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The Empty Promise

Elaine Werby

This article reviews the federal role in providing rental housing for low-income households. It suggests that reliance on the private market has characterized the variety of programs designed to meet the housing needs of this population group. Despite some progress, millions of low-income households still lack stable, secure housing that they can afford, and the major current program of rent subsidies is under attack.

In the Housing Act of 1949, Congress declared: “the general welfare and security of the Nation and the health and living standards of its people require . . . the realization as soon as feasible of the goal of a decent home and suitable living environment for every American Family.”

More than fifty years later, the failure, of American housing policy, if indeed there was one, is apparent in the growing homeless population, the numbers of working families seeking shelter, and the increasing length of shelter stays. An Urban Institute report indicates, “at least 2.3 million adults and children, or nearly 1 percent of the U.S. population, are likely to experience a spell of homelessness at least once during a year.”¹

Homelessness in Massachusetts is on the rise. The number of people in emergency shelters throughout the state increased by 16 percent from 1998 to 2003. Roughly 29,000 individuals, without accompanying family, lived in Massachusetts shelters in 2003.² How can this be? The goal was noble. What has gone wrong?

From its earliest involvement in housing the federal government has embraced “an ideology of privatization”³ and demonstrated a commitment to the real estate industry — developers, mortgage bankers, landlords, and their national associations.⁴ While not the first example of this commitment, the 1937 Housing Act reflects concessions made to the real estate industry in order to gain their support for passage of this landmark housing legislation. Slum clearance and new “low cost” housing to replace lost units assured jobs

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and profits for the construction industry. These politics continue to play an important role as successive administrations and Congress attempt to meet the challenge of providing housing for low- and very low- income households.

Public Housing

In the 1960s, public housing was the primary source of assisted housing for low-income households, and its image was changing. Occupancy by a new and increasingly black tenant population, deteriorating physical structures with growing numbers of vacancies, and the presence of the many social problems associated with poverty characterized most large urban developments. In the late 1960s, the Department of Housing and Urban Development (HUD) established a modernization program to address the physical and social needs of these developments. Modernization funding continued to be available up to the early 1990s, though funding for the operating subsidy declined, and more developments fell into disrepair.

In response to recommendations by a national commission, 1992 federal legislation provided funding for a revitalization program, known as HOPE VI, a competitive grant intended to “improve the living environment for public housing residents . . . through demolition, rehabilitation, or replacement” of severely distressed public housing developments. HOPE VI grants to local housing authorities allow for mixed finance development and partnerships (nonprofit, public, private), mixed tenure (rental, home ownership) and mixed income. This legislation represents the most dramatic change in the history of the public housing program. Supporters of the legislation heralded ending segregation of the poor by creating new mixed income communities, while critics focused on the loss of units for low- and very low-income residents. Three developments in the city of Boston have received HOPE VI funding; two projects were demolished and replaced by new rental housing; work is ongoing in a third project. Each of these three transformations was made possible through the mixed finance approach involving both public and private sectors and funding sources; a majority of units are earmarked as “public housing” for which the housing authority still receives an annual federal contribution, a portion of which is passed along to the private owner.⁵ Not all HOPE VI developments, however, have followed this pattern of retaining most units as public housing.

Massachusetts is one of only three states with a public housing program, once known as veterans housing. Over the last decades, 1600 units of this housing have been lost due to density reduction or conversion to mixed-finance redevelopments.² Legislative approval of the demolition of a Lowell project paved the way for a plan, modeled on HOPE VI principles of mixed ownership, income, and tenure, replacing the 284-unit project with a 180-unit development, with 110 of the units set aside to serve low-income households.

Other Massachusetts communities with state-aided housing have expressed interest in the Lowell experience and would like to follow the same pattern.

Public Private Partnerships

The public private partnerships allowed in the HOPE VI program do not represent a new approach by the federal government. The change in image and condition of public housing, along with the civil rights movement, general urban unrest, and urban renewal created a demand for new housing opportunities and led to new federal programs. In Boston, the demand gave rise to notorious red-lining by some of the leading financial institutions in the city, a no-lending practice that changed an entire area of the city. After this practice was made public in Congressional hearings, it was then replaced by green-lining, or targeted lending.

Writing just six years after passage of the Economic Opportunity Act, Michael Stone³ whose article on shelter poverty appears elsewhere in this journal, wrote:

The crucial decisions in the housing sector — as in most major areas of this society — are not made primarily on the basis of human needs. Instead, the important decisions revolve around the flow of investment capital into housing, and these decisions of course are made on the basis of opportunities for profit.

Indeed, profits were available for the real estate industry, and to perhaps a lesser extent, the construction industry, in the various 1960s federal housing programs that were designed to stimulate the development of privately owned housing for low-income households. Under Section 221(d)(3) of the 1961 Housing Act, and later under the 1968 Section 236 program, HUD provided interest subsidies to private for-profit and nonprofit developers who agreed to keep some or all of their units affordable to low- and moderate-income households for a twenty year period. It soon was apparent that this housing, like public housing, needed deeper subsidies in order to keep rents within reach of low-income households while still covering operating costs. In response, in 1974, Congress created the Section 8 rent subsidy program of tenant-based subsidies, which could be used in existing housing, and two Section 8 project-based programs for new construction and substantial rehabilitation. Under the latter programs, HUD contracted to provide rent subsidies for up to forty years to specific developments to bridge the gap between rents needed to meet costs and a percentage of tenants' income. Developers used this guarantee to obtain construction financing from other sources, thus diminishing the financial institutions' risk. In 1983 Congress terminated funding for any additional project-based units beyond those already in the pipeline. But by 1996 there were close to 60,000 units in Section 8 project-based developments in Massachusetts.

The tenant-based Section 8 program began in the mid 1970s with the federal government providing financial assistance directly to very low-income households in the form of a voucher to rent private housing that they located on their own. Under the program as currently operated, tenants pay 30 percent of their income toward the rent, and HUD pays the private landlord the difference between that amount and the full rent, up to a HUD determined fair market rent (FMR) for the area. In the 1990s Congress merged earlier types of rent subsidies into one, the Housing Choice Voucher program. According to a summer 2004 report by the National Low Income Housing Coalition, nearly two million vouchers are currently in use by low-income households; thousands more eligible applicants are on waiting lists for them.

Despite the popularity of both Section 8 programs, they are not without their problems. In the project-based Section 8 program, most for-profit owners were subject to “use restrictions” to assure their affordability for low-income households and to limit their profit margin during their twenty-year mortgage. By the mid 1980s, many of the oldest private subsidized projects were eligible for prepayment of their mortgages, thereby releasing them from these restrictions. Developers of these projects now had the opportunity to convert them to market rate developments. Through the present time, the expiring use of many of these federally subsidized rental properties has resulted in a substantial loss of housing for low-income households.

While a mainstay for the current two million voucher holders, the tenant-based Section 8 program, is not without its operational and administrative problems. For the low-income family fortunate enough to secure a voucher, the search for a safe housing unit within the fair market rent limits, in a desirable community, and with a landlord willing to accept the voucher is a challenge. In fact, during the housing boom of the 1990s tight rental market, many families, unable to find a unit, were forced to turn back their vouchers. In the Massachusetts high-cost housing market, landlords could and did command high rents and could choose to be selective, opting for tenants who could afford their high rents. Discriminatory practices against minority tenants and families with children were not unknown.

Still, the voucher program, along with public housing, is a major resource for very low-income families. Administrative regulations require 75 percent of all new vouchers to be allocated to households with incomes at or below 30 percent of the area median income (AMI), and the remainder (25 percent) distributed to families with incomes up to 80 percent of AMI. These regulations have protected this rental assistance program for low-income households. The program has been heralded as giving families flexibility in locating their housing and reducing concentrations of the poor. Vouchers are highly prized by low-income households: securing a voucher is a triumphal moment; though finding a unit can be a daunting experience.

Disappointments

Despite the popularity of the vouchers, funding for them has not been consistent. No new vouchers were approved by Congress in FY03 or FY04. As of this writing, Congress has yet to act on the HUD FY05 appropriation bills in either the Senate or the House. The future of the program is far from assured. Further, changes in the 2005 Fair Market Rents for the Housing Choice Voucher Program, announced though not yet final, have set lower rents in some areas, while increasing them in others. In Boston, for example, the Fair Market Rents (or FMRs) for all size units, other than 0-bedroom, have been reduced. For voucher holders, this will no doubt add to the existing burden of finding housing within allowable rents.

The housing needs of the low-income population are frequently lost in current discussions of housing affordability. In the past, the term affordability referred to the needs of low-income households. Currently, the focus of affordability has turned to the needs of public servants such as the police, firefighters, and teachers who can no longer afford to live in the communities they serve. Concern for these populations is a response to the not-in-my-backyard phenomenon, as developers seek to produce affordable housing that is acceptable to local communities. In several Massachusetts communities this question of affordability has been central as developers propose new projects under the Chapter 40B statute that requires that 10 percent of the housing stock in every community be designated as affordable to low-income households. The statute allows the state zoning board to override local zoning boards when the developer proposes to set aside a percentage of a development for low-income households. As affected neighborhoods protest developments due to concerns varying from increased density to school enrollment, and public service costs, developers define affordability as housing for the community's adult children and public servants. Easing zoning restrictions and building regulations to encourage new housing construction, frequently cited by developers as a cure for the "housing affordability crisis," may be needed to promote more production, but costs involved in new housing place it well above the income limits of low-income households.

From the "trickle down" philosophy to the provision of rent subsidies to the low-income tax credit offered to developers, the federal government has relied upon and underscored the role of the private market in meeting the housing needs of low-income households. (See Abramovitz and Kurland in this issue). Without adequate income support, low-income families and individuals cannot compete in the housing market. With the prevailing philosophy of an "ownership society," as declared by the current administration, and its concomitant emphasis on personal responsibility, the security of a home for low-income households remains a distant dream. ❁

Notes

1. "Millions Still Face Homelessness in a Booming Economy," Press Release, Urban Institute, Washington, D.C., February 01, 2000.
2. *Hard Numbers, Hard Times*, Five Years of Data from Massachusetts's Homeless Management Information System, Center for Social Policy, McCormack School of Public Policy, University of Massachusetts Boston, July 2004.
3. Kevin Fox Gotham, "A City Without Slums," *American Journal of Economic and Sociology*, January 2001.
4. Ronald Dale Karr, "Shelter the American Way," *New England Journal of Public Policy*, 1992, 8, no.1. 169-184; Peter Drier, Richard Appelbaum, "The Housing Crisis Enters the 1990s," *New England Journal of Public Policy*, 8, no. 1, 1992, 155-168.
5. Telephone Interview with Boston Housing Authority staff, October 7, 2004.
6. John Stanton & Charleen Regan, *Protecting the Commonwealth's Investment: Securing the Future of State-Aided Public Housing*, Citizens Housing and Planning Association, June 2001.
7. Michael E. Stone, "The Politics of Housing: Mortgage Bankers," *Society*, 9, no. 9, 1972, 31-37.