Levittowns of

²⁵ Olivier Zunz, *The Changing Face of Inequality: Urbanization, Industrial Development and Immigrants in Detroit, 1880–1920* (Chicago: University of Chicago Press, 1982).

New York and Pennsylvania; there were Jim Walter's unfinished homes, sold to families willing to do some work themselves in exchange for getting started on the housing ladder.²⁶ As Jim Walter's biographer has written: “Customers came in by the thousands to see what kind of one-bedroom home they could possibly buy for \$995 or three-bedroom house for \$2,395.... As it had been from the very beginning, working people wanted a home of their own to live in, and they were willing and able to finish the house themselves to get what they wanted at a price they could afford.”²⁷

But these realities were either unknown or unimaginable to housing reformers or dismissed by them. In her landmark book *Modern Housing*, Catherine Bauer broadly characterized the newly built urban neighborhoods of the time as “circles of incipient blight.” To the extent that they were aware of the idea of the housing ladder, reformers rejected it. University of Chicago sociologist Edith Abbott worried that home-owning families saw themselves as joining “a superior social group”. It was with such concerns in mind that Catherine Bauer called for “an entirely new method of providing an entirely new standard of urban environment”— an ironic description in light of the fate of public housing. In the light of such utopian proposals, Lawrence Veillier's vision of minimal regulation in a context in which private builders provide for the poor has been forgotten. This report revives the vision of Veillier in ways relevant to our present housing problems.

²⁶ Allan Wallis, *Wheel Estate: The Rise and Decline of Mobile Homes* (New York: Oxford University Press, 1991.)

²⁷ Alvin Moscow, *Building a Business: The Jim Walter Story*, 1995, Pineapple Press, Sarasota, Florida, p. 49.

PART II:

Fixing The Ladder's Lower Rungs: What Government Should Do

Rather than dismissing what private builders can do and the virtues of privately owned low-and-moderate-income housing, it is time to rediscover their importance.

What follows in Part II of this guide are descriptions and analyses of initiatives in cities across the United States which help create, through private, unsubsidized or minimally subsidized efforts, those rungs on the housing ladder needed to generate good, safe neighborhoods, even for those of low income, and which can offer, too, a route to social and economic upward mobility. From single rooms in San Diego to subdivided ranch houses on Long Island, each initiative represents its own rung on the housing ladder. They have been chosen not necessarily as model programs but as examples of how a housing policy based on less regulation, less subsidy, and more attention to the social forces at work in neighborhoods, might take shape.

San Diego's SRO Housing: Restoring the Lowest Rung on the Ladder

In his hit song “King of the Road,” singer Roger Miller wrote how “two hours of pushing a broom buys an 8 X 12 four-bit room.” Miller was essentially describing one of the lowest rungs on the housing ladder: the single room. There were, and are, even lower rungs. In their book, *New Homeless and Old*, Charles Hoch and Robert Slayton describe a Chicago of the early 1900s in which saloons allowed patrons to sleep in their seats for the price of a beer and “facilities that, for a penny, permitted callers to hang on a series of ropes stretched across the room.”²⁸ Thankfully, such housing forms have disappeared, but single room occupancy (SRO) “hotels” have survived—though just barely. The appeal of the SRO for the poor, lower working class, single person is the appeal of having one's own place, where possessions can be kept and the door locked—even if the room is tiny and dingy, even if the bathroom is down the hall. Generally, they are found in older, declining downtown areas; they are not in demand for the higher rungs of the housing ladder. Often, they were once more up-scale hotels, subdivided and modestly maintained in order to keep rents in line with what the low-income single person can pay.

The appeal of the SRO for the poor, lower working class, single person is the appeal of having one's own place, where possessions can be kept and the door locked—even if the room is tiny and dingy, even if the bathroom is down the hall.

In post-World War II United States, however, the dynamic of “standards versus supply” hit single-room occupancy units hard. There has been profound confusion in our efforts to help cities between initiatives to help poor residents of urban areas, and initiatives to improve specific places which have declined through market forces. Our efforts to improve specific places—ie., dilapidated parts of cities—led, with the support of tax dollars, to urban renewal programs to “revitalize” city centers. SRO hotels—and, indirectly their low-income occupants—were the victims of these urban renewal programs and their

²⁸ Charles Hoch and Robert A. Slayton, *New Homeless and Old: Community and the Skid Row Hotel* (Philadelphia, Temple University Press, 1989), p. 51.

successors. Between 1974 and 1983, 896,000 housing units renting for less than \$200 a month—many of them single-room units—were demolished in the United States.²⁹ In New York City alone, the combination of SRO demolition and redevelopment (tax abatements were granted to spur conversion) resulted in a decline in SROs from 127,000 in 1970 to 14,000 in 1983. It was no coincidence that the phenomenon of homelessness emerged, too, during this period: standards had squashed supply.

The city of San Diego was no exception to this trend. Downtown redevelopment and the redevelopment of the city's historic Gaslamp Quarter, a Victorian-style commercial area, had led, in part because of simple market forces, to significant demolition or conversion of the city's SRO stock. Of 4,672 SRO units extant in 1976, 1,247 (about 25 percent) were no longer operating by 1985. The city projected that another 35 percent would be lost by 1990.

The best, most reliable way to create low-income housing—privately owned or managed, minimally subsidized if at all—is to permit the construction of *low-cost* housing.

The picture today is strikingly different. SRO decline has been reversed and more than 2,700 new or renovated, privately owned, single-room units have come into the market, the vast majority built and run without public subsidy. The resurgence of San Diego SROs is the story of a series of subtle but crucial regulatory changes which cleared the way for the first new SRO construction since the 1920s and reduced construction costs enough to allow developers to keep rents in line with their low-income market.

It's noteworthy that when San Diego first examined SROs as a public policy issue, the city considered and rejected an SRO preservation ordinance—a law that would have mandated that those SROs still remaining had to be maintained as SRO's, even if demand for their land to use for other purposes, suddenly rose. Market pressures have ways of asserting themselves, and one could have expected a number of unpleasant side effects from such a law: namely disinvestment to the point that authorities would have been constrained to condemn SRO structures. Arson fires designed to win insurance payments may have resulted as

Exterior of SRO Hotel in San Diego, Calif.

²⁹ Cited in “Building the Baltic: The SRO Issue in San Diego”, Kennedy School of Government Case Study C16-89-928.0, (President and Fellows of Harvard College, 1989).

well. Instead, *San Diego chose to facilitate, rather than suppress, the market.* Through its special SRO Code Task Force, which made recommendations to the City Council and other city agencies, San Diego facilitated construction by altering and relaxing regulations—but not so much as to inspire a political backlash.

NUTS AND BOLTS REFORMS FOR POLICYMAKERS:

Key Steps in San Diego's SRO Resurgence

1. Classifying SROs as a Commercial Use For “Planning and Zoning Purposes.” By allowing the construction of new SRO hotels in commercial, not residential zones, San Diego paved the way for developers to take advantage of inexpensive land in poorer, commercial areas on the fringe of downtown. Low-cost land is, of course, a key to low-cost housing. It is also land where there is likely to be little other new construction and little in the way of established residential communities who might be concerned about new, lower-income residents. In short, cheap, commercially-zoned land was the perfect place for a new, low rung on the housing ladder.

The language of the SRO Task Force report itself is revealing: in exempting SROs from the complex zoning and planning reviews that accompany housing developments, the task force recommended “that all discretionary processes affecting SRO projects be minimized, if not eliminated.” One could not imagine such a policy being politically acceptable if SROs were to be built in middle-class sections. By paving the way for new structures to be built in less desirable but cheaper commercial land, the city could avoid criticism and controversy, and, instead, spur construction.

2. Permitting Construction of Smaller Rooms Without Full Kitchen or Bath. The city gained state permission to reduce the minimum room size for single-room units from 220 square feet to 150 square feet. It also won the right to allow rooms to have partial baths—a toilet separated from the living area by a half-wall; showers down the corridor; and microwave ovens instead of full kitchens. There is a crucial, general point here which transcends any one form of construction. The best, most reliable way to create low-income housing—privately owned or managed, minimally subsidized if at all—is to permit the construction of *low-cost* housing. Smaller rooms mean more rooms; more rooms mean competition for tenants; competition means lower rents. One can rent a room in a San Diego SRO for as little as \$50 a week (the hotel charging that rate reports it is charging less than it was a year ago).

3. Permitting Building Code “Equivalencies.” To be sure, there are ways to lower housing construction costs to which no responsible authorities can agree, such as relaxing safety requirements. No administration can countenance the construction of fire traps. San Diego, however, had the imagination to look at its building safety codes not as ends in themselves but as means to specific safety goals. The city characterized the process of considering such issues as a search for “equivalent alternatives to current requirements.” One key example: if new SROs had full sprinkler systems to prevent fire, the city relaxed the requirement that each individual room had to have a window fire exit and that corridor doors be “one-hour rated” to prevent the spread of fire. Defining sprinklers as an equivalent for fire escapes, for example, allowed SROs with more rooms to be built—and rents, therefore, to be lower.

The larger lesson here involves not specific code changes but the importance of what the city called “creative design solutions:” examining codes in light of new technologies with

the goal of both ensuring safety and reducing cost. The very fact of considering cost at all is unusual and significant for code design.

4. Parking. Standard hotel construction requirements called for builders to provide one parking space for each room. Instead, through the use of variances—rather than a permanent change in the law that would affect all hotels—the city let SRO developers provide .5 spaces per room, or half as many as usual. The city reasoned that many SRO residents would not have cars at all and recognized that in less desirable commercial areas on-street parking might not pose a serious congestion problem. Less land devoted to parking meant more rooms and, thus lower rents.

5. Handicapped Access. The city legally classified SROs as hotels when it was advantageous to do so to reduce costs. Hotel codes required only one handicapped accessible unit among every 25 built. Residential apartment codes required the expenditure (in 1986 dollars) of \$740 for every unit. The city chose to apply the less stringent standard.

6. Hotel Tax. At the same time, for tax purposes, it chose not to classify SROs as hotels, thus dropping the requirement that they collect a 7 percent “transient occupancy tax.” Even before the spate of new construction which the city’s policy sparked, that meant the city was sacrificing \$104,000 a year (in 1986), in exchange for lower rents for low-income tenants. Mindful of the costs of establishing municipal shelters for the homeless, the city considered the change to be a good investment.

7. Water and Sewer Capacity Charges. Common sense tells us that single people living alone in small rooms use less water than do families, yet the city had been charging SRO owners a per room water capacity charge equal to half that of a larger, family-sized apartment (the actual water use was but one-eighth as great). Ultimately, the city decided again to take new technologies into account in considering its code. In SROs with both shower temperature and timer devices, it would base water charges on the number of actual private plumbing fixtures in a room (toilets, sinks or showers), instead of the higher flat fee which had been charged previously.

8. Lack of Subsidies. The less-regulated construction environment spurred the construction of new SROs that were, almost without exception, built without subsidies. This does not mean that some very low-income tenants do not receive housing subsidies. But the SROs themselves have been financed by private owners.

San Diego did not create a new, permanent SRO ordinance. “We developed a policy, not a new law,” observes city planning official Miles Pomeroy. In creating a set of policy guidelines that it chose to apply to a series of new SROs as they were proposed, San Diego retained the discretion to apply them on a case-by-case basis—and not to apply them in situations that were different from what had been anticipated. For instance, when an SRO developer sought to build in a more middle-class neighborhood, residents objected—not surprisingly given the dynamics of the housing ladder objected. The city, in that case, refused to relax the parking requirement, and the project was not built.

The San Diego experience, is a model of thoughtfully examining the principles underlying regulation. It was not a case of knee-jerk relaxation or toughening of codes. Policies embody our principles. If we believe in privately managed, low cost housing, our policies—even policies which might not immediately seem relevant to single-room occupancy hotels—must encourage it.

A The New SRO Ladder

San Diego's encouragement of new SRO hotels has led to an explosion of new construction over the past ten years: 2,400 new units and 370 substantially renovated units, to complement some 3,000 existing SRO rooms. The construction boom has demonstrated that the dynamics of supply and demand do take hold—even at the very low end of the housing ladder. *Over the past two years, rents have either gone down or stayed the same for 68 percent of the rooms.*

This relatively unregulated, low-income market has also formed its own kind of housing ladder. A pecking order has emerged among low-income SRO hotels. A survey of new and renovated San Diego SROs shows that the size of rooms and the nature of amenities both improve with higher rent levels. Even the rules governing such matters as when guests may visit vary with rent level.

The construction boom has demonstrated that the dynamics of supply and demand do take hold—even at the very low end of the housing ladder.

Subsidized tenants, many with social service needs, are concentrated in a handful of SROs. For example, at the Sara Frances Hotel, visiting is limited to the hours of 10 am to 5 pm—and guests must leave an ID with the desk clerk in the lobby. Slightly higher up the SRO ladder is the Baltic Hotel, the first new-construction SRO to be built in San Diego in more than 50 years.³⁰ Visiting is limited to the hours of 7:30 to 9:30 p.m. and a \$5 charge is levied for overnight guests. Managers reserve the right to keep out guests they consider to pose risks, just as they carefully screen tenant residents. At the more expensive Metropolitan Hotel, guests may visit anytime, so long as the host resident escorts them out. There are other forms of variation, as well. Less-expensive SROs may charge extra for telephone or cable television service; more expensive ones provide one or both.

In short, a highly segmented free market in single-room occupancy hotels has blossomed in San Diego over the past decade, demonstrating both that private builders can and will serve a very low-income market and that, even at very low incomes, people want to distance themselves from those poorer than themselves. Such are the forces that create and sustain the housing ladder.

³⁰ Named for the second-cheapest property on the Monopoly board.

Climbing the Housing Ladder: Baltimore's Minimal Rehab Model

Ultimately, the ability of City Homes to deliver shelter to households earning less than 30 percent of area median income without back-end rental subsidies depends on its ability to keep rehabilitation and financing costs down.³¹

—“Program Review,” City Homes

A. The Failure of Subsidized Rehabilitation Programs

As one climbs the housing ladder, single rooms will not suffice for many, especially for families. Historically, lower-income families have moved into neighborhoods of either very modest new houses or what might be called used housing—older homes or apartment buildings, some of them subdivided to accommodate poorer families with less ability to pay. When this occurs, neighborhoods are sometimes said to “decline” because they are not maintained as well and frequently there are vacant and abandoned structures. American society has been unwilling to accept this state of affairs.

Since World War II, the emergence of declining inner city neighborhoods in U.S. cities has prompted a now-familiar pattern of public policy responses. One is a stream of programs either to replace or repair older buildings in older neighborhoods. Major, federally subsidized renovation projects begun in the late 1960s (so-called Section 221 d(3) projects) were aimed at renovating the interiors of older buildings through so-called “gut rehabs”. The costs of renovation were higher than the rent rolls in poor neighborhoods could ever support. *Thus, in order to draw private owner/managers into the low-income housing business, renovation programs provided below-market rate mortgage money (these are so-called front-end subsidies) and a guaranteed rental income through subsidies of individual tenants (these are known as back-end subsidies)—*paying the difference between a quarter of tenants' income and the rent needed to support the building's costs and a developer's profit.

³¹ “Program Review,” City Homes (Baltimore, MD: Legg Mason Realty Group, August 1994).

Such programs have numerous problems. First, they are extremely expensive. Complete rehabilitation of older buildings often costs \$100,000 a unit. To make up for the difference between financing and upkeep costs (even at reduced, subsidized mortgage rates) and the levels of income which poor tenants can provide, governments must contract with private owners to provide long-term rent subsidies. Such subsidies are often huge: a recent project to renovate some 1,900 units of subsidized rental housing in Boston was made possible only by a federal guarantee of \$101 million in rent subsidies over 15 years.³²

Implicit in this approach is the belief that older neighborhoods must be rebuilt to the highest-possible contemporary housing standards—even though the income of residents in these neighborhoods will not support such standards. An approach based on such assumptions is probably not sustainable. It is expensive and raises doubts as to whether there are sufficient management incentives for renovated properties to remain in good condition. Because much of their rent is paid for by the government, tenants lack leverage to demand proper upkeep and maintenance. Owners, on the other hand, must often take tenants from those who qualify on the basis of need for Section 8 rental subsidies.³³ Often these applications are forwarded by local housing authorities. There is neither opportunity nor incentive to screen tenants as to whether they are likely to pay rent and stay out of trouble—the kinds of characteristics owners in non-subsidized settings consider first.

...tax credits can be an extremely expensive form of housing development: 2,500 “gut rehab” units in the Bronx, for instance, cost \$93,000 each.

A more recent variation on the subsidized renovation approach is the advent of non-profit Community Development Corporations (CDCs). CDCs typically take advantage of low-interest loans, rent subsidies and the proceeds from tax syndications through the 1986 Low-Income Housing Tax Credit to finance expensive “gut rehabs.” The CDC approach is the most important new low-income (as distinct from low-cost) housing initiative in the United States in recent years: over 80,000 housing units have been financed through the low-income housing tax credit. Though it is beyond the scope of this report to evaluate such projects, the financing mechanism of CDCs—the tax credit—is currently under fire in Congress. The reason: tax credits can be an extremely expensive form of housing development: 2,500 “gut rehab” units in the Bronx, for instance, cost \$93,000 each. A Congressional Budget Office report found, for instance, that “subsidized housing largely replaces other housing that would have been available through the private unsubsidized housing market. . . (and) the improvement in quality is generally worth much less to

³² “HUD, MHFA Sign Contract Locking in \$101M for Project,” *Boston Globe*, Real Estate section (October 14, 1995), p. 29.

³³ Named for the relevant section of the National Housing Act of 1974.

tenants than its costs to the government.”³⁴ There is little assurance, moreover, that such community nonprofit groups will have the capacity and staying power to manage renovated buildings over the long term.³⁵

Whenever subsidized and nonsubsidized tenants are placed in the same building (or even block), the socializing effects of the housing ladder are compromised. Unless those who have worked to pay their rent can distinguish their rewards from those who have not done so, their effort is undermined. Extremely high renovation costs clearly exacerbate this problem by making high “back-end” subsidies a financial necessity. Expensive subsidized renovations disrupt the housing ladder by minimizing the incentive residents may feel to move up because they are unlikely to get by dint of their own income the physical accommodations equal to what they've gained through subsidy.

Whenever subsidized and nonsubsidized tenants are placed in the same building, the socializing effects of the housing ladder are compromised.

B. City Homes: the Minimal Rehab Alternative

This combination of high expense and perverse incentives make a radically different approach underway in Baltimore look promising in contrast to traditional rehab. A small project called City Homes Inc. is based on a profoundly different set of assumptions; the effect being to increase housing supply through relatively less regulation. Rather than seeing them as places of decay where shocking conditions cry out for extraordinary steps, City Homes Inc. views inner city housing as a business and, implicitly, asks the question: could rents be reduced and adequate housing be provided by lowering the costs of doing business, while at the same time satisfying societal norms for decent housing?

The key to answering “yes” to such apparently conflicting demands involves an approach called “minimal rehab”. It focuses on the long blocks of brick row homes which comprise the older neighborhoods of Baltimore. These narrow three-story structures have housed wave after wave of immigrant ethnic groups and today are home to the city's large, African-American population. Historically, private and nonprofit developers have renovated such properties—as well as larger buildings (such as abandoned schools) in poorer neighborhoods through complete, gut rehab; leaving only the exterior shell and building a completely new interior. Such projects are generally premised on extensive front-end (tax credit-financed) and back-end (Section 8 rental subsidies) financing.

³⁴ “The Cost-Effectiveness of the Low-Income Housing Tax Credit Compared with Housing Vouchers,” CBO Staff Memorandum, Congressional Budget Office, (April 1992).

³⁵ See Rachel Bratt, et al., *Confronting the Management Challenge: Affordable Housing in the NonProfit Sector* Community Development Research Center, Graduate School of Management and Urban Policy, New School for Social Research (1994).

C. The Minimal Rehab Alternative

In a minimal rehab approach, construction crews will, for instance:

- Retain existing, structurally sound walls—even if they need paint and patching;
- Retain existing plumbing and lighting fixtures, if they are functional;
- Retain existing stairwells, even if they are narrower and steeper than what would be built today;
- Install a wooden clothes bar in the corner of a room, rather than a full closet.

Construction requirements—codes—add costs, working at cross-purposes to the goal of low-cost, housing (see Table 4). One of the founders of City Homes has noted that publicly-financed projects are more likely to include more amenities, thus raising construction and/or rehabilitation cost. Peter Werwath, a housing consultant who was one of the original staff members at City Homes, has identified eight examples of construction requirements, often applied selectively (especially to publicly subsidized projects presumed to have the necessary funds) that make rehab projects more expensive.*

Table 4: Construction Requirements that Increase Costs of Rehab Projects	
Code	Cost (1989 est.)
Cast Iron waste pipes instead of less expensive materials (PVC or ABS)	\$400
Copper Water Supply pipes instead of CPVC	\$200
Individual fixture shut-off valves instead of single cut-off	\$25–100
Back venting instead of a pressure-equalizing valve	\$400
Outlets for every 12 inches of countertop instead of two feet	\$95
Outlets 6' from doors and every 12' around the room instead of 2/room	\$330–1,200
Ventilation system in kitchens when windows would suffice	\$150
Central heating instead of space heating in well-insulated homes. ³⁶	\$1,500

* Estimates are based on the rehab of a three-bedroom house.

At the same time, minimal rehab can nonetheless be thorough, involving complete roof repairs, painting and plastering, levelling old floors, replacement of broken faucets or kitchen fixtures—and much more. The point, as with San Diego's code equivalencies, is not to look at City Homes as the source of new, inviolable code, but to take its example as one in which codes are examined generally in light of both their utility and cost.

NUTS AND BOLTS REFORMS FOR POLICYMAKERS:

³⁶ Peter Werwath, “The Price of Regulation,” *Cost Cuts Newsletter* (The Enterprise Foundation, February 1989).

The Minimal Rehab. Approach

All homes will be brought up to the following standards based on three principles:

1. Safe, practical housing.
2. Historical standards met per attached memorandum of agreement.
3. Energy efficient renovations when pay back is shorter than 2 years, or financed by others (when money allows).

Goal 1: Safe Practical Housing

Exterior

- Exterior Requirements: 3" high address numbers; Structure adequate to carry load; Exterior wood painted; Roof not leaking; Chimneys structurally safe; Handrail required on one side for 5 or more risers

- Windows: All top sash in excess of 5% of floor area shall be made fixed; Vented sky lights shall meet ventilation standard
- Door Hardware: Door slide bolts and passage locks shall be capable of tightly securing door
- Basement Windows

Interior

- Walls: Peeling paint, loose or cracked plaster shall be removed or repaired
- Floors: Kitchen and Bathroom have water resistant finish; Loose flooring and tripping hazards repaired
- Stairwells: Handrails are required at 5 or more risers on one side
- Habitable Rooms: Includes one window or skylight of at least 8% of floor area; includes an operable opening of at least 3.3% of floor area; include at least one operable duplex receptacle
- Bedrooms: Contain 60 SF with 6' minimum room dimension; all existing walkthrough conditions permissible; contain a minimum of 2 electrical outlets including light; 2' of shelf and rod required in or near each bedroom
- Kitchens: Mechanical light and ventilation allowed in lieu of natural requirement; 50 SF min size 3' min clear aisle; contain sink, facilities for owner supplied stove and refrigerator; minimum cabinet sizes
- Baths: Contain a commode, lavatory, shower, or tub with hot and cold water; are private to other rooms with locking mechanism; are in working condition; contain a grounded outlet; GFIs installed only when no grounded receptacle present
- Equipment: Hot water heater provides 110 degrees water
- Furnace: Capable of 60 degree indoor temperature in all habited rooms when exterior temperature is 0 degrees or above; vented; capable of individual occupant control
- Light Fixtures: Required in halls, stairwells, baths, furnace area
- Electric services and wire: Minimum 60 amp; existing devices work
- Replacement Standards
- The following are not performance standards but standards for items which are deteriorated beyond use and must be replaced. Note: Used and blemished equipment is acceptable if it meets standards.
- Electric: 100 AMP main panel with room for 12 circuits
- Plumbing: Copper supply (3/4" copper main supply from street 30 gal. gas or 40 gal. electric water heater)
- HVAC: Gas or Oil Furnace or boiler with AFUE rating of 70 or better, exposed duct work painted
- Roofing: 3-ply built up or double coverage shingle
- Siding: 210 lb class A Fiberglass shingles or stained T-1-11 over frame walls
- Window sash: wood, single glazed one over one or to match existing configuration

Goal 2: Address Historical Concerns

- Standard: Maryland state review process for minor rehab per the attached memorandum of agreement

Goal 3: Energy Efficiency (Optional)

- Standard: HUD’s Cost Effective Energy Standards (CEES)
- Attic Insulation to R-19 when exposed
- Weather stripped doors and moveable window sash
- Exterior caulking
- Top sash caulked shut to eliminate infiltration
- Storm windows

“Minimal Rehab” works quite differently. In order to keep costs—and consequently rents—low, the City Homes approach involves incremental, not wholesale, improvements. Most significantly, it keeps renovation costs down by retaining as much of the existing interior as possible. Thus it emphasizes *repair over replacement*: or as City Homes puts it “used and blemished equipment is acceptable if it meets standards.” It believes too in *basics before frills*. This could mean solid wooden doors rather than doors with windows. It could also mean not replacing those elements of a house which are too expensive. When they began, City Homes would not renovate back porches if carpentry were to cost more than \$750. The goal is an *inexpensive but functional* renovation.

B. Limited Public Subsidy

The City Homes minimal rehab approach did not require waivers from either local or federal housing codes. It did require a willingness on the part of local and state officials to invest limited public subsidy funds in a project that was not a gut rehab. In fact, a key to City Homes' low rents is its source of financing: low-interest mortgage money provided by the State of Maryland's Community Development Administration. There is a logic to this minimal public subsidy. If, as a society, we set minimum housing standards which the rent of poor families cannot support on their own, it makes sense to help property owners improve their properties when limited income leads to their decline. In this respect, it is far better to provide just enough money to help owners keep up with basic repairs than to try to build whole replacement neighborhoods (public housing) or support expensive “gut” rehabilitation of older properties.

Why would this report, with its emphasis on the importance of the housing market as part of our social capital, have kind words about a project which, after all, was predicated on some public dollars? First, Because the subsidies are limited. Second, because the concept points the way toward a housing policy in which subsidies can ultimately be reduced or eliminated. It is true that public subsidies, financed through Maryland's state bonding authority, did provide the funds to make capital improvements. But, because those improvements are modest, no continuing stream of rent subsidies for individual tenants are required. Just as significantly, the project, by emphasizing low-cost renovation, points the way toward a minimal-subsidy housing policy. One can imagine, based on the City Homes model, local policies which emphasize the need to reduce the

costs of privately-owned housing in which poor families live, rather than constantly striving to keep such housing at excessively high standards—a goal which can have the effect of forcing abandonment through high costs. The key to City Homes is less its financing mechanism and the extent or limits on public dollars than its emphasis on accepting modest dwelling units—a de facto endorsement of the housing ladder.

Maryland officials are candid in conceding that it was not easy to accept the minimal rehab concept. Observes Stuart Wechsler, senior underwriter for the Maryland Community Development Agency, “There's a difference of opinion here. Some people think they're just a higher class of slumlord. Some people think they're doing the best you can do in a post-subsidy society.” It is worth noting, however, that City Homes did not rely on anything other than the low-interest bonding authority of the state of Maryland; it did not make use of the Low Income Housing Tax Credit or back-end Section 8 subsidies.³⁷

C. Creating a Housing Rung

Its minimalist approach has allowed City Homes, between 1987 and 1994, to renovate 243 row homes for an average of \$12,000 each. As a result, City Homes is able to charge \$268 a month in rent (not that much more than some of San Diego's single rooms) and to rent to tenants earning, on average, less than \$10,000 a year. City Homes makes its limited public subsidies go further than they otherwise would. Moreover, its approach limited the distortion of such subsidies on the housing ladder system.

Such blocks can be thought of as new housing rungs—places in which the very poorest members of the working class have the chance to begin the process of upward mobility.

Because its costs are low, City Homes does not rely on income from rental subsidies. It accepts tenants on traditional rental housing grounds: not on the basis of need but on their demonstrated ability to pay. Applicants must have a track record of having paid rent regularly for the previous 12 months in order to be accepted as a City Homes tenant. Tenants can be rejected on the basis of subjective criteria, such as their housekeeping habits in previous residences. Rents, moreover, are typically slightly beyond the means of

³⁷ Costs have been held down, additionally, by the fact that City Homes is a nonprofit entity, established by the Baltimore-based Enterprise Foundation, more commonly focused on the kind of gut rehabs to which City Homes is an alternative. Nonprofit status does not appear to be a prerequisite to the City Homes approach; indeed, the organization collects substantial management and development fees, just as a for-profit entity would. Additionally, its president came to City Homes from a career in for-profit row-home management in Baltimore. City Homes's nonprofit status—and presumed public spiritedness—may have mattered most in influencing government's willingness to allow it to undertake its minimal rehab approach and still receive financial help from the state.

welfare recipients—nevertheless median household income is only \$9,828, and 71 percent of the tenants in its most recently renovated buildings earn less than 30 percent of the Baltimore area median income.³⁸

The combined effect of reduced costs through minimal rehab and City Homes' screening policies is the creation of a new, low-end rung on the housing ladder: non-rent-subsidized, low-income tenants. The feeling that one must, in effect, qualify to rent from City Homes may help explain some of the beneficial side effects of the program. Significantly, whole blocks of City Homes rowhouses in otherwise dangerous and dilapidated sections of Baltimore are in good physical and social condition. Such blocks can be thought of as new housing rungs—places in which the very poorest members of the working class have the chance to begin the process of upward mobility. *As with the desk clerks who check on visitors at the SROs of San Diego, the housing ladder system builds in social controls which help to create something vitally important to American society: poor neighborhoods that are, nonetheless, good neighborhoods.*

As was explained earlier, City Homes, is not a purely market-driven program. Even the limited amenities of “minimal rehab” are, in part, state subsidized, thus providing the poor with housing better than they could afford simply based on income. This creates complications, which City Homes has had to address. Anytime anyone is offered housing better than what they could afford strictly on their own, the natural sorting mechanisms of the housing market are, to some extent, undermined.³⁹ In these cases, other criteria must be developed to help separate the hardworking and law-abiding from less desirable neighbors. It is just this type of sorting that breaks down in public housing, which serves as housing of last resort for almost anyone.

...moving to a more modern or fully rehabbed home is something toward which one strives, not something which can simply be expected.

Because it is not operating purely in the free market, City Homes has realized that it must take steps to screen tenants based on some non-income criterion. Screening tenants for their demonstrated ability both to make regular payments and to maintain their households is a key part of the City Homes approach and a key to the successful creation of this modestly-subsidized rung on the housing ladder. By gathering together residents based on their ability to pay rent, City Homes allows such households to put some social distance between themselves and those whose social problems make it less likely they will work and pay rent. It's noteworthy—and no coincidence—that a City Homes block

³⁸ “Program Review,” City Homes (August 1994).

³⁹ For example, even with City Homes minimal approach the average loan-to-value ratio of a City Homes rowhouse is 132 percent, meaning the cost of renovations outstrips resale value.

won designation in 1994 in a local newspaper competition which awards a prize to blocks that are safe and clean. There is an additional implicit message in the minimal rehab approach: moving to a more modern or fully rehabbed home is something toward which one strives, not something which can simply be expected.

D. Challenges to the Minimal Rehab Approach

The City Homes approach has faced challenges. It has been difficult for the organization to buy full blocks of buildings, notwithstanding urgings from the city of Baltimore that it proceed in that fashion. Minimally rehabbed buildings, scattered about a much larger neighborhood, will still stretch public subsidy dollars but will not have the housing ladder effect which is crucial for the aspirations of the poor and the maintenance of social order in poor neighborhoods.

Moreover, under pressure from local Baltimore public health authorities in recent years, City Homes moved to add removal or capping of lead paint to its renovation agenda. As a result, plans to renovate 126 homes between 1990 and 1994 were, instead, limited to 69 homes. Removal of lead paint is a laudable goal, however it is also another regulatory standard, and a very expensive one. Renovating more homes would have increased the likelihood of a significant, identifiable neighborhood of City Homes buildings emerging—strengthening its rung on the housing ladder. The public policy decision weighing the importance of standards versus supply can involve difficult emotional issues, such as lead poisoning. Could education about housekeeping and health and diet have led to an acceptable approach to the lead hazard for City Homes tenants? Is the creation of an upgraded neighborhood worth the risks associated with the presence of lead?⁴⁰ Just as Lawrence Veiller had to consider the impact of regulation on the price of housing for workers in Manhattan 90 years ago, so governments must consider fully the implications of regulation—even the most attractive regulation—on the cost and supply of housing.

⁴⁰ For a thorough account of the pluses and minuses of lead paint removal, see Ellen Ruppel Shell, “An Element of Doubt,” *Atlantic Monthly*, December 1995. Shell observes: “Sandbox covers, doormats, and hand washing might well help reduce lead exposure in many children, but such measures are rarely mentioned by health agencies and advocacy groups. The attractiveness of lead as an advocacy issue is clear—the culprit is well defined, and the costs seem easy to pass along to ‘bad guy’ landlords and industry. But the buck doesn’t stop with the bad guys. Pressured by fear of litigation, many landlords are likely to delead units whether or not they are truly hazardous, and to pass the cost and risks of the lead abatement on to renters, the groups least able to afford them.”

Creating Homeownership Opportunities on the Ladder's Lower Rungs: Nehemiah Homes and Habitat for Humanity

As one ascends the housing ladder, most people try to buy a home after renting a modest apartment and saving money. In present-day America, however, even buying a small home in a modest but safe neighborhood can be a daunting goal. The gap between public housing and homeownership, for example, can be a chasm. Homes in older urban neighborhoods, which may be less expensive than suburban dwellings, are often in poor repair or located in areas where there is little assurance that one's investment will be worthwhile. Attempts to address this problem by attacking suburban zoning regulations and proposing to allow higher-density, and therefore less-expensive new homes, typically spark great political resistance—just as the concept of the housing ladder would predict.

Historically, this problem was addressed by constructing modest homes in modest, blue-collar neighborhoods within cities. More recently, the emphasis on subsidized rental construction has helped to strangle such construction, typically steering prospective owners into large, subsidized apartment complexes. Happily, that situation is changing. The decline in new construction subsidies has come at a time when many builders have recognized that another approach is possible. Call it low-cost, rather than low-income housing; it is construction which is “affordable” not because it is subsidized but because it is inexpensive to build. The key to this new generation of low-cost homeownership opportunities for lower-income families is an important, newly recognized urban resource: open land, in the form of vacant lots and blocks, or potential open land now occupied by large, abandoned buildings that could be abolished when their rehabilitation costs are prohibitive. An abundance of such land is available in many cities; there is so much in Detroit, for instance, that it is commonly described as “urban prairie”. Chicago has identified more than 2,000 open sites; estimates nationwide range as high as 450,000 sites.⁴¹

⁴¹ “With E.P.A.’s Backing, Cities Redeveloping Industrial Sites”, *New York Times* (December 4, 1995), p. 1.

With relatively little fanfare, the construction of modest, new homes to be owned by lower-income families in urban neighborhoods on formerly vacant land has become a significant new housing trend. The phenomenon can be found everywhere from New York City to Racine, Wisconsin. Actions by increased numbers of municipalities to accelerate and expand this trend would be in keeping, moreover, with the congressional mandate to the major government-sponsored mortgage finance entities—the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation—to take steps to ensure that an increased percentage of mortgages they purchase have been made to lower-income homebuyers.

When it is allowed to operate, the housing ladder can use economic discrimination to drive out racial discrimination.

This section will focus on two of the most numerically significant organizations engaged in such work: the Nehemiah Plan Homes in New York City and Habitat for Humanity, the national organization headquartered in Americus, Georgia.

A. Nehemiah Plan Homes

New York City has long been known for its large volume (some 570,000 units) of public and publicly assisted housing. In fact, public housing began in New York well before it became the subject of New Deal legislation—which makes the policy departure represented by the Nehemiah Plan Homes all the more stark. Rather than being based on state support for subsidized rental units, the Nehemiah Plan concept develops attached, single-family homes, owned by their residents, built in what had been some of the city's most derelict areas. The nonprofit Nehemiah organization has, since 1984, built some 2,500 homes—almost all small, attached, 1,100-square-foot row houses built on 1,800-

square-foot lots and selling for between \$51,000 to \$73,000 on cleared land in older neighborhoods of Brooklyn and the Bronx. That these represent a rung on the housing ladder that had been missing is underscored by the identity of the buyers: all are first-time homebuyers. More significantly, 45 percent of Brooklyn buyers have come directly from public housing; in the Bronx, the figure is 80 percent.



Nehemiah Homes in South Bronx, N.Y.

Nehemiah is the brainchild of a retired suburban tract housing developer named I.D. Robbins. It has been financed by two consortia of African-

American churches, the East Brooklyn Congregations and the South Bronx Churches,⁴² which were themselves organized by the Industrial Areas Foundation, the well-known community organizing group. The church groups provide no-interest financing by raising enough capital to get construction underway. Home sales replenish the capital and, through an interest-free revolving construction fund, allow the next round of construction to begin. In addition, Nehemiah homebuyers have been aided by low-interest loans (6.5 percent) from the bond-financed New York State Mortgage , which also provides a \$15,000 “soft second” mortgage from the state of New York Mortgage Association—a no-interest loan which, however, is payable in full on resale of the house (see Table 5). (Resale is restricted for the first 10 years.) Some might quarrel with a description of all this as minimally-subsidized but when compared to the cost of subsidized renovation projects which rely on a continuing stream of rent subsidies to individual tenants, Nehemiah is hardly subsidized at all.

Owner-occupied housing is the linchpin to the establishment of poor neighborhoods that are nonetheless good neighborhoods.

Table 5: Ownership Analysis of Nehemiah Homes	
Construction Cost of Home	\$71,000
City and State Subsidies or Second Mortgage	\$15,000
Adjusted Purchase Price	\$56,000
Minimum Down Payment	\$5,000
Closing Costs	\$6,850
Total Cash Required	\$11,850
Adjusted Purchase Price	\$56,000
Down Payment	\$5,000
Mortgage Amount	\$51,000
Mortgage Term	30 Years
Interest Rate	6.5%
Monthly Mortgage Payment	\$322

Source: Shawn Donovan, *Affordable Homeownership in New York City: Nehemiah Plan Homes and the New York City Housing Partnership*, Kennedy School of Government, Harvard University, Case Study C116-94-1252.0 and 1253.0.

The Nehemiah neighborhoods in New York are large and feel distinct and separate from their surroundings. Notwithstanding their proximity to dangerous public housing projects, police and residents say they are safe. Residents have added their own decorative embellishments and porches. The homes, moreover, have held and increased their value: at least one home originally sold for \$51,000 has resold for \$144,000. Some 70 percent of New York Nehemiah owners are black; 25 percent Hispanic. However, a small number

⁴² Both organizations are members of the national community organizing group, the Industrial Areas Foundation, which has sponsored similar, but smaller, projects in Los Angeles and Baltimore.

of white buyers also have begun to purchase homes in Nehemiah's Brooklyn developments. It may well be that, when reassured about the economic status of black neighbors, whites are willing to move into even predominantly black neighborhoods—demonstrating that, when it is allowed to operate, the housing ladder can use economic discrimination to drive out racial discrimination.⁴³

B. Habitat for Humanity

Habitat for Humanity, founded in 1976 by a former mail-order sales entrepreneur and lawyer named Millard Fuller, is best known for the involvement of former President Jimmy Carter, who has volunteered as a carpenter on Habitat “blitz-build” projects, wherein new homes are erected almost overnight. Habitat deserves to be taken seriously: it has become the 14th largest homebuilder in the United States and is on track to become number one by the year 2000. With a \$67 million annual budget, it employs sophisticated fundraising techniques and receives both funds and donated building materials from major corporate sponsors.

By deciding not to use price alone as a way to discriminate among buyers, Habitat and Nehemiah must look for signals which assure them of the reliability of their owner-occupants.

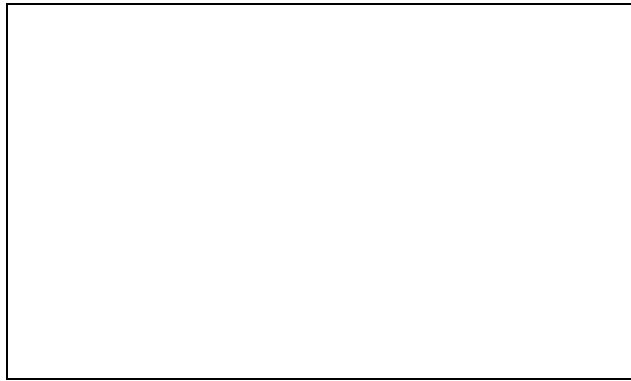
Between 1984 and 1995, Habitat's over 1,100 local chapters—which make use of donated materials and volunteer labor—have built some 40,000 very modest single-family homes.



Habit for the Humanities Volunteers Keep Costs Down

The homes, typically between 885 and 1150 square feet, sell for as little as \$30,000. Like Nehemiah, Habitat targets the working poor: families earning from \$10,000 to \$21,000—typically one step above welfare recipients. Because it relies on donated land, Habitat has typically built in medium-sized subdivisions in the poorer parts of cities. Recent projects include 19 houses in Lynchburg, VA; the 60-house Habitat Village in Greenville, South Carolina; 46 houses in Columbia, South Carolina; 16 houses in Montgomery, Alabama; 12 in Indianapolis; and 89 in Fresno. Although

⁴³ This demonstrates another attribute of the housing ladder: if inexpensive homes are built with little or no subsidy, people of similar class backgrounds will be drawn to them. Racial integration can be a positive side effect. For a much fuller explanation of the way in which housing subsidies can lead to race discrimination, see Howard Husock, “A Critique of Mixed-Income Housing,” *The Responsive Community* (Spring 1995).



Habitat for Humanity volunteers frame six new homes in Homestead, Fl. They are the first of hundreds to be built in the wake of Hurricane Andrew.

it has been concentrated in the South, Habitat recently announced an “urban initiative” to penetrate big cities; its national chapter will match local contributions to urban locales.

Like Nehemiah, Habitat is a self-financed builder—relying on donations, often from churches, for its capital. Unlike Nehemiah, it provides its own mortgage financing—at zero percent interest—and redirects mortgage payments toward new construction.⁴⁴ Its headquarters provide extensive technical support to local chapters; help both in fundraising techniques and by providing model

home plans and construction/materials advice for a variety of lot sizes. Rather than keeping costs low through state-subsidized mortgages, Habitat relies on donated materials and volunteer labor: the homes it sells for \$30,000 are typically valued for at least \$50,000. Often they are built on land donated by government—open land in poor neighborhoods—sometimes improved through local tax monies or federal community development funds.

Nehemiah, despite dealing with relatively poor families, has seen but one mortgage default.

Founder Millard Fuller can, in some sense, be considered the Jacob Riis of the South: outraged over poor families living in shacks, he set out to provide “decent homes for God's children in need.” He's chosen, however, not to rely on public subsidies nor to emphasize rental housing. Instead, the Habitat model is that of the modest, single-family home, lived in by its owner.

C. Creating Good Neighborhoods: The Importance of Homeownership

Homeownership is a key to the housing ladder system. Owning a home encourages lower-income families to maintain their property, to pressure neighbors to maintain theirs, and to pressure local authorities to provide high-quality city services—all in the hopes of preserving one's investment and/or increasing its value in order to sell at a

⁴⁴ At least one state—West Virginia—has indirectly (through the West Virginia Housing Development Finance Agency) assisted Habitat by organizing banks to purchase loans which Habitat has made to its “partner families.” Habitat receives the net present value of the mortgage and uses the proceeds to finance additional construction. See “Mountaineer Habitat for Humanity and the West Virginia Housing Development Fund: The Prospect of Partnership,” Kennedy School of Government case study, C16-1243.0/1.

profit, then to move up the ladder. None of this can be done through subsidized rentals. Even some federal programs that have encouraged homeownership tend to include significant obstacles to moving up the housing ladder: new single-family homes financed through the Low Income Housing Tax Credit, for instance, require that buyers reside in the home for at least 15 years before being able to sell.⁴⁵

Although Habitat and Nehemiah emphasize single-family units, owner-occupied two-or three-family homes have their own special advantages, as well. They may allow buyers who could not otherwise afford a home to leverage their purchase through the rental income they receive. Tenants are likely to be carefully chosen and maintenance is likely to be good, because of the owner's presence.

Nehemiah and Habitat operate on the unwritten but economically sound principle that increased housing supply will, over the long run, keep prices within the reach of all income groups.

Owner-occupied housing is the linchpin to the establishment of poor neighborhoods that are nonetheless good neighborhoods. They are good for the same reasons any neighborhoods are “good”: they are places in which a preponderance of people feel a social and economic stake and act accordingly.

D. The Need to Screen

Both Nehemiah and Habitat have a variety of relatively stringent buyer-screening requirements. This is both logical and desirable. Although they both are only indirectly and minimally subsidized—whether through donated land or low-interest mortgages, both Habitat and Nehemiah are selling homes at below-market cost. They are, in other words, responding to that central complication of the housing ladder: the social consensus that we should not let the for-profit market alone provide housing at the bottom rungs. By deciding not to use price alone as a way to discriminate among buyers, Habitat and Nehemiah must look for signals which assure them of the reliability of their owner-occupants.

Nehemiah emphasizes economic criteria. Buyers must have been employed at least two years and show their tax returns to prove it. They must not have been bankrupt within the previous seven years. They must post a five percent down payment. And they must not

⁴⁵ Note that many Low-Income Tax Credit-financed single-family homes use a federal “Nehemiah” program to provide a \$15,000 forgivable second mortgage to ease financing. Although inspired by the Brooklyn project, this Nehemiah program does not meet many of its criteria; particularly its emphasis on a large tract to create, in effect, a new neighborhood. The significant federal subsidy also diminishes the incentive for low-cost construction and limited “soft costs” (overhead expenses incurred by the builder).

have more than \$1,000 in credit card debt—a litmus test, in I.D. Robbins's view, of their willingness to defer gratification and save for their long-term future.

For its part, Habitat combines both economic criteria (the ability to provide a \$100 downpayment and make monthly payments of about \$200) with those of personal character. Its applicant questionnaire inquires about such qualities as:

- **Steadiness.** The family has not moved more than three times in the past ten years. The couple has been married at least one year.
- **Care of property.** The living quarters are neat for the interview.
- **Interpersonal relationships.** The children are well-behaved. Family members get along with others.

Habitat chapters routinely reject three times as many families as they accept—and even those approved must first work on someone else's home, contributing some 430 hours of sweat-equity, before helping to build their own home.

Cities must recognize that the legal process of obtaining a clear title to inner city land can be a torturous one for developers.

Nehemiah, despite dealing with relatively poor families, has seen but one mortgage default. Some 89 percent of Habitat families are current on their mortgage payments; since the organization began building, less than one percent of buyers have defaulted.

E. Limited Resale Restrictions

Because they sell for less than the full market value of the homes they build, both Nehemiah and Habitat limit the right to resell to discourage quick speculation. Nehemiah buyers may not sell for their first 10 years; Habitat uses a formula which allows buyers to keep an increasing share of profits the longer they stay in the house. However, neither organization tries to use elaborate subsidy arrangements to “maintain the affordability” of the structures they build; ie., to insure that they will be sold at below-market prices to the next buyer. Such a goal would undermine the housing ladder by precluding owners from doing what homeowners in non-poor neighborhoods routinely do: realize a profit and move on. In effect, Nehemiah and Habitat operate on the unwritten but economically sound principle that increased housing supply will, over the long run, keep prices within the reach of all income groups.

NUTS AND BOLTS REFORMS FOR POLICYMAKERS:

Setting the Stage: How to Foster Construction

Municipalities can play a key role in spurring construction of new, low-cost housing, like that provided by Nehemiah and Habitat, chiefly through four key steps which lower building costs. These are:

1. Donating Land

Land is always one of the key costs of housing construction. Unused inner-city land can be donated to builders as a way to lower the ultimate house price. New York donated 20 cleared acres to Nehemiah. Many cities which have donated land to Habitat for Humanity chapters have made improvements on vacant land—for example, installing new sidewalks, repaving streets and such. Such improvements have often been funded with federal Community Development Block Grant funds. Such modest subsidies differ in kind from long-term rental subsidy arrangements; there is no inherent long-term financial obligation.

I.D. Robbins, the suburban tract-housing developer who developed the Nehemiah Plan concept, strongly asserts the need for new large-scale, inner-city homeownership projects. Robbins is consciously setting out to build a new neighborhood, one in which residents are working, not receiving welfare and one in which homeownership is the norm, because “single-family homeownership encourages stable and responsible family living.”⁴⁶ Thus, Nehemiah's first project in Brooklyn comprised no less than 1,270 homes in two roughly contiguous areas of Brooklyn. Notwithstanding their relative proximity to the Van Dyke Homes, one of the worst public housing projects in New York, the neighborhoods are safe. Homes have been resold for substantial profits .

One inner-city Cleveland builder, Metropolitan Resource Assoc., puts it this way:

*The parcel must be large enough to spread the fixed cost of development to make the housing affordable... and must be large enough to attract competent builders who might otherwise pursue larger more profitable and less arduous projects, which indicate tracts of land needed to build at least 15 to 20 units.*⁴⁷

2. Zone for Density and Remove Selected Amenity Requirements

Despite their dilapidated conditions, some inner city areas may actually be zoned for relatively large-lot, detached, single-family structures—the result of citywide rezonings that may have occurred long after the original neighborhood development. Low-cost housing, however, requires density—a way for builders to make the most of the available land. Nehemiah Plan homes are 20 row houses to an acre. Cities must also take care not to impose zoning mandates that price new homes out of the low-cost market. In Los Angeles,

Habitat for Humanity struggled to build small homes with a “parking pad”—paved front yard areas for cars to be parked—instead of a garage, the construction of which would have added 25 percent to cost.

Density can also pose a pitfall, however, if municipalities require it. In New York, some public officials have opposed Nehemiah because it is not rehabilitating or replacing housing at levels of density commensurate with those which existed when the Bronx and

⁴⁶ I.D. Robbins, “Affordable Single-Family Housing Grows in Brooklyn,” *The Real Estate Finance Journal* (Winter 1987), p. 49.

⁴⁷ Correspondence with Scott Johnston, chief executive officer, Metropolitan Resource Associates.

Brooklyn were at their population peaks. Although infrastructure capable of supporting larger population levels may exist, there may simply not be enough current potential buyers to justify such construction/ rehabilitation.

3. Assist with Clearance and Environmental Remediation

To be sure, open land in older urban areas is often not pristine. Generations of dumping or other waste disposal have sometimes turned these areas into so-called brownfields. Cleaning up brownfields so they comply with the Superfund law has, until recently, posed a nearly insuperable barrier for developers who might want to focus on older urban parcels. Increasingly, however, environmental regulators are eager to find what federal Environmental Protection Agency Administrator Carol Browner has termed common sense clean-up methods which are inexpensive and minimize—even if they don't eliminate—risks from old residues. Local authorities are in a key position to help developers negotiate their way through the regulatory process, perhaps even to contribute limited city funds toward clean-up prior to the transfer of land title to builders. Planners can help devise plans which they believe will be acceptable to state and federal environmental regulators.⁴⁸ And to ensure sufficient scale for new projects, cities can help clear sites of old, vacant buildings.

Cities must recognize that the legal process of obtaining a clear title to inner city land can be a torturous one for developers. Often there is a complex history of liens (real estate taxes, water bills) from a variety of jurisdictions that make simple purchase of property difficult. Cities would do well to emulate the example of the state of Kentucky. In 1988, Kentucky passed legislation permitting the city of Louisville, the county of Jefferson, the Jefferson County School District, and the state government to work together in clearing land titles through a new joint enterprise: the Land Bank Authority of Louisville and Jefferson County. The authority acquires “blighted nonproductive properties . . . to return such properties to productive status.”⁴⁹ When land is acquired by the land bank “all tax liens are merged and extinguished.” The Land Bank initiative has helped pave the way for construction of some 300 new homes in inner city Louisville, priced between \$40,000 and \$65,000, with monthly payments ranging from \$340 to \$495.

4. Forgive or Defer Some Taxes and Fees

~~Cities wishing to encourage low-cost construction in the future probably will no longer be able to rely on federal subsidies (this report is dubious about their value, anyway). Instead, cities concerned with encouraging construction at the lower rungs of the housing ladder can assist developers in a modest way that is unlikely to have significant adverse side effects: lowering the cost of construction by reducing or eliminating the fees and taxes municipalities themselves charge. By doing so, cities have the chance to create a sort of residential “enterprise zone.” In the context of the huge, subsidized construction programs of the past era, the sums are small, but can nonetheless be meaningful (see Table 6).~~

Table 6: In approving a 14-unit Habitat for Humanity project, the city of Pacifica, Calif. assisted in the following ways:

Application/planning fees:	\$3,640 (waived)
----------------------------	------------------

⁴⁸ See Sean Cavanagh, “Brownfields Dilemma—A Voluntary Option,” State Legislatures (September 1995).

⁴⁹ From a 1994 application to “Innovations in State and Local Government Competition,” Kennedy School of Government. Submitted by James E. Allen, Director, Department of Housing and Urban Development, City of Louisville, Louisville, Kentucky.

The following fees were deferred, to be paid with interest after seven years:		
1. Highway Improvement Fee	\$871/unit	Total: \$12,194
2. Park In-Lieu Fee	\$1,200/unit	Total: \$16,800
3. Subdivision Drainage Fee	\$3,020/acre	Total: \$2,388
4. Capital Improvement Fee	\$375/unit	Total: \$5,250
		Total: \$36,632
Total Fees Waived or Deferred*		\$40,272

*The total fees waived or deferred are substantially more than the cost to the purchaser of one Habitat house—freeing the organization to build elsewhere. The magnitude of the deferred fees, moreover, points up the amount of outright fee forgiveness the community could have provided, had it chosen to do so. It is worth noting that, to the extent to which fees simply cover costs which will be incurred by the municipality as a result of new construction, it may be inappropriate to waive them—unless a jurisdiction decides that it can afford such a modest subsidy. On the other hand, if fees are intended as revenue sources of the municipality and outstrip costs, waiving them to foster construction would seem appropriate.

Nehemiah Plan Homes estimates it pays New York City \$2,400 in fees for each home it builds—a full three percent of a \$71,000 home. That appears to be comparable to fees in many cities. In Boston, for instance, fees and permits for such a home would cost some \$2,200—including fire department review of plans, permits to break the sidewalk, permits to tie-in to the sewer system, electrical and plumbing permits, and zoning review. Should the latter require a lawyer, the cost could escalate.

F. Avoiding the Pitfalls

One key pitfall must be avoided when planning to build new, low-cost housing: one must not fail to take into account the rules of the housing ladder. No matter how successful organizations like Nehemiah or Habitat may be, attempts to build lower-cost homes in higher-cost neighborhoods (even slightly higher cost neighborhoods) will, often, set off community opposition. This happened to Nehemiah when it sought land, unsuccessfully, in the lower middle-class Arvern section of Queens. It happened to Habitat when it sought to build in suburbs in the Atlanta and Chicago areas. The Pacifica project noted in Table 4 has long been stalled, in part because Pacifica is a generally affluent community. The project may be built only because it is in a relatively isolated location and because California law mandates the presence of “affordable housing” in all communities. (That such laws are difficult to enforce and always controversial in practice reflects the extent to which they seek to ignore or repeal the dynamics of the housing ladder.)

Consider one case in point. In Racine, Wisconsin, the Housing Authority of the county of Racine has successfully used vacant, county-owned land for something it calls Project Pride: privately built, low-cost homes, whose cost is brought down by donated land and infrastructure. The initiative successfully catalyzed construction of nine homes, concentrated in poorer parts of that depressed industrial city on Lake Michigan. Homes have been built for just \$45 per square foot and sold for less than \$50,000 to families earning 80 percent or less of Racine County's median \$36,000 income. Costs were kept low by getting the city to agree to permit construction without garages or basements and a limited lot setback (without a variance, a 40-foot lot would have required a 30-foot

setback, making it essentially nonbuildable.) Three houses built, on Jackson Avenue—and sold for \$32,000, \$34,000 and \$42,000 spurred rehabilitation of five others and the creation of an oasis of safety and rising property values in a dangerous area. One home sold after construction three years ago for \$42,000 was resold for \$48,000. Police calls in the neighborhood dropped 50 percent during the same period.

The existence of secure and well-maintained working class oases within poor and dilapidated neighborhoods serves as a model for the poorest families—a rung which they, or their children, may well be able to reach.

The success of Project Pride has been halted, however, by a decision to attempt to build ten houses on vacant land in middle-class West Racine. Community opposition included tire slashings of the car owned by a Housing Authority official associated with the program, who resented being forced to build only in the inner city. As has been discussed, there are good reasons—related to the housing ladder—why building for poor families in poor neighborhoods is the course of least resistance. Project Pride's success in turning Jackson Street around should have convinced housing officials that such a course was both productive and defensible; instead, the project leaders have opted for controversy without the prospect of results.

G. What about the Poorest of the Poor?

Undoubtedly, the movement to build new, low-cost homes in poor neighborhoods targets the working poor, not the poorest of the poor. Does this mean it is somehow morally flawed? No. To provide individuals and families with an incentive to improve their condition, they must have the chance to do what might be called “consolidate their economic gains;” to create and maintain neighborhoods in which property values increase by dint of their efforts. Such increases are realized through the effort of groups of working families taking responsibility for their neighborhoods, block by block. This does not mean there should be no housing at all for those who are poorer. That may, for instance, be the best use for the public housing we've built. Just as important, the existence of secure and well-maintained working class oases within poor and dilapidated neighborhoods serves as a model for the poorest families—a rung which they, or their children, may well be able to reach.

H. The Subsidy Issue

It would be less than candid not to acknowledge that this report is less-than-friendly to the concept of subsidized housing yet has herein spoken approvingly of Nehemiah and Habitat, both of which arguably contain implicit public subsidies (free land, use of non-profit status, low-interest second mortgages financed through state bond proceeds). Is this hypocrisy or contradiction? Neither. First, the subsidies involved here differ from those

which support public housing and other sorts of publicly-financed rental housing. In those, there is a need for a steady, continuing stream of public dollars, whether to support the rents of tenants with limited incomes, or to provide for repairs and capital improvements (these are known as public housing operating subsidies.) Projects such as Habitat and Nehemiah rely more on in-kind support than cash subsidies, and, even to the extent that they do rely on public dollars, are not predicated on continuing, long-term infusions of cash. Moreover, Habitat and Nehemiah, by emphasizing modest, low-cost structures, point the way toward a changed housing paradigm—away from grandiose, publicly-supported projects to lower-income neighborhoods maintained by residents. The details of their financing are important but not as important as the implicit rejection they represent of the past mistakes of housing reformers.

Nehemiah, Habitat, and City Homes, Inc. differ dramatically from heavily-subsidized rental housing. Each works in a way which recognizes the importance of the housing ladder. City Homes, for its part, tries to improve an existing poor neighborhood, by reducing the cost of operating a building. In this way, it can serve as a model not just for subsidized housing but for any city's relationship with private owners in poor neighborhoods. Moreover, it focuses on a single income group—the working poor—but does not make the mistake of trying to disperse them among other income groups. Habitat and Nehemiah, for their part, do rely on non-market forces to bring down their costs. At the same time, they may serve as a reminder that, if government were to permit it, the poor can be served through the construction of very modest houses. For example, in South Africa, the new, black majority government is seeking to provide basic shelter through the “site and service” method: publicly-supported construction of concrete house foundations linked to plumbing, water and electric systems. Buyers will build their own homes.

Table 7: Cost Structure of Nehemiah Homes			
	Nehemiah Amount	560 Units/Ft.2	180 Ft.2 % of TDC
Land Acquisition	\$0	\$0.00	0.0%
Hard Cost			
• Site Prep., Foundation	10,000	8.47	14.1
• Carpentry	25,500	21.61	35.9
• Windows	800	0.68	1.1
• Masonry	5,000	4.24	7.0
• Roof, Gutter, Shingles	1,000	0.85	1.4
• Plumbing, Heat, Electrical	12,500	10.59	17.6
• Kitchen Cabinets, Vanities	750	0.64	1.1
• Flooring/Vinyl/Carpet/Tile	1,500	1.27	2.1

• Appliances	400	0.34	0.6
• Painting & Finish	800	0.68	1.1
• Supervision	1,100	.93	1.5
• Cleaning & Inspection	550	0.47	0.8
• Landscaping	750	0.64	1.1
• Security	600	0.51	0.8
• Temporary Fence	250	0.21	0.4
• Security Bars	1,500	1.27	2.1
• Miscellaneous	0	0.00	0.0
• Subtotal: Hard Costs	63,000	55.39	88.7
• Contingency	4,500	3.81	6.3
• Total Hard Costs	\$67,500	\$57.20	95.1
Soft Costs			
• Architectural & Engineering	300	0.25	0.4
• Controlled Inspections	0	0.00	0.0
• Survey	150	0.13	0.2
• Builder's Risk Insurance	150	0.13	0.2
• Grand Fee	0	0.00	0.0
• Marketing	450	0.38	0.6
• SONYMA Application Fee	0	0.00	0.0
• Construction Interest	0	0.00	0.0
• Builder's Fee	2,000	1.69	2.8
• NYHP Fee	0	0.00	0.0
• Other Fees and Taxes	0	0.00	0.0
• Subtotal: Soft Costs	3,050	2.58	4.3
• Contingency	450	0.38	0.6
• Total Soft Costs	3,500	2.97	4.9
Total Development Costs	\$71,000	\$60.17	100.0

Source: Shawn Donovan, *Affordable Homeownership in New York City: Nehemiah Plan Homes and the New York City Housing Partnership*, Kennedy School of Government, Harvard University, Case Study C116-94-1252.0 and 1253.0.

Notes:

1. The square footage of the Nehemiah house does not include its unfinished basement. The Coney Island house has no basement.
2. Some categories, including "Marketing" and "Builder's Fee," compared the fees of participants in the Nehemiah and Housing Partnership programs whose roles are similar but not identical. Other Fees and Taxes are items which are paid by the Nehemiah buyer in closing costs and are therefore not included here in the development cost. This includes a \$250 reimbursement of South Bronx Churches.

Adjusting a Rung: Accessory Apartments in Suburban Long Island

A. Expanding Opportunity Through Modifying Zoning Laws

By this point, it should be clear that this guide doesn't advocate “affordable housing” programs designed to bring subsidized, rental complexes to suburban locations. For reasons explained by the nature of the housing ladder, such projects are likely to create a political backlash and to send the wrong message to less-affluent families: That is, if you are fortunate, you may be able to move to a better neighborhood by virtue of need rather than achievement.

This point of view, however, does not mean that suburban jurisdictions should never reexamine their housing rules. This applies to zoning laws, in particular, which govern both what kinds of structures can be built and in what sorts of ways existing homes can be adapted to changing market demand. Neighborhoods change, which is to say that the nature of the demand for housing types changes. Suburban municipalities that block and halt adjustment through zoning laws may find populations choosing to live elsewhere, and thus witness falling home values. Municipalities which do adjust can continue to attract new residents and ensure stable or rising home values.

In this context, creating affordable housing does not mean subsidized construction. Instead, it means making incremental changes, carefully crafted in ways to ensure they are politically acceptable, so new families can continue to afford to buy a municipality's homes. One model is laws adopted in seven Suffolk County (Long Island), New York towns that allow the creation of an “accessory apartment” in single-family homes—in effect converting them to two-family structures. This regulatory change alone—without any sort of subsidy—adopted over the course of the past 15 years, has helped to create thousands of new, legal housing units: 2,500 in the Town of Brookhaven alone, over 2,000 in Islip (including 1,500 one-Bedroom, “mother-daughter” units), and more than 1,000 each in the towns of Babylon and Huntington. The units rent at reasonable rates:



House with an accessory apartment in Long Island.

\$400 to \$700 for one or two-bedroom unit—generally less than the government-approved Section 8 subsidy rent for Long Island.

Comprising some 3 million people, the Long Island suburbs of New York City are a sprawling series of subdivisions (Levittown being the best-known) and strip malls spread over two

counties (Nassau and Suffolk). These are primarily towns of the single-family home, typically a three-or four-bedroom “hi ranch” with a raised basement and attached garage. The homes were built to accommodate the postwar exodus of young families from New York’s blue-collar and lower middle-class boroughs.⁵⁰ With the aging of that generation came complications. How could older homeowners, no longer in need of their three or four-bedroom houses, remain in their homes and afford property taxes averaging more than \$6,000 a year? How could they find buyers—without dramatically reducing their asking price—when it appeared many younger couples could not afford a Long Island home?

In response to this dilemma, owners in lower-middle-class and middle-class Long Island towns such as Brookhaven, Huntington, Babylon, and Islip, began to rent out illegal accessory apartments in their single-family homes—often converting basements or garages into separate living quarters. Typically, a “hi ranch” house is converted so that a first floor has one or two bedrooms, a kitchen and a bath for use as an apartment, and is divided from a stairway leading to the second floor, where larger quarters—three bedrooms, a living room, dining room and kitchen—are located.⁵¹ Often, long-time homeowners themselves move into the accessory unit and rent out the larger main quarters. Such conversions should be no surprise, since people under financial pressure

⁵⁰ Some 79 percent of the housing units in Islip, NY are single-family homes, for instance, 10 percent more than comparable towns in suburban Philadelphia or Washington, D.C. Source: *Accessory Apartments*, Town of Islip, Comprehensive Plan Series, Town of Islip, Department of Planning (1992).

⁵¹ For sample designs of adaptations of various home types for accessory apartment use, see Martin Gellen, “Accessory Apartments in Single-Family Housing,” Center for Urban Policy Research, Rutgers University (1985).

find ways to adapt. What has been a surprise has been the willingness of Long Island town officials to change zoning laws to permit, under certain conditions, the approval of accessory apartments.

Benefits of Accessory Apartments*

- Enhancement of Housing Choices for Tenants
- More Efficient Use of Existing Housing Stock
- Supplemental Income for Homeowners
- Reinforcement of Family and Community Ties
- Reduction in Foreclosures
- Restraining Effect on Rents

*For an exceptionally thorough Town of Islip Department of Planning report examining the prospect of an accessory apartment ordinance, identified significant benefits.⁵²

Accessory units create a slightly lower, more accessible rung on the housing ladder for both upwardly mobile groups leaving cities (for example, a large Salvadoran population has concentrated in newly subdivided homes in Islip's Brentwood section), while also providing a point of entry into the local housing market for children of long-time residents. The prospect of such benefits has not been lost on residents. A 1984 Islip town referendum allowing for accessory apartments won with 60 percent of the vote.

B. Reconciling Accessory Apartment Benefits with Residents' Fear of Neighborhood Decline

Still, accessory units⁵³ have inspired significant opposition. Typical concerns include fear of overcrowding, an increase in cars parked on the street and an increase in the demand for municipal services. At heart, however, what opponents of accessory units really fear is a change in the middle-class character of their neighborhoods. They fear that by letting in some lower-income demand (through the new ordinance), they might drive away higher-income demand, and thus undermine their investments in their homes. Given such fear, it's not surprising that in upper-middle-class towns on Long Island, where demand for real estate is strong and the vast majority of families have the means to pay high property taxes without creating apartments in their homes, accessory apartments remain illegal.

The towns with legalized accessory units have done so under a regulatory regime designed to reassure the body politic that costs will not outweigh benefits. Regulatory requirements vary but typically include the following:

- Required owner-occupancy;
- Minimum number of off-street parking spaces;
- No alteration of single-family character of house exterior; and

⁵² *Accessory Apartments*, Town of Islip, Comprehensive Plan Series, Town of Islip, Dept. of Planning (1992).

⁵³ Something of a misnomer, since it implies an additional structure being built; the laws permit the division of a house and only very limited expansion, if any.



Accessory apartments enable young couples and seniors to live near their families and friends.

- Minimum and maximum square footage.

It is a struggle for those writing or proposing regulations to find ways to reconcile potential long-term benefits to a town—particularly because of the steady stream of housing demand which accessory units may well encourage—with the fears of current residents that their town may go downhill. Ironically, without regulation to both encourage legal accessory units and set common-sense health and safety constraints on them, it is more likely that a town will, indeed, go downhill—as it makes it more difficult for new buyers and renters to replenish the stock of residents.

It can be argued, of course, that the advent of accessory apartments is nothing less than a sign of deterioration. And there is no doubt that the conversion of homes to such uses reflects lower incomes on the part of homeowners, relative to their expenses, and less demand

for traditional single family homes. The fact of the matter is, however, that neighborhoods don't have as much choice as they believe they do as to which rung they will occupy on the housing ladder. If the municipalities of Long Island choose to ignore the accessory apartment phenomenon, there is every reason to believe it will flourish in the black market. In this case, acknowledging the incipient change of status in a municipality (or even part of a municipality), and adapting to it, seems like a far better strategy than seeking to deny what's going on.

Convincing higher-income homeowners that conversions can be concentrated in middle-income neighborhoods may be the key to successful implementation.

The very step of legalization is an important one. It represents a recognition that the housing ladder must be allowed to form—that owners must be able to adapt to the market and, in the process, keep neighborhoods vibrant. Legalization, too, offers a way for owners to capitalize on their investment when it comes time to sell. When they are no longer clandestine, banks can take official recognition of the income potential of accessory units.

When they do legalize accessory units, governments must balance concerns for safety, neighborhood character and even increased revenues for local government. However, in areas where there is interest in accessory units, there are good reasons not to make rules for legal conversion too strict. Setting the bar too high will likely mean many units will stay underground. Basic safety cannot be ensured in units not known to inspectors. Even Brookhaven, with its relatively liberal conversion rules, estimates that it has legalized at best a quarter of total accessory units.

Higher assessments and fees will discourage owners from coming forward, as well. It may appear that town revenues will suffer without them but that may not be so in the long run. Accessory units have the potential to maintain or increase home resale prices, allowing assessors to increase revenue once a house is sold by using the higher sale price as the assessment standard—rather than discouraging legal conversion.

The advent and regulation of accessory units on Long Island shows both how powerful and subtle the housing ladder is. Regulations which are right for one part of town may well not be right for another. Convincing higher-income homeowners that conversions can be concentrated in middle-income neighborhoods may be the key to successful implementation. The delicacy of the regulatory process shows how careful one must be in setting the housing rules—and why broad-gauge subsidy programs are so often counterproductive, inspiring resentment and threatening to undermine maintenance and home values.

NUTS AND BOLTS REFORMS FOR POLICYMAKERS:

Sample Accessory Apartment Ordinances

Islip:

- Owner-occupancy: Required
- Minimum lot size: 10,000 square feet
- Bedrooms: 1 BR maximum;
- Off-Street parking: 4 spaces
- Age of dwelling: 7-year minimum
- Authority: Zoning Board of Appeals
- Building and change of use permit required (cost?)
- Renewal: every three years
- Transfer : hearing required
- Fee: 15 percent of total taxes
- Codes: Comply with two-family codes within six months or void permit
- Number: 120/year since 1992
- Mother-daughter units:
- Temporary exception for 2-family dwelling
- Duration of permit: 2 years
- Minimum Unit Size: 1000 square feet
- Not transferable after death
- Number: 1500 since 1974

Brookhaven:

- Decision-making Body: Town Board (supervisor plus six council members)
- Owner-occupancy : required
- Reassessment: Yes, based on assessors' valuation/
- Fee for permit: application fee: \$150
- Building Permit: initial permit/based on square footage/\$105-\$160

- Duration of certificate of occupancy: 3 years, renewable
- Minimum size: 300 square feet
- Maximum: 650 square feet
- Parking spaces: Yes. 2 for entire house/each tenancy separate parking stall/independent access
- Minimum lot area: none
- Maximum number of bedrooms: 1
- Waiting Period: 3 years after construction before conversion
- Average Rents: \$400-\$800

Babylon:

- Decision-making Body: Accessory Apartment Review Board
- Owner-occupancy : yes
- Reassessment: yes
- Fee for permit: \$200 under 65/over 65 \$75
- Building Permit: yes, one inspection before hearing
- Duration of permit: 2 years, 3 year renewal, if to code
- Minimum size: 350 habitable square feet/
- Parking spaces: 4 spaces/2 for each unit/can park behind
- Maximum number of bedrooms: 2 bedroom
- Regulations in 3 of Long Island's biggest towns vary considerably, if subtly. Brook-haven—where only 1 parking space per unit is required—has seen far more con-conversions than Islip, where two are required.

Conclusion

The transition to a housing policy which recognizes and seeks to rebuild the housing ladder can be neither easy nor instant. Much is tied up in the existing system of public and subsidized housing. Finding humane ways to phase out these programs and/or to incorporate public housing into the housing ladder will be difficult and sensitive. In addition, there is a great deal of conventional wisdom, much of it not even explicit, which must be re-examined.

Could public housing be incorporated into the housing ladder? This is certainly not to advocate new public housing construction. But, given the extreme poverty of public housing, it might be possible for it to serve as a lower rung on the ladder, somewhere above a single room and below an apartment in a privately-owned building. The simplest way to accomplish this goal would likely be the sale of public housing complexes to private buyers. A new owner would simply be the operator of low-rent multi-family housing. As a practical matter, however, it is unlikely that many buyers would come forward, given the social and maintenance problems in housing projects.

As an alternative, private management could be retained to operate projects instead of Housing Authority employees. This is currently being tried in San Juan, Puerto Rico, where 15 percent of all housing units are in public housing. At the same time, housing authorities might insist on time limits for new families entering public housing. A two-year limit, for instance, would allow new tenants to have the benefit of below-market rents for a finite period but not without pressure to move up the housing ladder over time. Because HUD figures show a 15 percent average annual turnover in public housing, such a time-limit policy would gradually change the character of the projects, from a dead-end street where families on public assistance live out their lives to places where poor families get a helping hand for a short time. This might well improve the social fabric in these settings, as well.

It is harder to see a role for housing vouchers in a new housing order. The notion of dispersing some percentage of the poorest households throughout other, more affluent neighborhoods is fundamentally at odds with the character of the housing ladder, even if

it appears, at first blush, to be preferable to public housing. Losing their vouchers would undoubtedly be a short-term hardship for recipient families who have grown used to them. A humane transition might allow voucher payments to continue to be made until families move to another residence but for no new voucher payments to be initiated. Such hardship, it's worth noting, should be placed in a larger context. As matters currently stand, only 29 percent of all families eligible by virtue of income for a housing subsidy actually receive one. The subsidy system, then, has had something of a lottery quality to it, itself an argument against continuation.

Apart from the complexities associated with a transition from a subsidy-based housing policy, though, there are psychological transitions which must be made in the process of restoring the housing ladder. One of the most difficult may be the simple acceptance of the existence of poor, at times shabby, neighborhoods. Perhaps because housing reformers imagine their own discomfort in such neighborhoods, they discount the possibility that such neighborhoods can still serve their residents well, and that those residents might accept the challenge to struggle to improve their neighborhood or to improve their own prospects so as to move elsewhere. Again and again, in American cities, the impulse to bulldoze poorer neighborhoods—lower rungs on the ladder—asserts itself. In Houston, for instance, the passage of the law known as the Comprehensive Urban Rehabilitation and Building Minimum Standards (CURB) ordinance, adopted in December, 1993, has led to the demolition of 13 occupied apartment complexes, comprising almost 3000 housing units. Some of the units demolished have been owner-occupied homes which, even if acceptable to their owner residents, could not meet newly-enforced city standards. (Irate property owners have suggested a more minimal housing code. This acknowledges that “crowding” is one way poorer families save for their future and limits mandated repairs to those which represent “an imminent threat to health and safety.”

The larger point is that the kinds of policy initiatives herein endorsed, including code deregulation and in-kind assistance for construction of low-cost housing, are not merely an expedient way to deal with the decline in federal housing subsidies. There are better alternatives.

The fact is that feelings of unease and discomfort over the condition of poor neighborhoods must not drive public policy. There is no way that all neighborhoods can be middle-class or better. There is no way to replace inexpensive housing with a sustainable, publicly-subsidized alternative. We have tried that over the past half century with bad results.

All that said, this is not to propose, strictly speaking, a system which substitutes specific new programs for existing public and subsidized housing. The reconstituted rungs on the

housing ladder of opportunity described in this book are not included so they could be slavishly imitated. Housing is an intensely local market. There may be some cities in which demand for small, new single-family homes has been so frustrated that hundreds of new such units can be built and sold. Another city may not have such demand. Local officials must not plan the housing economy but must gain a sense of what the market wants to do—and to make sure that the regulatory structure does not unnecessarily impede it. The buildup of regulation over a period of decades makes this a difficult and complicated task.

This is not to say, however, that, over time, this report does not imagine a new housing order. For instance, as the supply of low-cost housing is encouraged to increase, public housing tenants will have neighborhoods to which they can move up and out. The fact that no less than 80 percent of homebuyers in the Nehemiah Plan Homes in the South Bronx have come directly from public housing is grounds for optimism.

The larger point is that the kinds of policy initiatives herein endorsed, including code deregulation and in-kind assistance for construction of low-cost housing, are not merely an expedient way to deal with the decline in federal housing subsidies. They are a better alternative. Housing subsidies are being reduced not only because they have been expensive but because—most obviously in the case of public housing—they have often failed. While alternative approaches such as vouchers or nonprofit-operated rental housing may seem better in contrast, neither offers anything like the assurance of social stability and individual incentive that comes with owner-occupied housing. That is the direction that housing policy should encourage. It is a direction, moreover, in which a large number of municipalities already appear to want to head.⁵⁴

The time has come for an approach which respects the way in which the private market shapes the social character of neighborhoods for the better, rather than pretending that housing is a simply a matter of having a roof over one's head.

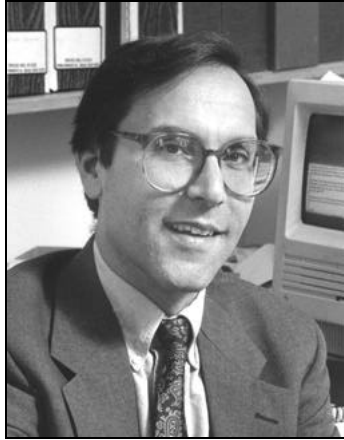
After nearly six decades of federal housing support, America's present combination of housing subsidies of all forms reaches only a minority of lower income families and serves large numbers of those badly. The contrast between the utopian dreams of housing reformers—many of whose names, including that of Jacob Riis, ironically grace troubled housing projects—and the reality of public housing as it has evolved in practice, is profoundly sobering. What's proposed here is no instant cure-all, no utopian dream. Instead, it is a vision of incremental improvement, through a combination of individual

⁵⁴ A review of housing policy-related applications for the Innovations in American Government Award, funded by the Ford Foundation and administered by the Kennedy School of Government at Harvard University, indicates that, for the 1994 and 1995 award rounds, 33 percent (27 of 82) described initiatives intended to encourage low-income homeownership in one way or another.

initiative, altruism and deregulation. It may not seem as attractive as the siren song of large-scale, publicly financed projects, especially when the inevitable studies proclaim that the poor are having difficulty affording housing. But not considered in the emotional discussion which surrounds this issue is the undeniable truth that government has been involved in building, financing and regulating low-income housing for several generations—a presence which seems only to whet appetites for further such interventions.

It is not good enough anymore simply to experiment with new ways of subsidizing housing and with new ways of managing such complexes. We must confront the fact that there is no proven case for believing that those of modest means cannot be served by the private market, with, at most, minimal, short-term subsidies. The time has come for an approach which respects the way in which the private market shapes the social character of neighborhoods for the better, rather than pretending that housing is simply a matter of having a roof over one's head. The time has come to restore the housing ladder. All of us, not simply the poor, will be better off.

About the Author



Reason Foundation Adjunct Scholar Howard Husock is the director of case studies in public policy and management at the Kennedy School of Government, Harvard University, where he is also affiliated with the Taubman Center for State and Local Government.

Mr. Husock has published widely on housing and social policy. His work has appeared in such periodicals as *The Wall Street Journal* (“The Folly of Public Housing”), *New York Times* (“Housing the Poor Without Subsidies”), *City Journal* (“New Directions in Affordable Housing”), *The Responsive Community* (“A Critique of Mixed-Income Housing”), *Critical Review* (“The Roots of Homelessness”) and *The Public Interest* (“Rediscovering the Three-Decker House”). He has been a speaker at

housing policy forums sponsored by the Federal Home Loan Mortgage Corporation (Freddie Mac), the California Department of Housing and Community Development, the Massachusetts Department of Communities and Development, and the Urban Development Institute (Canada).

Mr. Husock is a former journalist and documentary filmmaker whose work at WGBH-TV, Boston, won three Emmy awards. He is a 1972 graduate of the Boston University School of Public Communication and was a 1981–82 Mid-Career Fellow at the Woodrow Wilson School of Public and International Affairs, Princeton University.

APPENDIX I: Selected Local Programs Designed to Encourage Low-Income Homeownership:

Not all the programs listed here are designed to encourage low-cost, as well as low-income housing. Nor are all in keeping with all the principles of this report. They are included here as a service for those interested in the various ways in which municipalities are encouraging low-income homeownership and may want to draw on the various experiences of other jurisdictions. They have been drawn from the applications file of the Program on Innovations in American Government, John F. Kennedy School of Government, Harvard University.

Ferguson Neighborhood Improvement Program

Mark G. Etling,
Housing Development Coordinator
Community Services Department
110 Church St.
Ferguson, MO 63135
Phone: 314/524-5196; Fax: 314/524-5173

Vacant Lot Program

- Encourages in-fill housing
- Works with Urban League and Habitat for Humanity

Ken Kerns, Commissioner
Department of Housing and Community
Development
Lexington-Fayette Urban County Government
200 East Main St.
Lexington, KY
Phone: 606/258-3260

Heart of Milwaukee

- Homeownership in a deteriorating central city

Gwen Torkelson, Research Director
Wisconsin Housing and Economic
Development Authority
One South Pinckney, Suite 500
Madison, Wisconsin 53701
Phone: 608/267-0535; Fax: 608/267-1099

Save a House/Create a Home

- First-time homeownership opportunities for low income families
- Saves homes from demolition; uses volunteer labor to make house affordable and provides a training site for construction apprenticeship program

Dixie Lee Kracht
Department of Community and Economic
Development Division of Housing
Yakima, WA 98901
Phone: 509/575-6101; Fax: 509/575-6176

Land Bank Authority of Louisville and Jefferson County

- Merges and extinguishes all tax liens
- Sells inner cityland with clear title

James Allen, Director
Department of Housing and Urban
Development
745 Main St.
Louisville, KY
Phone: 502/574-2769; Fax: 502/574-4199

Homeownership Down Payment Assistance Program for Low-income First-time Buyers

Office of Housing and Community
Development
159 Pantingo Road
East Hampton, NY 11937
Phone: 516/267-7896; Fax: 516/267-8679

First State Resource Conservation and Development Council's Emergency Home Repair Program

- Volunteers do home repairs for low-income owners

Sherwood Morgan, Program Coordinator
 First State Resource Conservation and Development Council
 1903 College Park Drive, Suite 2
 Dover, DE 19901-8713

Savannah Affordable Housing Opportunity Auction

- acquired, redeveloped and sold vacant, dilapidated, inner city houses to low and moderate-income, first-time buyers.
- focusing on target blocks

Henry Moore, Bureau of Public Development
 Gamble Bldg., 6 East Bay St., 3rd floor
 Savannah, GA 31404
 Phone: 913/651-6520; Fax: 913/651-6525

CitY of San Diego: First-Time Homebuyer Program

- subsidized purchase
- George F. Edward, Program Analyst
 Housing Finance and Development
 1625 Newton Ave.
 San Diego, California 92113-1038
 Phone: 619/525-3636

Community College and High School Home Construction Program

- home construction/student building trades
- Scott Redinger
 Department of Planning and Development
 City of Wilmington
 409 Market St.
 Wilmington, NC
 Phone: 910/341-7836; Fax: 910/341-7802

HomeWorks

- home improvement assistance to low-income owner-occupants/and middle-income
 - leverages bank loans
- Public Facilities
 Minwen Liu, Program Director
 Department/Homeowner & Property Services
 15 Beacon St., 9th floor
 Boston, MA 02108
 Phone: 617/635-0375; Fax: 617/635-0282

Affordable Housing Acquisition/Site Development Partnership

- 11 homes for low-income homeowners on land cleared with mortgage subordinated permitting fees deferred to reduce upfront

construction costs city and lenders repaid in full upon sale

- Private developer (Community Housing Corporation)
 Donald D. Hadsell,
 Director of Community Development
 1761 12th St.
 Sarasota, FL
 Phone: 813/362-4409; Fax: 813/362-4609

Homebuyer Education Program

- targets first-time buyers
- Washington State Housing Finance Commission
 Brigitte Helsten,
 Community Program Developer
 Single-Family Program
 1000 Second Avenue, Suite 2700
 Seattle, WA 98104
 Phone: 206/464-7139; Fax: 206/587-5113

Employer Assisted Housing Program

- financial assistance for homeownership
 - grants of up to \$11,500
- William C. Jameson, Acting Chief
 Department of Housing and Community Development
 51 N St. NE, 5th floor
 Washington, DC 20002
 Phone: 202/533-1307; Fax: 202/535-1287

Aventura East

- 68 single-family homes for 1st-time low and moderate income homebuyers
 - federal subsidies
- Community Development Division
 Leigh Ann M. Braswell, Community Development Coordinator
 112 N. Goldsboro St.
 Wilson, NC 27894
 Phone: 919/399-2227; Fax: 919/399-2233

HUD Nehemiah Program

- \$15,000 deferred loan that does not have to be repaid unless unit is sold/\$1 million Nehemiah grant

Infill Housing Program

affordable housing on vacant parcels to first-time owners village acquires with intent to sell
 William Ernat, Community Development Coordinator
 Building and Zoning Department
 53 S. La Grange Rd

La Grange, IL 60525
Phone: 708/579-2322; Fax: 708/579-0980

First-Time Home Buyers Program

- soft second mortgages to close down payment gap

Stan Fiterman, Director
Division of Housing Services
Citrus County
1300 South Lecanto Highway
Lecanto, FL 34461
Phone: 904/527-0711; Fax: 904/746-5869

Small Sites Program

Maya Dunne, Director of Planning and Policy
Los Angeles Housing Department
400 S. Main Street, 8th floor
Los Angeles, CA 90013
Phone: 213/847-7434; Fax: 213/847-7405

Kansas City's Single-Family Homeownership Program

- financial assistance for first-time buyers
- Housing and Community
Development/Planning
City Hall
414 E. 12th St., 11th floor
Kansas City, Missouri 64106
Phone: 816/274-2201

Texas Border Initiatives Program

- helps families with less than \$7000 income achieve homeownership
 - in colonias (low-income border towns)
- Parisrice Robinson,
Dir. of Govt. and Public Affairs
Texas Department of Housing and
Community Affairs
8111 Barton Springs Rd., Suite #100
Austin, Texas 78704
Phone: 512/475-3815; Fax: 512/469-9606

HAL Homeownership Program

- public housing converted to condos
- Andrea Duncan, Executive Director Housing
Authority of Louisville
420 South 8th St.
Louisville, KY 40203
Phone: 502/574-3420; Fax: 502/574-3459

Restoring Our Neighborhoods

- financial assistance to part-time buyers/average subsidy \$17,000
- Elizabeth Jo Thomas,
Citizen Participation Specialist

Housing and Community Development
Palm Beach County Board of County
Commissioners
3323 Belvedere Road, Building #501
West Palm Beach, FL 33406
Phone: 407/233-3609; Fax: 407/233-3651

Down Payment or Settlement Help

Curtis H. Johnson, Jr.,
Program Development Chief
New Castle County Department of
Community Development & Housing
Program Development
110 S. French Street
Wilmington, DE 19801-5035
Phone: 302/571-7660 x7664; Fax 302/571-7700

Carver Townhouses Purchase Homeownership Program

Richard C. Gentry, Exec. Director
Richmond Redevelopment and Housing
Authority
901 Chamberlayne Parkway
Richmond, VA 23220
Phone: 804/780-4200; Fax 804/649-0659

Dreams Housing Program

Joleen Patterson, Rehab. Supervisor
Housing Services Dept.
1805 Central Ave.
Dubuque, IA
Phone: 319/589-4239; Fax: 319/589-4244

APPENDIX II: Associations Between Variable Sets and the Major Socioeconomic Status Factors for 13 Urbanized Areas

Variable Set and Subset	Ann Arbor	Birmingham	Canton	Des Moines	El Paso
Education	91.61	59.23	81.75	78.49	64.77
Occupation	79.84	70.48	88.07	77.42	53.89
Income	11.02	42.75	66.01	72.04	32.34
Basis SES set	58.44	55.86	77.43	75.85	49.89
Occupation	32.67	44.68	50.73	42.94	34.64
SES set total	44.27	49.94	63.30	58.43	41.81
Age	3.13	12.78	1.37	0.96	9.52
Size	11.01	22.66	4.83	1.54	17.12
Women in Labor Force	15.24	1.77	3.24	0.03	3.80
FS set total	8/28	15.44	3.12	1.07	11.96
Racial Status	19.27	65.77	14.67	15.05	0.12
Nativity	26.85	8.72	9.35	11.57	69.42
National Origin	15.63	5.53	5.04	18.06	44.30
ES set total	17.80	11.08	6.56	16.72	44.80
	Honolulu	Lancaster	Minneapolis-St. Paul	Providence-Pawtucket	Richmond
Education	66.94	84.23	78.14	84.52	74.99
Occupation	89.90	85.51	94.19	90.02	55.21
Income	54.99	82.97	58.18	66.87	36.79
Basis SES set	66.45	84.08	74.67	79.31	55.72
Occupation	37.13	46.72	45.17	42.41	32.73
SES set total	50.93	64.30	59.05	59.77	43.55
Age	0.20	2.86	1.68	0.43	0.18
Size	2.91	4.08	2.11	0.84	8.47
Women in Labor Force	0.01	53.88	3.88	30.58	2.22
FS set total	1.34	10.67	2.18	4.91	4.03
Racial Status	9.22	32.60	8.47	2.69	14.14
Nativity	14.33	7.03	3.24	14.21	11.78
National Origin	20.43	13.68	5.39	8.45	5.43
ES set total	14.38	14.15	5.28	8.93	7.22
	San Bernardino-Riverside	St. Petersburg	Tampa		
Education	31.12	85.31	80.43		
Occupation	52.22	65.21	83.91		
Income	72.64	79.75	78.47		
Basis SES set	51.97	78.20	80.57		
Occupation	22.85	35.17	51.50		
SES set total	36.55	55.42	65.18		
Age	2.70	1.51	1.65		
Size	2.52	4.20	6.66		
Women in Labor Force	0.41	14.98	3.46		
FS set total	2.30	4.58	4.05		
Racial Status	1.32	21.81	23.62		
Nativity	0.39	9.09	3.59		
National Origin	3.42	3.19	15.15		
ES set total	2.73	5.73	13.93		

Source: Phillip H. Rees, "Residential Patterns in American Cities," The University of Chicago, Department of Geography, Research Paper No. 189, 1979.