Housing in the Seventies Working Papers 2

National Housing Policy Review

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U.S. Department of Housing and Urban Development

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Note to Reader

The U.S. Department of Housing and Urban Development (HUD) commissioned the papers contained in this volume with the understanding that research and data would be current as of the spring and summer of 1973. All papers in this volume, except as noted, were completed and submitted to the Department during that time. Readers are advised that certain information may be dated, therefore, and they should consider the analysis and conclusions of the author in that context. In some cases, which are noted in the volume, research was continued beyond the summer of 1973 and was completed in the spring or summer of 1974; those instances occurred where the Department concluded that a small amount of additional research would produce especially worthwhile results. In other instances, which also are noted in the volume, authors published their work separately; citations to those publications are included herein.

The papers in this volume have been edited by professional editors for syntax, style, and format; the style conforms to that of the *U.S. Government Printing Office Style Manual: 1973.* As that style permits, authors' individual treatment of footnotes, references, charts, tables, and like material has not been changed. Because of space limitations, appended material has been deleted in cases in which it consisted solely of material that had been published elsewhere, such as excerpts from books, reports, or the *Congressional Record;* in all such cases, an author's note advises the reader of the deletion and provides the citation to the deleted material.

Authors of the papers in this volume were advised of the intention of the Department to publish the papers and were provided with copies of the edited manuscript for review and for correction of incorrect or incomplete data. The authors' affiliations are current as of the spring of 1975. The views of individual authors are not to be construed as necessarily representing the views of the organizations with which they were associated at the time of publication of this volume or were associated at the time of writing of the paper; in some instances, authors state in a note the specifics of the disclaimer attached to that paper.

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Introduction

In the winter of 1973, President Nixon, in a major address to the Congress on Federal community development and housing policies, called for "the development of new policies that will provide aid to genuinely needy families and eliminate waste." [1]

Responding to this directive, James T. Lynn, Secretary of Housing and Urban Development (HUD), instituted the National Housing Policy Review, to serve as a wide-ranging study of Federal, State, and local housing programs; an analysis of their efficacy; and a series of recommendations for effective policies to meet the future housing needs of the Nation.

Contributing to the Review were housing experts within HUD and other Federal Government agencies, members of the academic community, and consultants from private research organizations and foundations. Together they contributed more than 150 studies and analyses covering the entire spectrum of housing and housing-related activities. Secretary Lynn designated a top-level task force to review and monitor the work. The task force was headed by HUD's Assistant Secretary for Policy Development and Research, Michael H. Moskow, and included William Lilley III, Deputy Assistant Secretary for Policy Development; Rudolph G. Penner, Deputy Assistant Secretary for Economic Affairs; and James B. Hedlund, Administrative Assistant.

Study teams, interdisciplinary in approach and composition, were organized; after they completed their data gathering and analysis, chapter teams organized and analyzed their material as well as that produced by other outside contractors. This material was rewritten entirely and published subsequently in October 1973 as the final product of the Review bearing the title *Housing in the Seventies.* As demand for copies of the study increased after the initial publication, that report was republished in a more permanent and accessible format in 1975. This volume, labeled *Housing in the Seventies: Working Papers,* reprints the bulk of the contractor papers prepared for the National Housing Policy Review, for which there also has been a steady demand since the completion of the Review.

In soliciting the contractor papers that went into the Review, every effort was made to obtain as wide a scope of viewpoint, opinion, and theory as possible. Accordingly—and predictably—the findings of the experts represent a decidedly nonmonolithic philosophy.

The papers included in these volumes form a large and representative—but by no means exhaustive—sample of the contributions by contractors made to the National Housing Policy Review. They were selected for publication because, taken together, they represent a composite view of the current thinking among scholars with regard to the Nation's housing policies—past, present, and future. They also are indicative of the wide diversity of opinion, noted above, among these housing experts. Included here are several papers within each of the Review's general analytical areas; in many cases they represent sharply divergent conclusions about the same subjects. It should be noted that some information in these papers may be dated, because of the time lapse between preparation and publication.

Some contractor papers were omitted from these volumes (either at the author's request or because they were duplicative of papers published herein); nevertheless a list of all contractor papers appears at the end of Volume 2. Any of these papers can be purchased from the National Technical Information Service (NTIS) of the U.S. Department of Commerce, Washington, D.C. 20036 or read in the HUD Departmental Library in Washington, D.C. Information on how to purchase individual papers from NTIS is included in the list of papers at the back of Volume 2.

Many of these papers are of a highly technical nature and may prove somewhat inaccessible to the lay reader. Each of them represents the views of the author exclusively and not necessarily those of the Department of Housing and Urban Development, the National Housing Policy Review, or other Federal agencies.

[1] State of the Union Message on Community Development, Mar. 8, 1973.

5 Building Codes

Building Codes and Manufactured Housing

By David Falk *
Lane and Edson, Washington, D.C.

Summary

Since 1969, with active encouragement from HUD, 28 States have enacted legislation intended to permit the State to approve manufactured housing for compliance with all applicable building codes with respect to those portions of the housing fabricated in a factory and to supersede the authority of municipalities to apply their own building code requirements to that extent. The purpose of this legislation was to create regional and national markets for manufactured housing and to facilitate the introduction of new technologies in building materials and construction techniques.

The purposes for which this legislation was enacted have not yet been realized. There are a number of reasons for this. In three States, the form of the legislation has proven unworkable because it depends upon the issuance of approvals of manufactured housing by HUD, and HUD has not taken the necessary measures to permit implementation to proceed. In the other States, the legislation has been generally acceptable. Likewise, the implementing administrative mechanisms established by these States have been generally acceptable, despite some initial startup problems in several States, insofar as securing building code clearance within that State is concerned. However, the national objectives of the legislation have not yet been achieved because the States have not yet reached agreement on a system of interstate reciprocity. In general, each State continues to approve manufactured housing without regard to whether that same housing design and production process may have been approved by other States, with the result that producers of manufactured housing still face a multiplicity of regulatory authorities from whom building code clearances must be obtained.

On the other hand, the States have taken strides towards realization of these national objectives. The Western States have accepted the same building codes, so that if a housing design is approved in one State, approval by the other States without further design changes appears likely. Formal reciprocity agreements among these Western States could also be a future reality. Primarily through the National Conference of States on Building Codes and Standards, almost all of the States are discussing how to achieve interstate reciprocity throughout the Nation. The most practical system, in my opinion, would rely on independent third-party agencies to evaluate housing designs and certify factory-produced units. But agreement on a workable system of interstate reciprocity is not likely to be reached in the near future.

On balance, my recommendation for Federal policy is to support the States in their continuing efforts to develop interstate reciprocity, subject to later reevaluation if further progress is not forthcoming. Specific recommendations to implement this policy are made in the body of the report.

Introduction

For three decades, the Federal Government has played an important role in the formulation and administration of building code regulations governing new residential construction.

The Federal involvement is divided into three phases. The first phase began with the initial publication by the Federal Housing Administration in 1940 of Minimum Property Standards for

* The factual information in this paper is current only through June 1973 when the paper was submitted in final form to HUD. Subsequent State legislative enactments and administrative regulations have altered some of the specific information in the paper on the number of States with industrialized housing laws and the primary features of their programs. The latest information on State industrialized housing laws was compiled and published in September 1974 by the National Bureau of Standards, U.S. Department of Commerce, as NBS Technical Note 853 "State Building Regulatory Programs for Mobile Homes and Manufactured Buildings—A Summary." This publication can be purchased from the Superintendent of Documents, Washington, D.C. 20410; requests should include the stock number (SD Cat. No. C13. 46:853) and a check or money order to the Superintendent of Documents in the amount of $.85 per copy.

Enactment on August 22, 1974, of the Housing and Community Development Act of 1974 could have a significant impact on the regulation of the industrialized housing industry. The National Institute of Building Sciences, established by section 809 of the act, has the potential for becoming a national body for approving technological innovations, replacing the present fragmentation of approving authorities. It is hoped that the Board of the Institute will establish this as one of the Institute's major objectives. In addition, title VI of the new 1974 Federal legislation, federalizing the regulation of mobile home construction, could serve as a model for federalizing the regulation of industrialized housing, which may be desirable if some of the problems with regulation by the States, are not resolved.

Multifamily Structures, followed 2 years later by the publication of a companion set of Minimum Property Standards for Single Family Dwellings.[1] Although not designed or administered to replace locally enacted building codes, and in many areas adopting the same requirements that were found in locally enacted building codes, these Minimum Property Standards for the first time imposed mandatory requirements, nationwide in scope, for all builders wishing to utilize the FHA insurance programs. The interplay of Federal requirements and local requirements, and of Federal officials and local officials, had begun.

The second phase began in 1954 with the passage of the Housing Act of 1954.[2] The Congress felt that Federal funds should not be expended for urban renewal unless both the new construction aided by the Federal programs and the spontaneous regenerative processes that were to flow from it were carried out within the context of a broader community redevelopment plan, called the Workable Program for Community Improvement. One element of this Workable Program was a set of locally applicable building codes which would embody minimum requirements for the health and safety of the public to assure sound construction and maintain its value in the community.

Because each community's Workable Program had to be certified initially by Federal officials, and recertified every two years thereafter, the Federal Government had suddenly become a judge of the adequacy or inadequacy of each municipality's locally enacted building codes. The Federal Government was not shy in the exercise of this new responsibility, and the general acceptance by municipalities across the Nation of the model codes,[3] and the continual updating of these model codes, can be traced by and large to the Federal pressure exerted on municipalities and on code writers alike to write and adopt building codes conforming to Federal Workable Program requirements.

The third phase of Federal involvement began in 1969 with the initiation of Operation Breakthrough. Locally adopted building codes, however adequate for conventional housing, were no longer considered adequate to meet the needs of a nascent manufactured housing industry demanding national markets and utilizing new technologies. One of the early objectives of Operation Breakthrough was to develop ways to overcome the perceived constraints of local building codes on the growth of the manufactured housing industry. The strategy selected was to encourage State legislation to authorize statewide regulations for manufactured housing which would preempt locally enacted building codes, and the success in securing enactment of such laws is now being claimed as one major achievement of the program.[4]

The purpose of this report is to evaluate this third phase of Federal involvement in the building code regulatory system. We will examine the types of State legislation enacted and the diverse manner in which these new laws are administered and assess the extent to which they are achieving the objectives which they were intended to serve. Behind this examination, however, is the broader question assessing the Operation Breakthrough strategy of relying on action by the States (as opposed to reform at the local level) on the one hand, and preemptive

[1] "The Evolution of HUD's Minimum Property Standards," *HUD Challenge* (July 1971).

[2] 68 Stat. 590.

[3] The model codes include the following:
UNIFORM BUILDING CODE, published by the International Conference of Building Officials (ICBO), 5930 Workman Mill Road, Whittier, Calif. 90601.
UNIFORM PLUMBING CODE, published by the International Association of Plumbing and Mechanical Officials (IAPMO), 5032 Alhambra Avenue, Los Angeles, Calif. 90032.
UNIFORM MECHANICAL CODE, published by IAPMO.
BASIC BUILDING CODE, published by the Building Officials and Code Administrators International, Inc. (BOCA), 1313 E. 60th Street, Chicago, Ill. 60637.
BASIC PLUMBING CODE, published by BOCA.
BASIC MECHANICAL CODE, published by BOCA.
SOUTHERN STANDARD BUILDING CODE, published by the Southern Building Code Congress (SBCC), 1116 Brown-Mark Building, Birmingham, Ala. 35203.
SOUTHERN STANDARD PLUMBING CODE, published by SBCC.
SOUTHERN STANDARD GAS CODE, published by SBCC.
NATIONAL BUILDING CODE, published by the American Insurance Association (AIA), 85 John Street, New York, N.Y. 10038.
NATIONAL ELECTRICAL CODE, published by the National Fire Protection Association, 60 Batterymarch Street, Boston, Mass.
ONE AND TWO FAMILY DWELLING CODE, published jointly by BOCA, AIA, SBCC, ICBO.

[4] *Operation: Breakthrough*, U.S. Department of Housing and Urban Development (1973) at pages 5, 32.

Federal action on the other. Was reliance placed on the most effective level of government in our Federal system, and, if not, is it too late to change?

The views expressed in this report are the personal views of the author only.

Building Code Constraints on Manufactured Housing

Those who formulated policy for Operation Breakthrough were convinced that the health of a growing manufactured housing industry depended on the development of (i) regional and national markets to absorb the volume of housing which had to be produced in a factory to justify its high initial capital costs, and (ii) a mechanism to achieve a more rapid acceptance of new technologies in building materials and construction techniques which were the natural outgrowth of the entry of larger companies and a more sophisticated approach to the production of housing.

Locally adapted and administered building codes, even when certified by HUD as meeting Workable Program requirements, were seen as impeding the realization of these objectives in the following respects:

The Inspection Problem

Manufactured housing utilizing closed wall construction, whether closed wall panels, three-dimensional wet cores, or complete modules, creates an inspection problem for local code enforcement officials. While the greater volume of manufactured housing produced today consists of open wall panels, which do not create this problem, the more advanced housing systems, the more sophisticated production techniques, and the manufactured housing systems likely to be developed in the future, do entail the enclosure in the factory of the spaces between the walls which contain within them most of the structural, mechanical, electrical and plumbing elements of the house. When shipped to the building site, these enclosed walls, wet cores, or modules cannot be visually inspected by the local code enforcement officials for compliance with the locally enacted building codes. Faced with the impossibility of making a proper inspection, local legislative bodies have occasionally enacted ordinances banning manufactured housing entirely.[5] More frequently, local officials have required the producers to tear off the walls to reveal the enclosed elements. Or, to ward off this consequence, the producer has invited the official to his factory to inspect the manufacturing process. Either way, the result is uncertain and costly.

Local Enactment of Building Codes

It is frequently assumed that the states have delegated complete authority to enact building codes to their municipalities, and on the whole this has been a correct generalization insofar as single family homes are concerned. The situation with respect to multifamily structures is considerably more complex, because many States have retained either preemptive or coordinate authority over certain elements of multifamily structures, such as boilers and elevators, and occasionally over the entire structure itself. In addition, there are agencies in some states with either preemptive, coordinate, or appellate jurisdiction with or over the local authority for all types of construction. This fragmentation between State and local authority has compounded the problems created by the fragmentation of code enactment authority at the local level.[6]

A number of problems for the producer of manufactured housing have stemmed from this fragmentation, the major one being a lack of a uniform set of substantive requirements. With each municipality possessing the authority to write and adopt its own building code, it is possible that a manufacturer would have to prepare a separate design to meet the diverse requirements of each locality in which he markets. This being uneconomical, the manufacturer would alternatively have to design his housing to meet the most stringent requirements expected to be encountered in his market area, an equally unacceptable alternative because it results in overbuilding and thus overpricing his units.

Again, the true set of facts is more complex. There are regions in the country, primarily the West and the South, where for at least the past 15 years, regional model codes have been generally adopted by all municipalities. A manufacturer producing housing for the Pacific States can anticipate that he will have to meet the Uni-

[5] See *Flaiani* v. *Swenson*, County Court Branch #2, Sheboygan County, Wis. (May 9, 1972) (unreported); cf. *Kyritsis* v. *Fenny*, 66 Misc. 2d 329, 320 N.Y.S. 2d 702 (1971).

[6] See David Falk, "Building Codes and Productivity in Residential Construction" (September 14, 1971), Appendix at page 9. In this paper prepared while at HUD for the President's Productivity Council, I reviewed the code structure in Kalamazoo, Mich., where one of the Operation Breakthrough prototype sites was located, and found that there were seven offices, four at the city level and three at the state level, from which building code approvals had to be obtained. The applicable building codes were also a mixture of city and State codes.

form Building Code family of codes and the National Electric Code in every locality. The problem in these two regions has been more the problem of restrictive amendments added to the model codes by the local legislative bodies.[7] For example, the use of plastic pipe has been widely prohibited even after the model codes had accepted its use. A related problem was that the locality would adopt the model code, but not incorporate its later revisions which embody more recent engineering findings and approve newer technologies.

In the other areas of the country, there have been wider differences in the underlying codes adopted by municipalities. For example, a 1951 survey in the Commonwealth of Pennsylvania found that five communities followed the BOCA Basic Building Code, eight communities followed the National Building Code (both being model codes), and 127 communities, including the largest cities, followed codes that were not based on the model codes.[8] These communities also would enact restrictive provisions aimed at specific practices and would also fail to update and revise their codes to permit utilization of new technologies.

Another side of the local building code enactment problem that requires mention is that each local code enforcement official is virtually free to make his own interpretation of the code in his jurisdiction, even if it varies from the interpretation of the identical language by an official in another municipality. Local autonomy meant local freedom to interpret the codes as understood by the local official or best suited to his desires.

Restraints on Acceptance of New Technologies

A number of factors have been identified as slowing the process by which new technologies could be utilized in manufactured housing without substantial risk that the housing would be unacceptable in the marketplace because of deviations from the applicable building codes. We can list these factors:

1. With locally enacted building codes, each local code enforcement official must pass on the acceptability of the new technology. Thus, the forums in which a new technology must achieve acceptance number in the thousands.

2. Most building codes are written in specification terms, describing in detail how each element of a housing unit must be built, not how it must behave. If the new technology does not conform to the specification, it cannot be approved even if its performance is better. Even if the local code has an "equivalency" clause, it would be difficult for a local code enforcement official to make a reliable determination that the new technology is equivalent to that sanctioned by the specifications of the local building code.[9]

3. Through the efforts of building supply manufacturers and dealers and building trade unions, certain specific newer technologies (such as plastic pipe) have been specifically outlawed by some locally enacted codes.

4. Local building code officials are not well paid, and frequently lack technical training, job security, and ongoing educational opportunities. These factors tend to make them conservative in their approach to new technologies and to building code reform generally.

Competitive Disadvantages of Manufactured Housing

Manufactured housing is in direct competition with conventional, stick-built housing; yet the applicable rules of the game have all been shaped in the context of conventionally produced housing. The situation is like that of a team of cricket players trying to play their game in a baseball diamond; the shape of the playing field keeps getting in the way. In the same manner, the steps that a producer of manufactured

[7] See Report of the National Commission on Urban Problems (the Douglas Commission), *Building the American City* (1968), at pages 254 ff.; *Kingsberry Homes Corp.* v. *Gwinnett County*, 248 F. Supp. 765 (N.D. Ga. 1965); *Boise Cascade Corp.* v. *Gwinnett County*, 272 F. Supp. 847 (N.D. Ga. 1967).

[8] Pennsylvania Department of Commerce, Bureau of Community Development, *Building and Housing Codes*, publication 8 undated), at pp. 55–56. More recent information furnished by Pennsylvania's Department of Community Affairs indicates that the municipalities have swung to adopt the BOCA codes and that the larger cities, principally Philadelphia, also now base their codes on the BOCA codes.

[9] The following language from Section 106 of ICBO's Uniform Building Code is typical of an "equivalency" clause:

Sec. 106. The provisions of this Code are not intended to prevent the use of any material or method of construction not specifically prescribed by this Code, provided any such alternate has been approved. The Building Official may approve any such alternate provided he finds that the proposed design is satisfactory and complies with the provisions of Chapter 23 of the Uniform Building Code, and that the material method, or work offered is, for the purpose intended, at least the equivalent of that prescribed in this Code in quality, strength, effectiveness, fire resistance, durability, and safety.

The Building Official shall require that sufficient evidence or proof be submitted to substantiate any claims that may be made regarding its use.

International Conference of Building Officials, *Uniform Building Code Volume I* Section 106 (1970 ed.).

housing must take to assure the success of his business venture keep running against rules that operate to thwart the achievement of his objectives, but do not seriously adversely affect the opportunities of his competitors. While the manufactured housing producer never felt himself in direct competition with his mobile home cousins, he would look at them with envy since their products have not been considered housing and, therefore, whatever other problems they have, their businesses have not been governed by the rules governing the production of housing, such as building codes. To improve the manufacturer's competitive position, a restructuring of the building code regulatory system was essential, or the manufactured housing industry would never evolve beyond the state of being automated lumber yards producing fabricated roof trusses and prehung doors for conventional builders.

Virginia's Fire Marshal, C. Sutton Mullen, succinctly capsulized in a phrase the basic objective this restructuring must achieve when he wrote:

> The manufacturer needs a mechanism which will make it possible for him to go through the evaluation, testing, inspection and approval wringer *one* time in a way that would be acceptable to all state and local building code jurisdictions.[10]

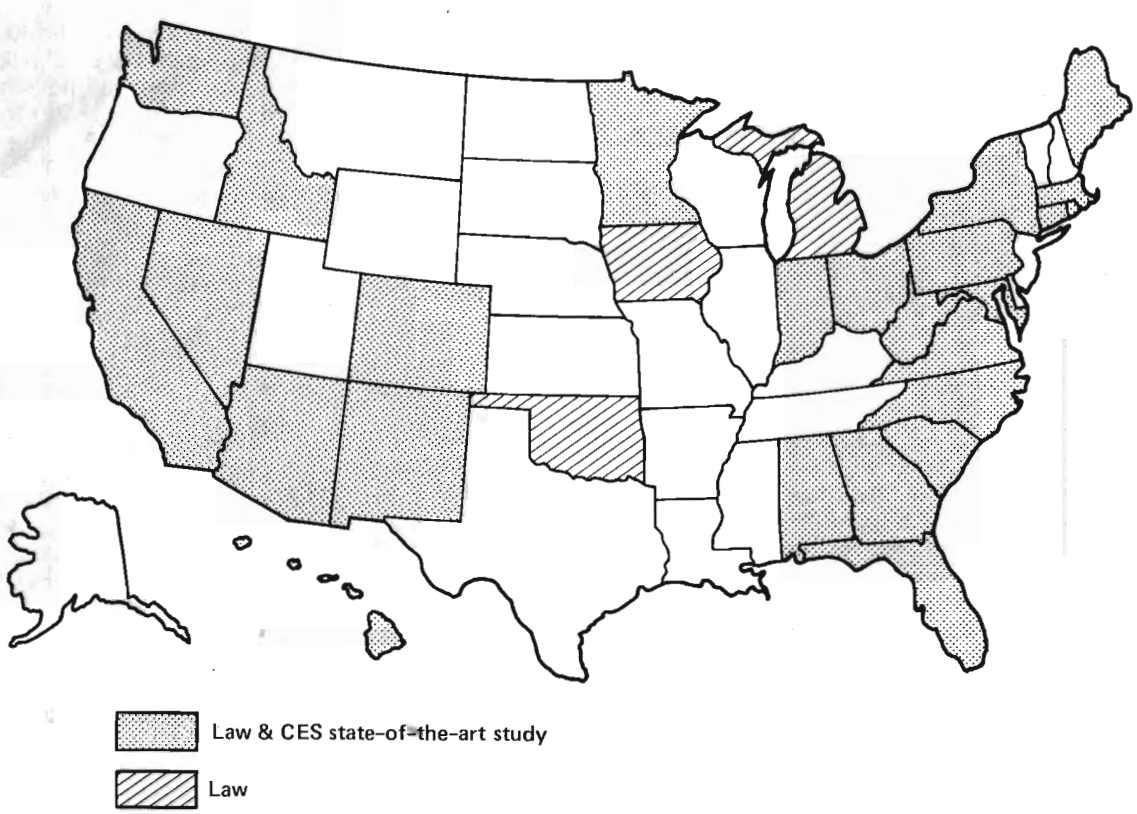
These objectives must be borne in mind as we undertake to assess the measures taken to date to overcome the building code constraints on the manufactured housing industry.

Legislative Response

The strategy of Operation Breakthrough in the building code area was to secure adoption of

[10] C. S. Mullen, "Industrialized Building—the Reciprocity Hang-up," *The Building Official and Code Administrator* (May 1972), at page 22.

States with Manufactured Building Laws (February 1973)



Source: National Bureau of Standards, Coordinated Evaluation System (CES) Project, NBS Technical Note 775 (May 1973).

state legislation that would provide a legal framework in which regional and national markets could be created for manufactured housing producers, and newer technologies could be more rapidly introduced to the marketplace. In terms of sheer numbers, this element of the Operation Breakthrough program has been successful. When the Operation Breakthrough program was announced, not a single State had a mandatory statewide building code regulatory system applicable to all forms of manufactured housing that would preempt local municipal regulation. There are now 28 states with such laws, as illustrated by the accompanying map.

The laws enacted by these States fall into three general types which we will now examine in more detail:

Reliance on Federal Approvals of Manufactured Housing

At the beginning of the Operation Breakthrough program, it was thought that the building code constraints on manufactured housing could be swept away if States would only enact legislation that would authorize reliance on Federal approvals of industrialized housing systems. Manufacturers applying for Operation Breakthrough were promised that if selected they would at the end receive a Breakthrough certification, a "seal of approval" from HUD. The process that was to be developed in issuing these Breakthrough certifications would be the kernel for a certification program for all manufactured housing. Since this certification program was to contain every element essential to quality housing, States should be happy to discard their own costly and ineffective processes and rely on the HUD efforts in this area. All that was needed from the State was a simple law providing in effect that any manufactured housing approved by HUD would be acceptable anywhere throughout the State and that contrary provisions in local building codes would be preempted.

This appeared to be a rational system, and three States—South Carolina, West Virginia, and Oklahoma—rushed in to pass those laws that would immediately open up their States to a flood of manufactured housing, without imposing any administrative burden on the State governments.[11] They were soon to be deeply disappointed.

In the first place, no Breakthrough certification program was ever developed, and this nondevelopment spelled the doom of any broader attempt to establish a certification program for all manufactured housing which was to form the foundation for the implementation of these State laws. It was therefore necessary to turn to other ongoing HUD programs to see if there was any way to fashion some form of HUD approval on which the States could safely rely.

This process was located in the Structural Engineering Bulletins which the FHA has been issuing for a number of years as a means of informing their Insuring Offices that the listed systems of manufactured housing had been evaluated by the Office of Technical Standards in Washington and had been found to comply with all elements of the applicable FHA Minimum Property Standards with respect to their structural elements.[12] The Insuring Offices were still to evaluate these housing systems for compliance with all other portions of the Minimum Property Standards.

The FHA had also instituted an inspection system. Inspectors from Insuring Offices with jurisdiction over areas in which were located factories producing manufactured housing for which Structural Engineering Bulletins had been issued, would make periodic, unannounced spot checks of those factories to make sure that the housing units were produced in accordance with the plans and specifications on which the Structural Engineering Bulletins had been issued. These inspections were to be not less frequent than every 6 months.[13]

It did seem then that the basis for a Federal certification system for manufactured housing already existed in FHA practice. All that was necessary was to expand the scope of the Structural Engineering Bulletin to include the other essential elements of the housing, such as electrical, plumbing, and mechanical. This expanded form of FHA approval could be called a Housing Acceptance Bulletin, and considerable effort was undertaken in the Office of Technical Standards to develop a procedure for issuing Housing Acceptance Bulletins.

I was not present when work on the Housing Acceptance Bulletins was halted, nor do I know when this occurred, nor do I know the reasons given by the responsible officials for halting the work. Nevertheless, I can suggest several reasons why the system was doomed to failure almost from the start.

[11] South Carolina Laws Ann. tit. 36, ch. 5–1 (Supp. 1970).

[12] FHA Circular 4500.2, *Structural Design Acceptance of Manufactured Housing.*

[13] HPMC-FHA Circular 4030.3, *Inspection of Manufactured Housing. Factory and Field* (June 9, 1971); HPMC-FHA Circular 4030.4, *Form 2051–M, Manufactured Housing: Factory Inspection Report* (April 7, 1972).

1. To the extent that acceptance of a manufactured housing system depended on an Operation Breakthrough certification, it would be discriminatory. Originally, only the 26 Breakthrough finalists would have a chance to be certified, and only after that process had been completed would other producers of manufactured housing have any opportunity to submit their systems for approval. The time lag promised to be many months or even several years, and in the meanwhile the Breakthrough-approved producers would have a free run of the State while other producers would not.

2. The FHA Minimum Property Standards were never designed to be a substitute for a local building code. They were designed to assist in the determination of insurable risks from an underwriting point of view. The Minimum Property Standards contain some requirements, such as site work, that are not found in building codes, although the converse is generally not true. HUD was therefore reluctant to see the Minimum Property Standards substituted for local building codes.

3. The inspection system developed by FHA for factories producing housing covered by Structural Engineering Bulletins was not sufficiently effective in practice, no matter how well worked out in Manual Circulars and other instructions to Insuring Offices, to warrant such complete reliance by States as would be necessarily involved.

4. FHA officials became disturbed by the thought that FHA would suddenly have to be reviewing plans, issuing Housing Acceptance Bulletins, and inspecting factories for housing that would not be covered by FHA insurance under any HUD program. The workload of the FHA technical staffs at both Washington and field levels would be significantly increased, at a time when the administrative personnel available to man the FHA offices were being reduced. The workload problem promised to be especially acute if the volume of multifamily structures became substantial because few multifamily structures (except garden apartments) are alike, and each would have to be evaluated individually.

The South Carolina-type law has proven to be a complete failure. At bottom, HUD has not been prepared to assume the responsibilities and associated burdens of developing standards, evaluating plans, and inspecting factories and building sites, all of which would be required to implement the South Carolina-type law. Although referred to in Operation Breakthrough literature as positive action by the States, this type of legislation really amounted to a transfer of responsibility from the State to the Federal level of government, and, pushing all rhetoric aside, this is a step that HUD has not been willing to sanction.

State Manufactured Housing Laws

Of the 28 States with building code legislation affecting manufactured housing, 17 States have followed the lead of California, which in June of 1969 enacted the first State law in this area.[11]

Certain common features are found in most of these 18 laws. In each law, an agency of the State is authorized to prepare, issue, and administer rules and regulations to establish a procedure for evaluating the design of manufactured housing and for inspecting and approving the housing as it is manufactured in the factory. In some States, this responsibility has been entrusted to a State agency in the line of authority stemming from the Governor, while in other States the responsibility has been given to a building code council whose members are appointed by the Governors on a part-time nonsalaried basis. The building code council is an independent agency, out of the direct chain of command from the Governor. In some of the State laws relying on State agencies for their rules and regulations and for enforcement, an outside advisory committee has been established to assure input from affected industry groups.

The laws generally provide that the substantive regulations adopted in the rules and regulations must be consistent with the model codes. Some of the laws, reflecting directly on suggestions from Operation Breakthrough staff, also have encouraged (but not required) adoption of standards developed by HUD or by the National Bureau of Standards. In these instances the intent was to provide a legal basis for the later use of the Operation Breakthrough Guide Criteria.

All of the laws provide that the State will issue seals of approval which become attached to the individual housing units to evidence the State's approval. They all provide that local building code requirements are preempted for all manufactured housing carrying the State's seal of approval to the extent of the elements of the housing produced in the factory. All site and foundation work still must comply with applica-

[11] Cal. Health & Safety Code Ann. Sec. 19960 (Deering Supp. 1971).

ble local regulations, and—to allay the apprehensions of some legislators—most of the laws specifically include zoning and other land use controls within this local reservation.

The State laws generally are split on the question of whether all manufactured housing to be sold in the State must be approved by the State, or whether a manufacturer remains free to choose between seeking local code approval or State approval. I suspect that in most cases these differences reflect an accident of legislative drafting rather than a conscious choice of policy. Giving the manufacturer the option to meet the applicable local building codes is clearly preferable, for reasons that are reviewed below.

Some of the laws contain reciprocity provisions. These provide that a State may approve housing manufactured in another State which is approved by that other State if the first State finds (i) that the other State has adopted standards substantially equivalent to the standards adopted by the first State and (ii) that the other State is administering its rules and regulations in an acceptable manner. We will be examining the operation of these reciprocity provisions later in this paper.

All of the laws authorize the administering State agency to charge fees for evaluating housing designs and issuing seals of approval, and many of these laws specifically require that the State's program be self-supporting. This requirement has led to the imposition of a high fee schedule in some States. Even with high fees, however, virtually no State has been able to initiate operations under its law without startup appropriations.

Despite HUD's initial encouragement of the South Carolina-type law during the initial phases of the Operation Breakthrough program, HUD quickly came to adopt the approach of the California law. A model industrialized housing law was prepared by HUD, published by the Council of State Governments in its Volume of Suggested State Legislation for 1971,[15] and has been followed without substantial change by a number of States. This approach also formed the basis of the Model Manufactured Building Act, which HUD has recently completed in conjunction with the National Conference of States on Building Codes and Standards, the National Association of Building Manufacturers, and several of the model code groups.

[15] The Council of State Governments, *1971 Suggested State Legislative* (1970), at page 54.

The State manufactured housing laws have effectively established a legal framework for erecting an administrative system to preempt local building codes for manufactured housing meeting State requirements. The extent to which these laws have met or failed to meet the objectives for which they were enacted has depended almost entirely on the manner in which they have been administered. The only difficulties that the wording of these laws have created stem from (1) the requirements of some laws that all manufactured housing sold within the State must be approved by the State, thereby preventing a manufacturer from obtaining local approvals in lieu of State approvals, and (2) the requirement of some laws of self-sufficiency in the administration of the laws.

On the other hand, State manufactured housing laws can be criticized on a different basis on at least two counts. In the first place, by applying only to manufactured housing, they create further distinctions between manufactured housing and conventional housing. Although the houses are the same after their completion, one set of rules and procedures applies to manufactured homes and another set of rules and procedures applies to conventional homes. This distinction in treatment would benefit the manufactured housing producer in some situations, and in other situations it could work to his disadvantage. Still, there is no substantial justification for the distinction in treatment.

In the second place, the enactment of a State manufactured housing law does not create the national or regional markets required by the manufactured housing industry; it is only one step in that direction. While contradictory locally adopted regulations have been swept away within the States, there remains the task of fitting together each nuclear State system into a national system to meet the essential needs of the manufactured housing industry. This is a problem that exists with every attempt to use the States in the Federal system to solve a national problem. With this awareness, the States, under the leadership of the National Conference of States on Building Codes and Standards, are trying to fashion a nationwide regulatory system within the Federal framework. We will examine later the extent to which they have succeeded.

Mandatory Statewide Building Codes

Distinctions in treatment between conventional housing and manufactured housing disappear when a State enacts legislation authorizing

the adopting of building codes at the State level and their enforcement by a State agency.[16] In effect, these laws, now adopted by seven States, have withdrawn all delegated authority to municipal governments to enact and enforce building codes. Any authority that remains at the local government level is there by virtue of other authority it might have, such as zoning and land use controls, or by virtue of administrative authority delegated by the State agency to the officials at the local level who become in effect the agents of the State for these administrative purposes.

These laws typically provide that the State agency or building code council will issue implementing rules and regulations. The rules and regulations will specify which building codes are to be followed for all new construction within the State, with language in some laws urging adoption of the model codes. The State agency is also responsible for enforcement of these codes and implementing rules and regulations and is permitted to delegate some of its enforcement responsibilities to some local officials. Localities are permitted to suggest deviations from the State-adopted building codes in order to meet specific local requirements, but the deviations must be approved by the responsible State agency or building code council and—as a practical matter—few deviations are.

These laws make no special mention of manufactured housing, and none seems necessary. The administrators have sufficient latitude to frame their rules and regulations to meet the requirements of the manufactured housing production process, without the necessity of creating unnecessary distinctions between manufactured and conventional housing. In the discussion that follows, all references to the administration of State manufactured housing laws will be understood to include the manufactured housing regulatory programs of States with mandatory statewide building codes.

The Administration of State Manufactured Housing Laws

Because the new State laws enacted since 1969 (except those following the hapless South Carolina model) simply created the legal authority for establishing a system of building code regulation through State administrative action, it becomes necessary to examine the administrative system that has been created to assess whether the legislative objectives have been realized. We should again remind ourselves that the objectives to be achieved by these reforms in building code regulation were (i) the establishment of regional and national markets for manufactured housing and (ii) a means for more rapid acceptance and utilization of new technologies in manufactured housing construction.

Although there are variations, each State's administrative process follows the same basic steps which flow from the nature of the manufactured housing production process. These basic steps can be summarized as follows:

1. Manufacturer prepares plans and specifications for his housing units and a quality-assurance program for his factory production, transportation, and site installation processes.

2. Plans and specifications and the quality assurance program are evaluated by the State agency or by a State-approved private evaluation agency and are approved as meeting State building code and quality assurance requirements.

3. Individual units are produced in the factory in accordance with approved plans and specifications and under the approved quality assurance program, are subjected to periodic inspections by inspectors from the State or from a State-approved inspection agency, and are individually labeled with the State-issued seal of approval.

4. The labeled units are transported to the building site.

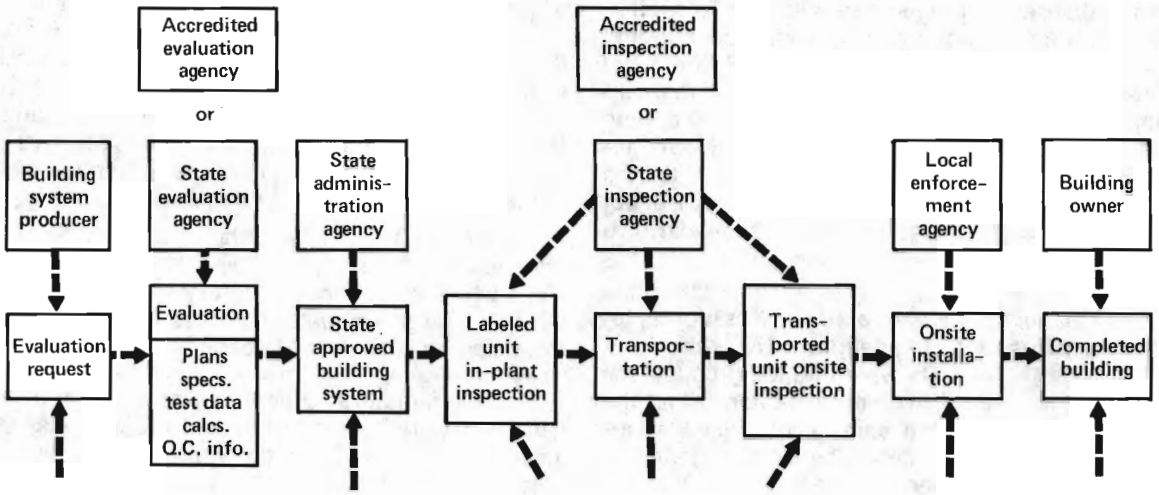
5. The labeled units are erected on foundations at the building site, and all other necessary completion work is performed subject to inspections by the local code enforcement officials to produce a completed structure for which a certificate of occupancy is issued.

The accompanying diagram, prepared by the National Bureau of Standards, illustrates these steps.

We shall now examine more closely how the States have handled each of these steps and the problems that have been encountered. Problems relating to transportation, however, are beyond the scope of this report and so will not be discussed.

[16] Conn. Gen. Stat. Ann. tit. 19, Sec. 395g (Supp. 1970).

Coordinated Evaluation System (CES) for Manufactured Building



Source: National Bureau of Standards, Coordinated Evaluation System (CES) Project, NBS Technical Note 775 (May 1973).

Preparation of Housing Design and Quality Assurance Program: The Problem of Selecting State Standards

To inform manufacturers of the standards the State is imposing to which the manufacturer's housing must conform, the rules and regulations in all States contain a list of the building codes which the State has adopted. Certain generalizations can be made with regard to the building codes that have been selected:

- All States have adopted the National Electrical Code.
- Most States have adopted one or another of the other model codes for structural, mechanical, and plumbing elements. When model codes are selected, they generally are the same model codes that have already achieved general acceptance by municipalities in that region.
- No State has written its own code for manufactured housing (with the possible exception of Ohio) although several States have chosen to follow existing State-drafted codes.

The greatest degree of uniformity is in the West, where every State west of the continental divide has chosen to follow the ICBO Uniform Building Code, and the IAPMO Uniform Plumbing and Mechanical Codes. Manufacturers in the West have only a single set of codes to meet; this is one of the primary prerequisites for developing a regional market.

There also can be observed the beginning of a centralized approval system for new technologies within that region. The rules and regulations in several of these States provide that new technologies accepted by the Research Committee of ICBO will be acceptable to the State, and administrators in other Western States no doubt give at least some weight to ICBO Research Committee approvals. The result is that a manufacturer who wishes to incorporate a new technology in his housing design for a feature which is not expressly covered by the applicable Uniform Codes makes his submittal, complete with engineering analyses and test data, first to the ICBO Research Committee, which can process his application within only a few months. In some cases, the manufacturer will find that the supplier firm had already secured ICBO Research Committee approval as a part of its regular process of securing national clearance for new technologies prior to marketing. In effect, the ICBO Research Committee serves as a single authoritative body in the West for approving new technologies falling within the scope of the Uniform Building Code and for securing partially effective—although not mandatory—regional clearance with one approval.

The situation is not so favorable elsewhere in the Nation. As generalities, it can be said that the Southern Building Codes prevail in the Southern States and that the BOCA Codes prevail in the middle-Atlantic and New England States, but there are too many exceptions to make these generalities meaningful to a manufacturer who seeks a regional or national market.

For example, in the Middle Atlantic Region, Connecticut, Maryland, Virginia, and—most likely—Pennsylvania, when its program is implemented, follow the BOCA Basic Building Code (covering structural and mechanical elements), and all but Virginia follow its plumbing code. The District of Columbia's codes are also based on the BOCA codes, but with numerous changes. But in New York State, the New York State Construction Codes, initially prepared as the optional State code, have been mandated for manufactured housing. And Ohio has developed its own building codes, some parts of which are based on the first draft of the Breakthrough Guide Criteria.

- Item: A manufacturer speaking: "Can you imagine, I need smoke detectors in my housing to qualify in Ohio?"

Indiana, further to the west, follows its previously drafted State code, based on the ICBO codes, for multifamily structures, and the One and Two Family Dwelling Code prepared jointly by ICBO, BOCA, and Southern (but not approved by HUD for Workable Program purposes) for one and two family units.

I do not intend to give here a State scorecard of referenced building codes, but the point that emerges rather clearly is that uniformity of substantive requirements among the States has not been achieved. A Pennsylvania manufacturer has to prepare separate designs for units intended for markets in New York, Ohio, and Indiana, and possibly variants on his basic design for units intended for Virginia and the District of Columbia.

Nor is there any central authoritative body for securing new technology approvals. None of the other model code groups has a Research Committee that functions as effectively and is as respected and accepted as that of ICBO. Consequently, each new construction material or technique that is not specifically sanctioned by the applicable code must be submitted, with full engineering analyses and test data, to the administrators of each State program. A manufacturer must seek as many approvals as there are States within his market area. A manufacturer who already has approved designs that are selling well in several States will have to weigh carefully the possible longrun advantage of changing his designs to introduce a new technology against the shortrun high cost of securing separate approvals from each State. (Alleviation of this problem by using third-party evaluation agencies is discussed below.)

To my knowledge, no State has either published or referenced a standard quality assurance program. Some of the State rules and regulations list a number of items that must be covered by the manufacturer's quality assurance program. The New York State Rules and Regulations list 28 items including such generalities as "procedures for timely remedial and preventative action for all problems that affect housing quality" and "inspection and test procedures including accept/reject criteria".[17]

The lack of detailed guidance, however, does not appear to be creating major difficulties. Manufacturers should be concerned with quality control of their product, and no doubt some manufacturers have developed effective programs. Probably most important, however, is the fact that most States rely on private third-party agencies for inspecting units during the production process and for authorizing the attachment of the State seal of approval on completed units. The third-party agency that is responsible for inspection naturally has a vital interest in the manufacturer's quality assurance program and as a general rule assists the manufacturer in the preparation and implementation of that program. It is the experience of the third-party agency that is generally reflected in the manufacturer's application to the State agency.

Preparation of Housing Design and Quality Assurance Program: Problems of Administration

The State rules and regulations are frequently deficient in that they do not furnish adequate detailed guidance to manufacturers seeking to secure State approval of their housing.

- Item: Almost every application was initially rejected by New York State's Division of Housing and Community Renewal because the plans included foundations, while the State ad-

[17] New York State Building Code Council, *Standards, Rules and Regulations for Factory Manufactured Homes* (January 1, 1973), at pages 9–11.

ministrators wanted plans that show only the factory-produced elements of the housing. The point was not mentioned in the rules and regulations.

• Item: Almost every application was rejected by New York State's Division of Housing and Community Renewal because the drawings did not include the applicable reference tests for each element of the housing, notwithstanding that such reference tests were shown in an accompanying manual. The requirement was not mentioned in the rules and regulations or in any other information furnished by the Division.

Many of the States also have not developed an effective means of informing the manufactured housing industry of changes in policy that affect them. Maryland's practice of issuing frequent bulletins to what must be an extensive mailing list should be followed by other States.

While some of these problems are to be expected before the kinks can be ironed out of newly established programs, a more serious problem is that associated with the required "level of detail" of the plans and specifications.

This problem has two aspects. First, most producers of single family manufactured homes make their sales in lots of one to five units from a long list of models. To what extent do separate plans and specifications have to be submitted to the State for each separate model? What kinds of changes in plans and specifications constitute a new model, requiring separate State review and approval, and what changes can be considered mere variants on an already approved model which do not require separate approval? Second, when a model is approved, and a customer wants a change made, does the manufacturer have any latitude to make the change, or must he seek a new approval from the State? If new approval must be sought, and it would take more than a few days to obtain, the customer is likely to cancel his purchase and buy elsewhere.

• Item: A manufacturer applied for approval of a single family model from New York State's Division of Housing and Community Renewal. He then sought to market a model that was identical in every respect except its overall dimension, which was increased by 7 feet. The Division officials told him that he was required to submit an entirely new application, including the $1,000 plan checking fee. The Division had at that time adopted an unwritten policy of not requiring any new approval for a model which is shrunk by not more than 7 feet. Had he known, this manufacturer could have initially submitted his larger model, and avoided duplicate fees for the smaller model. Even today, the manufacturer would have difficulty in discovering this policy because it is written down, not in the rules and regulations, but in a five-page "Guide for Calculating Application Fees", and then only in the statement that a $400 plan checking fee for "additional model approval" is required for "reduction in exterior length exceeding 7 feet." [18]

If a manufacturer cannot have the flexibility to introduce new models or change existing models to meet shifting market demands, he is put in a serious competitive disadvantage with respect to his conventional stick-building competitors who do not face similar impediments. When the State manufactured housing law operates to freeze the manufacturer into a fixed set of designs, it hinders, not helps him. His business success can become dependent on the working of a bureaucratic machinery over which he has no control.

This problem can be avoided in only one to two ways: Either the state must have adequate staff to give immediate advice to the manufacturer and to process his application, if one is needed, within a very few days, charging only a nominal fee or none at all, or a private third-party agency has to have authority from the State to issue such additional model or changed model approvals as a part of its regular job of supervising the manufacturer's factory production.

Evaluations of Housing Designs and Inspections of Factory Production: By Whom?

The preceding discussion has broached what is the most controversial issue among producers of manufactured housing and administrators of State manufactured housing acts: Should the regulatory function of reviewing housing designs and inspecting factory production be performed by employees of the State agency with legal responsibility for the administration of the law, or by a qualified private third-party agency which has met criteria established by the State agency and is subject to its overall supervision?

The practice among the States is mixed. Some states (e.g., Virginia) authorize approved third-party agencies to perform both the evaluations of the housing design for conformity with

[18] New York State Division of Housing and Community Renewal, Housing and Building Codes Bureau, "Guide for Calculating Application Fees" (January 17, 1973), at page 3.

the State's adopted building codes and the inspection and certification of the individual units as they are produced for conformity with the approved plans and specifications. In these States, the third-party agency bears the complete responsibility for the State seal that is attached to each individual unit. In effect, it is the third-party agency that is telling the State that each housing unit sold and installed in the State conforms to the State's building codes.

In other States (e.g., New York) the staff of the State agency must review and approve the housing design for each model of the manufacturer. Once the design is approved, an approved qualified third-party agency assumes responsibility for inspecting the factory production and affixing the State's seal to the individual units.

While in most States the inspection function is performed by the third-party agency, in a few (e.g., Arizona), there is a staff of State inspectors who will inspect the units while being produced in the factory in essentially the same manner as local code enforcement officials inspect site-built housing.

Each system has both positive and negative factors.

Staff: The performance of the evaluation or inspection functions requires qualified people. To the extent that these functions are performed by the State agency itself, it must hire and pay such staff, and if the program is required by law to be self-sufficient, the fees charged manufacturers will tend to be relatively high because of the high costs they must cover. Many arguments can be made against the desirability of fostering the creation of another state bureaucracy: Pay generally will be low and will attract only mediocre people; political patronage can interfere with finding the best qualified personnel; civil service protections will lead to deterioration in performance because the staff will have little incentive to sustained high-level performance or to keep abreast of new technological developments.

I am not convinced that it is not possible for a State agency to hire and maintain an effective body of technicians. I have been impressed by the overall quality and dedication of the leadership of the State agencies in most States; these are men who are quite capable of taking on and supervising a staff capable of quality performance. Nevertheless, bureaucratic arteriosclerosis can set in at any time and an effective bureaucracy paralyzed almost overnight.

Most States at least have sensed the difficulty of their attempting to undertake factory inspections, and the reasons would seem apparent, given the wide geographic spread of factories and the varying schedules of plant production of units destined for any individual State.

- Item: Within 6 months after the effective date of Virginia's manufactured housing and mobile home law, applications had been received covering 180 plants located in 21 States and Canada. Commenting on this situation, Virginia's C. Sutton Mullen observed: "Adequate funding for the development, maintenance and supervision of the inspection force required for a job of this magnitude stagger the imagination." [19]

Of course, the fact that a third-party agency is a private organization does not necessarily mean that it can attract and retain competent staff either. Nevertheless, at least when the third-party agencies are used, the State agency provides an available fallback situation if the third-party agencies fail to perform because of incompetent staff. Private third-party agencies also have more flexibility in their personnel policies, and this should enable them to maintain a better overall staff.

Characteristics of Third-Party Agencies: Whether use of a third-party agency can provide an acceptable substitute for the State agency in the evaluation and inspection functions depends largely on how experienced and effective the agencies are.

This is a situation that is still in flux and is likely to continue to change during the next few years. There are presently three larger firms—Underwriter's Laboratories, Pittsburgh Testing Laboratories, and United States Testing Company—that have been accepted by most States and can generally provide service on a national basis. Another national firm, the Product Fabrication Service, also is experienced in this field, particularly for wood-constructed housing, but it has not been acceptable to a number of States because of its interlocking relationship with the wood industry. The firm is being reorganized, is severing its relationship with the wood industry, is gaining competence in other materials, and now seeks to join the ranks of the major three companies. Another firm that has been accepted by a number of States in the East is the Middle Department Association of Fire Underwriters. The greater number of remaining firms which have been qualified by the States are relatively small engineering firms which can provide primarily a local service. BOCA is also attempting to spon-

[19] Supra note 10, at page 23.

sor its own third-party evaluation and inspection service in conjunction with local engineers, but I do not know whether the BOCA service has been approved by any State.

On the whole, there would appear to be a sufficient number of firms interested in this work, and capable of satisfactory performance, to develop a healthy competition. The disqualification of any agency by a State for unsatisfactory performance would not be a drastic remedy for the manufacturer because of the availability of acceptable substitutes.

On the other hand, the record to date of these third-party agencies is mixed. Several Western States, including Arizona and Idaho, have been dissatisfied with their performance and are utilizing their own staffs for both evaluation and inspection functions. Maryland is reported to be less than completely satisfied. Yet other States continue to express complete confidence in the performance of the agencies they have approved. To generalize, the performance of third-party agencies probably has been no worse than the record of the majority of the States when they undertake to carry out this work themselves, but there is certainly considerable room for improvement, and one would hope that pressure would be applied to the third-party agencies to be constantly reviewing and upgrading their programs.

Conflicts of Interest: Evaluations of housing designs by State agencies is always an arm's-length transaction. This is not true for third-party agencies. The practice has developed in which the manufacturer enters into a contract with a State-approved third-party agency for the performance of services for the manufacturer in return for a fee. Yet the third-party agency is certifying the completed housing units to the State. The potential conflict of interest is apparent.

- Item: Testifying against a third-party agency system, a spokesman for the mobile home industry told the Minnesota Department of Civil Administration that "such a system puts the mice to guard the cheese." [20]

Supporters of third-party agencies feel that there are adequate controls over the corrupting tendencies inherent in this conflict of interest situation. They might cite the following factors:

- The practice of contracts between manufacturers and third-party certifying agencies is well established in other areas, such as in the electrical appliance field where there have been many years of satisfactory experience with Underwriter's Laboratories who contract directly with the manufacturers for the UL seal of approval. There is no reason why it cannot work as well in the manufactured housing field.
- Some States require the third-party agency to be completely independent from all manufacturers and suppliers of building materials. In this way, the third-party agency appears to be a wholly professional organization, free from any possibility of extra financial advantage other than its regular fees, paid pursuant to a published fee schedule. The appearance of industry self-certification, such as has been adopted in the mobile home industry, is also avoided.
- Some States have informally banded together on a regional basis to conduct joint reviews of the performance of third-party agencies which have been approved by their States. The third-party agency will know that failure to perform in one State will be known by the other States and could lead to wholesale disqualifications by all and a termination of his business. With such a potentially effective enforcement system, no third-party agency can afford to fail to perform acceptably.

The Commonwealth of Pennsylvania is experimenting in the mobile home field with switching the contractual lines of authority from the manufacturers to the State. Under its program, the third-party agencies will be qualified by the State and will contract with the State for their services. Manufacturers will pay their fees directly to the State, which will then pay the agencies. The conflict of interest is therefore avoided. If the Pennsylvania approach leads only to a change in formal contractual relations, I doubt whether any substantial improvement in performance will follow. If, on the other hand, the State uses its contractual authority to exercise substantial control over the manner in which the third-party agency arranges its internal operations and relates to the manufacturer, the third-party agency would become more like an extension of the State's own staff. With such greater State control, the potential for creating interstate reciprocity through third-party agencies would not be realizable, as discussed immediately below.

Theoretical Considerations: So far we have been looking at more practical factors in response to the question of whether State agency

[20] Statement of the Mobile Homes Manufacturers Association to the Department of Civil Administration, State of Minnesota (April 27, 1972), at page 3.

staffs or third-party agencies can more satisfactorily evaluate housing designs or inspect factory production. On a more theoretical plane, when we assess the two systems against the overall objectives of creating national and regional markets and facilitating the introduction of new technologies, the scale tips heavily in favor of using third-party agencies. The reason is simply that a third-party agency performing the evaluation and inspection functions can perform the one-stop service that is so essential to the manufacturer.

Consider the situation of a single family manufacturer with a plant in Maryland shipping units to Ohio, Indiana, New York, and North Carolina. His units must meet the requirements of five different sets of building codes. His third-party agency will approve his designs for sale in all five States, insisting on whatever variations may be required to meet the particular code requirements of any particular State. When the manufacturer produces his units, it is the same third-party agency that attaches the State seal of Maryland or of Indiana or of Ohio, depending upon the destination of the units. If the manufacturer wants to change his design to take advantage of a cost-saving new material, his third-party agency can, with a single review and approval, certify that new technology for acceptance in all five States. And the third-party agency is present to evaluate and approve design changes required to meet the needs of particular customers.

Consider the alternative if each State agency insists on performing its own design evaluations. Every model that the manufacturer wishes to market must be separately submitted to each of the five States, with separate fees, with separate sets of meetings with the agency staff, and with separate approvals. If he wishes to make any change in his approved model to meet a customer's requirements, or if he wishes to introduce a new technology, it is necessary to go back to each State agency individually for the approval. These are heavy burdens for the manufacturer to bear.

The burdens are likewise severe in those States that perform their own factory inspections of the units destined for installation within their borders. The manufacturer bears the responsibility for organizing his production schedule around the availability of the State inspector, who must be present in his plant when the units destined for that State are being fabricated. Understaffed agencies or vacation schedules or an unexpected illness of a State inspector can play havoc with orderly planning for factory production. If the manufacturer is located out of the State, he must normally also pay the travel and per diem expenses of the State inspector as well as pay the regular inspection fee.

If third-party agencies are essential for State manufactured housing laws to achieve their objectives in the Eastern, Southern and Middle Western parts of the nation, utilization of third-party agencies in the Western States should be less necessary. This is because two additional elements exist in the Western States not present elsewhere—uniformity of substantive building codes among the States and availability of the ICBO Research Committee to furnish approvals of new technologies. If a manufacturer operating in the Western States can secure design approval from one State on the basis of its conformity with the Uniform Codes, he can be reasonably assured (even without an express reciprocity agreement) that his design will be approved by the other States. If the new technology has been approved by the ICBO Research Committee, he can be reasonably confident in incorporating that technology in his units that it will be acceptable to all of the States within his market area. For those States (presently including California) that permit third-party agencies for inspections, a manufacturer should have no difficulty in finding a third-party agency to certify his units which has been qualified by all those States. The problem in the West for interstate reciprocity is created by those States that have rejected the third-party agency system in favor of inspections by State-employed inspectors.

Interstate Reciprocity

It should be apparent from the discussion so far that the geographic limitation of jurisdiction of any State with a State-enacted manufactured housing law serves as a major obstacle to the achievement of the dual goals of regional and national markets and more rapid adoption of new technologies. In the last analysis, whether the system of State-enacted manufactured housing laws will work will depend upon whether the States look beyond their parochial problems to work together to develop a building code regulatory system of national scope for manufactured housing. This problem is known in the world of building code officials as the problem of "interstate reciprocity" and, although it is not entirely descriptive of the problem, I will retain that term.

There are three requirements for an effective system of interstate reciprocity:

Commonly Accepted State Design Standards: This condition exists in the Western States where the Uniform Codes and the National Electrical Code are accepted by all of the States with manufactured housing laws.

However desirable the prospect, States do not have to adopt the identical set of building codes for housing manufactured within the State as long as they are willing to admit that a building code adopted by another State can be just as effective in protecting the health and safety of their citizens, however different from their own code. This kind of judgment should not be difficult to make. Even though the model codes are quite dissimilar from each other—not only in terms of organization, terminology, and occupancy classifications, but also in substantive content [21]—if the question asked is not "which code is better," but "does each code afford minimally acceptable standards for the protection of the health and safety of the public," the answer should be given in the affirmative. Needless to say, no State has yet agreed to accept another State's different code requirements, and it is unlikely that any State will do so in the near future.

Mutual Respect for and Confidence in State Code Enforcement Programs: A State into which a unit is being shipped must feel confident that the certification processes of the State of manufacture can be relied upon. This can be a difficult determination to make if the State agency in the State of manufacture performs its own design evaluations or unit inspections, because then one State will be passing judgment on the administrative processes of another State. And once a favorable determination has been made, it would be even more difficult to withdraw that approval. Indeed, such withdrawals would be likely candidates for political controversy, particularly if the political party of the Governor in one State changes, so that the withdrawal of the other State's approval, however justifiable, could be read as an act of political disapproval, with quite different motivations. If, on the other hand, the States utilize third-party agencies for evaluations and for inspections, one State's approval of another State's processes will revolve around the identity of the third-party agencies approved by that State, and if both States have approved the same agencies, then mutuality is virtually assured.

[21] Charles E. Schaffner & William H. Correale, *Report on A Study of Performance—Type Building Codes To Determine the Areas in Which Performance Criteria Are Needed to Expand the Use of the Performance Approach in the Development of Building Codes*, U.S. Department of Commerce (January 1971), at pages 10–12.

Minimize Procedural Complications and Duplications of Effort: A manufacturer needs one-stop service, or some close approximation of it. Time-consuming and costly separate processing in each State within his market area can remove the flexibility he requires to remain a viable business enterprise.

These requirements for interstate reciprocity can be met in one of two ways.

A State can evaluate the administrative processes of another State and make a determination that the other State (i) had adopted substantially equivalent standards and (ii) is enforcing those standards in an acceptable manner. These kinds of determinations are specifically authorized in some of the State laws, as we have pointed out earlier. Such a determination, however, is not really reciprocal unless the other State makes a similar determination. These mutual determinations would naturally lead to a bilateral agreement between the two States to accept each other's seal of approval attached to manufactured housing units. Reciprocity between these two States is then established.

If each State were to enter into a number of agreements with other States, there would develop a network of bilateral agreements through which interstate reciprocity could be achieved. While reciprocity through bilateral agreements sounds theoretically possible, I doubt it will ever happen. There are too many obstacles in the way, too many hard determinations to make, too many agreements to write. While it does appear that the States of Indiana and Iowa have entered into a cooperative arrangement, and there are serious discussions between the States of California and Washington, no other bilateral compacts have been concluded. Indeed, if an effective system of interstate compacts is to develop at all, it is most likely to happen in the West, where the major hurdle has already been overcome because the States all follow the same substantive building codes.

The second way to achieve interstate reciprocity is through reliance on third-party agencies for both the evaluation and the inspection functions. Initially, the States have to approve what is essentially a common list of third-party agencies. The same third-party agency will attach the seals of approval of each State to which the unit is being shipped, insisting on such design changes as may be necessary to meet that State's building codes. If the next unit on the production line is going to a different State, the third-party agency will attach that other State's seal of approval. From the manu-

facturer's point of view, both objectives of the system of State-manufactured housing laws have been met.

In short, it is my judgment that as a practical matter, interstate reciprocity can most readily be achieved nationally through acceptance of third-party agencies for both the design evaluation and inspection functions. This is likewise true for reciprocity to be established on a regional basis although, among the Western States alone, reciprocity through interstate compacts may be possible.

Relations Between State Controls and Local Controls: Problems of Preemption

Preemption of local control is the touchstone of the State manufactured housing laws. But the preemption takes different forms and readjusts the relationships between the State government and its political subdivisions in the regulation of new residential construction.

As pointed out earlier, some of the State laws make it unlawful to sell or offer for sale within the State any manufactured housing which has not been approved by the State. Other State laws elsewhere provide only that manufactured housing that is approved by the State will preempt local building codes to the extent of the State's approval. The former kind of law requires a manufacturer to obtain State approval; the latter law leaves it to the manufacturer's choice.

We have suggested that the latter alternative is clearly preferable because it permits the manufacturer to go directly to the locality for acceptance of his housing; he will want to do this in the case of sales of insufficient magnitude to warrant incurring the expense by obtaining State approval. This need is particularly acute for manufacturers of single family homes who customarily market them in lots of one to five units. The manufacturer's option also permits the manufacturer to compete with conventional builders for the sale of units in those primarily rural areas which have no building codes or code enforcement programs. A mandatory State approval requirement can therefore place the producer of manufactured housing at a competitive disadvantage, and the legislation intended to help him works against his interests.

HUD has recognized this policy of preserving the manufacturer's option in both its original Model State Industrialized Housing Act and, with certain limits, in its newer Model Manufactured Building Act.

• Item: The New York Factory-Built Homes Act authorizes the State Building Code Council to authorize municipalities to approve manufactured housing which has not been approved by the State's Division of Housing and Community Renewal. Approximately 534 municipalities in New York State have adopted the New York State Building Construction Codes, which are the same codes the Building Code Council imposes on State-approved manufactured housing. When the members of the Building Code Council were asked why they had not authorized any of these 534 municipalities for approving manufactured housing, the reply was that most inspectors at the local level were not sufficiently qualified for their jobs. When it was pointed out in response that these communities were open to conventional builders, but effectively foreclosed to many producers of manufactured housing, the Council members replied that it was not their fault that the legislation did not also cover conventional building.

Even though manufactured housing bearing the State's seal of approval preempts local jurisdiction to the extent of those portions of the housing manufactured and assembled in the factory, there remains plenty for the local code enforcement official to do. He must issue the building permit, inspect the site and foundation work, inspect the process of erecting the manufactured portions on the foundations, inspect the utility connections, and issue the certificate of occupancy following completion of construction.

There are many possibilites for disagreement and conflict among the State and municipal officials. There could be a dispute over whether certain elements of the housing are included within the scope of the State's seal of approval. There could even be disputes over whether the housing was properly included within the scope of the manufactured housing law, as when a mobile factory is installed away from the building site, but within the jurisdiction of the municipality where the site is located. Despite these areas for potential conflict, however, and while there have no doubt been instances of conflict, it does not appear to be a significant problem.

Some of the problems in integrating the local code enforcement officials within the administrative process of a State manufactured housing program stem from a lack of professional training and expertise on the part of many local officials in dealing with many of the more sophisticated materials and construction techniques employed in manufactured housing. Ad-

ministrators of a State manufactured housing law can do little other than offer voluntary training sessions for the local officials to explain the operation of the State program and perhaps some rudiments of the manufactured housing process. On the other hand, an agency administering a mandatory statewide building code law normally inherits the corps of local code enforcement officials as the nucleus of the State enforcement machinery, with the legal right to insist on minimum standards of professional competence from the local officials.

• Item: In Connecticut, local code enforcement officials were told by the State agency responsible for the administration of that State's mandatory statewide building code law that to retain their jobs they had either to pass a special examination on code enforcement or attend special training courses established at several State universities.

Note should be taken here of a disturbing proposal presently before the legislature in California to transfer the inspection function for manufactured housing back to the municipalities where the units are to be erected. If passed, the proposal would recreate one of the building code constraints that these State laws were intended to eliminate—a multiplicity of authorities with inspection powers within a single market area. The proposal represents a regressive step.

Programs to Improve the Administration of State Manufactured Housing Laws

Most of the States have been aware of the inherent limitations of regulating new residential construction at the State level. They have recognized that there must be cooperative action among the various State regulatory programs if a single nationwide market for housing is to be created and that unless this is accomplished, pressures would build which would eventually lead to a movement for a national building code administered by a Federal agency.

To provide the vehicle for State cooperation, the States in 1967 founded that National Conference of States on Building Codes and Standards, known as NCSBCS (acronymically pronounced "nix-bix"). Its purpose is frankly stated on its stationery:

> NCSBCS was formed to strengthen and support State building regulatory services and to maintain the State role in the American Federal system.

NCSBCS has been generously supported by the National Bureau of Standards (NBS), which has provided invaluable program ideas and secretarial assistance since its foundation. The first several years of NCSBCS were relatively unproductive, but with the enactment of the first State manufactured housing laws in 1969, NCSBCS formed a Reciprocity Committee of those States with manufactured housing laws to deal with the obstacles to effective interstate reciprocity, and the Reciprocity Committee has proven to be the most effective and influential of the NCSBCS Committees.

The Reciprocity Committee has shown a thorough understanding of the obstacles which lie in the path of creating meaningful interstate reciprocity. This is clear from a listing of the various programs undertaken by the Reciprocity Committee or by NCSBCS at its urging. These programs include:

• The preparation of standard documentation for use in every step of the process of administering a manufactured housing program. This is the Coordinated Evaluation System (CES) project, which is being carried out and funded by NBS.[22]

• The preparation of Standard criteria for evaluating and approving third-party agencies for both the evaluation functions and the inspection functions. This is called the Laboratory Evaluation and Accreditation Program (LEAP) and is also being carried out and funded by the NBS.[23]

• The development of procedures to assure that States set the same effective dates for adopting the periodic revisions in the model codes that they have adopted for manufactured housing.[24]

• The development of procedures to establish uniform interpretations of difficult or controversial provisions of the model codes.[25]

• The development of procedures to assure that if one State objects to a provision of the model code which it would otherwise wish to follow, other States will consider and adopt the same amendment.[26]

[22] National Bureau of Standards, *Coordinated Evaluation System (CES) Project*, NBS Technical Note 775 (May 1973).

[23] National Bureau of Standards, *Criteria for Compliance Assurance Agencies for Manufactured Building* NBSIR 73-195 (Preliminary Report, April 1973), Appendix B, at page 48.

[24] National Conference of States on Building Codes and Standards (NCSBCS), Reciprocity Committee, "Procedures for Developing Recommendations on Uniform Effective Dates" (March 1973).

[25] NCSBCS, Reciprocity Committee, "Procedures for Developing Recommendations on Disputed Interpretations" (March 1973).

[26] NCSBCS, Reciprocity Committee, "Procedures for Developing Recommendations on Uniform State Amendments" (March 1973).

• The development of a program for joint committees of States, manufacturers, local officials, third-party agencies, and the public to monitor the effectiveness of third-party agencies.[27]

Although none of these programs has yet been completed and implemented, they represent important steps which lay the foundation for more effective reciprocity.

Yet NCSBCS (and its Reciprocity Committee) is severely hampered by its voluntary nature and its lack of any effective control, other than persuasion, over its member States. There is no reason why a State cannot feel free to ignore the recommendations of NCSBCS, and, indeed, New York State has chosen to do just that. Indeed, the achievements of NCSBCS are quite remarkable when its voluntary nature is considered, and this is attributable in large part to the amazing dedication of the State code officials themselves, who have expended thousands of hours of their own time in pursuit of the objectives of the organization.

Still, if a balance sheet were to be drawn on NCSBCS as of the present time, it would have to be concluded that its effectiveness in creating a system of interstate recriprocity is a future promise, not a present reality. There are two core issues on which the Reciprocity Committee has reached no agreement. These issues are, first, whether the States could not each adopt the identical sets of building codes, or alternatively, recognize that other building codes adopted by other States, however different, should be afforded their acceptance, and second, whether the States should all move to a third-party agency system, or, alternatively, afford recognition to the design evaluations and approvals of other States. In fairness to the NCSBCS delegates, these are probably issues over which they have no authority to speak. Their own State legislation or principles of municipal law on unlawful delegations of State authority or the desires of their own State building code councils effectively prevent concessions on these points. Nevertheless, it is doubtful whether interstate reciprocity can be created without a common agreement on these issues by most of the States; the failure of the States to broach these questions casts in doubt whether interstate reciprocity can be created through purely voluntary State action. Perhaps this logjam can be broken only with a push from some other, more powerful source.

[27] NCSBCS, Reciprocity Committee, "Procedures for Monitoring State Inspections and Independent State-Approved Inspections" (February 1973).

Where Do We Go From Here?

Having completed our review of the administration of State manufactured housing laws, the conclusion seems inescapable that although great strides have been taken, major defects in the system remain. While statewide markets for manufactured housing have been created, national markets have not. While many impediments to the introduction of new technologies have been removed, the need for multiple approvals from State to State remains. One might then reasonably ask, if we were to start all over again, would it have been wiser to have sought the creation of a national system of building code regulation for manufactured housing administered by the Federal Government?

Centralized authority to solve a national problem certainly appears to be a logical solution, and this answer has been proposed for mobile homes by Representative Frey of Florida with his National Mobile Home Safety Standards Act of 1972 [28] and by Representative Moss with his Mobile Home Safety Act of 1973.[29]

Before one can unhesitantly embrace this response, however, it is important to bear in mind the consequences.

I think that there are two major consequences of imposing a national solution through the Federal Government.

First, to administer effectively a building code of national coverage, even if limited to manufactured housing, the administrative mechanism within HUD (or any other agency chosen to administer the program) would have to be drastically expanded to handle its new responsibilities. Consider what these responsibilities are. The design of every model of every manufactured housing unit produced within the United States would have to be reviewed by Federal officials. Every single unit produced in every factory within the United States would bear a seal of approval authorized by the United States Government, even if the third-party agency system were used. The preservation of the health and safety of the occupants of all new residential construction in the nation would become a Federal responsibility.

[28] H.R. 14716 (92d Cong., 2d Sess.). Representative Frey reintroduced his bill in the present session of the Congress. H.R. 6400 (93d Cong., 1st Sess.) Under this proposed legislation, HUD would be required to prescribe standards for mobile homes and to enforce them.

[29] H.R. 2371 (93d Cong., 1st Sess.) This proposed legislation would place mobile homes within the Consumer Product Safety Act and hence under the jurisdiction of the Consumer Product Safety Commission.

This is, of course, not a task that with sufficient appropriations cannot be undertaken, just as the Federal Government has undertaken the inspection and grading of meat and the inspection and approval of air frames.

Nevertheless, it does represent an area of expansion of Federal activity at a time when HUD is under heavy criticism for its inadequate administration of its existing housing programs, and when HUD seems to want to reduce its personnel or at least not to grow in size.

The second problem is related. Most experience with the regulation of manufactured housing is now lodged with State administrators. A move to the Federal level of government would result in sacrificing most of the acquired experience at the State level. Unlike many other fields where proposals are being made to transfer existing Federal functions to relatively inexperienced State agencies, the problem here is the reverse.

In short, given the situation as it exists in 1973, I believe that it would be best to continue to work through the States. I would like to suggest five areas for improvement and some concrete suggestions as to ways these improvements might be effected.

Support for Measures to Improve the Administration of State Manufactured Housing Laws

The States have displayed a remarkable self-starting capacity in working together to overcome what they correctly understand to be the inherent problems in relying on voluntary State cooperation to deal with a national problem. If the expenditure of energy and dedication were the sole criterion for success, the NCSBCS and its State delegates would have to be considered successful. They deserve support in the continuation of their efforts.

This support can take many forms. One form can be financial, through funding programs the States have identified as necessary to achieve interstate reciprocity. Some of these programs have been described earlier, and the need for others will develop as the States continue to work out their mutual problems.

Another form of support can be through greater public recognition of the achievement of the States and encouragement for their future efforts. For example, Operation Breakthrough literature claims credit for encouraging enactment of State legislation on manufactured housing,[30] but no credit is given to the States for having taken the legal framework provided by the legislation and fashioning a workable administrative system.

In supporting the States in their efforts to improve their administrative systems, care must be taken not to follow the interests of HUD officials in lieu of pursuing the real needs of the States. In my opinion, there is an example of recent misdirected expenditures of time and effort leading to the preparation of a Model Manufactured Building Act. This exercise began under NCSBCS auspices as the preparation of model rules and regulations to implement the California-type of State manufactured housing law. With the argument that model rules and regulations could not be drafted unless based on a suitable model law and that the original HUD-sponsored model act was inadequate and in need of revision, HUD turned the attention of the drafting group to the preparation of a new model manufactured housing law. What HUD failed to understand was that the time was past for revising model manufactured housing laws. Most of the important States had already passed legislation, and they are unlikely to be motivated to revise these laws. Moreover, the need of the States at that point in time was for model rules and regulations to assist in developing implementation programs for recently enacted State legislation. Had the model rules and regulations been prepared and issued in time, they could have made a significant impact on the shape of these newly enacted manufactured housing programs.

Overall, there has been a lack of concern by HUD for the problems of the States in implementing their manufactured housing laws and a failure by HUD to engage in meaningful communication with the States. Perhaps if HUD were serious in supporting State efforts in this field, it would approach the State or NCSBCS as their representative, to inquire just how additional Federal support could best be utilized.

Measures to Unify Model Codes into a Single Set of National Building Codes

We have seen that one major impediment to interstate reciprocity in the West does not exist, because all Western States have elected to follow the Uniform Code family of building codes and the National Electrical Code. Likewise, if a single set of building codes could be adopted throughout the United States, the major single

[30] See supra note 4.

obstacle to the achievement of interstate reciprocity would be removed.

While it would not be impossible to conceive of designating a Federal agency for the job of drafting a national building code to be administered by the States under appropriate State laws, it would be less of a break with the past to look to the existing model codes for the source of a national code. Although I am not an engineer, I am convinced that virtually any of the model codes would be suitable for adoption as a national building code. The basically regional nature of the model codes is the product of historical accident. Today, there is no reason why there should be four separate structural building codes and as many plumbing codes. With a different set of historical accidents, all building codes might have developed towards a single set of codes, as has been the case in the electrical area with the National Electrical Code.

It is unlikely that the model code groups can be persuaded to reach agreement voluntarily on adopting one set of their codes for all of them. The initial steps in this direction through the Model Codes Standardization Council produced no results, and one can realistically expect little more from the newly formed Council of American Building Officials. The One and Two Family Dwelling Code, drafted jointly by ICBO, BOCA, and Southern, apparently has sufficient defects to prevent its being approved by HUD for Workable Program purposes, nor has the code received any significant acceptance by municipalities, nor has a procedure been developed to keep this code up-to-date. (The Department of Commerce has also recently dropped its support of the code because the drafting groups withdrew it from the established consensus procedures.) Each of the model code groups has its own built-in constituency, dedicated to the preservation of the group. More than persuasiveness is needed. But I would not want to venture a guess on how much more than persuasion is required. Perhaps a threat to obtain Congressional authorization for adoption of a national building code would suffice.

Of course, the creation of a single set of building codes creates new problems, such as the need to prevent illegal restraints of trade made possible because of the virtual monopoly position of these nationwide codes. While discussion of these problems is beyond the scope of this report, I am certain that workable solutions to them can be developed which would permit the establishment of a nationwide set of codes without inhibiting innovation or restricting competition.

Measures to Require States to Achieve Interstate Reciprocity

Although, as we have seen, there are a number of ways to achieve interstate reciprocity, the goal has not been reached. There are numerous reasons for this. There has been insufficient time in the 4 years since enactment of California's manufactured housing law for the States to have worked out acceptable cooperative arrangements on this complex subject. Some States feel constrained by their legislation or by legal principles against unlawful delegations of State authority to permit them to take the necessary measures to authorize reciprocity. There are a few States in the Union that do not care about the effect of their building code regulatory program beyond their borders. Whatever the reason, it would seem advisable to undertake steps that will speed up this process.

One suggestion is the possibility of securing congressional enactment, under authority of the Commerce Clause, of a law requiring that manufactured housing approved by one State under reasonably acceptable minimum standards must be accepted by every other State in the Nation. Under this approach, the Federal Government becomes involved in the regulatory process, at most, in determining the reasonableness of the building codes and implementation procedures adopted by the State of manufacture. This is the kind of determination that the Federal Government has been accustomed to make in administering the Workable Program requirement. Even this determination, however, could be left to judicial decision in the event of a dispute, and I feel safe in predicting that the courts would rule that each of the model codes embodies such reasonbly acceptable minimum standards. This approach also has the advantage of not mixing building code questions with other issues as would be the case if grant-in-aid or revenue sharing programs were conditioned on acceptable steps by the States towards achievement of interstate reciprocity.

Measures to Facilitate the Introduction of New Technologies

An effective system of interstate reciprocity would have the desirable consequence that new technologies could be more rapidly incorporated

in manufactured housing and introduced into the marketplace. With interstate reciprocity, a manufacturer could achieve one-stop approval of his housing. One approval by one State of his housing design embodying the new technology would open up the entire country to him, and he could feel confident of the justification of incurring additional expense in submitting an amended design to embody a new technological concept because one approval would be all that need be obtained.

If, on the other hand, the achievement of interstate reciprocity does not appear to be reasonably possible in the near future, it becomes necessary to look for some other mechanism that will relieve the manufacturer of having to seek multiple approvals of his new technology. Just as the ICBO Research Committee appears to operate in the West as a central, authoritative clearinghouse for new technologies which, by custom or proven reliability, has gained the confidence of State and local code enforcement officials, so there appears to be a need for a national body which will perform the same function on a national scale.

The National Bureau of Standards probably possesses the capibility of performing this function, provided it has the legal authority and the funds to carry out such a program. If the NBS is not to be given this function—and there are many industry groups which deeply distrust the NBS and would strenuously oppose the expansion of its functions in this way—I would support the concept of a National Institute of Building Sciences.[31] Approval of a new technological device by such an Institute would become the kind of clearance from a qualified and authoritative source that would ease the burden on manufacturers and suppliers of having to obtain multiple approvals. The barriers to innovation would be lowered.

Too much stress should not be placed on redrafting building codes to include performance criteria, in lieu of specifications, as a means of facilitating the introduction of new technologies. All of the model codes contain "equivalency" clauses that permit the authorized code enforcement officials to approve a new technology if engineering analysis and such test data as are required show that the objectives of the building code are met.[32] While performance criteria might be useful to provide a base line for evaluating such new technologies, the absence of the incorporation of performance criteria in building codes has not itself seriously inhibited the adoption of new technologies.[33] What is of greater importance is the establishment of an authoritative institution of national scope for approving new technologies, and Federal policy should be directed at creating and supporting such an institution.

[31] See Sec. 711, Revised National Housing Act, S. 3248 (92d Cong., 2d Sess.) The Senate passed this legislation, but it was killed by the House Rules Committee in the closing days of the session.

[32] See supra note 9.

Support for Enactment of Mandatory Statewide Building Code Laws

Rationalization of the building code regulatory system in the United States, and the creation of parity between manufactured housing and conventional stick-built housing, cannot be achieved unless the States adopt mandatory statewide building code laws, entirely eliminating municipalities from this field. If the legal entities with jurisdiction over building code regulation could be reduced to 50, from the many hundreds that exist now, the creation of a nationwide system of building regulation would be facilitated. Enactment of such laws would also change the balance between the model code groups and the States by undercutting the constituency of the model code groups. They would be forced to come to terms with the States and would be likely to be more disposed to effect mergers and create a single set of model codes of national applicability.

If improvements are made in some of the areas just discussed, it is possible that within a few years the building code regulatory system governing manufactured housing will be functioning in a manner that will meet the objectives of those who initiated this reform movement and of the State legislatures that enacted the authorizing legislation. Before more drastic measures are urged, my counsel is to continue to work with the presently developing system, relying on the States that are creatively fashioning a national regulatory system within a Federal framework.

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[33] See supra note. 21. The investigators identified over one hundred areas where research is required in order to convert a standard building code into a set of performance criteria. As illustrated by HUD's experience with the development and application of the Operation Breakthrough Guide Criteria, the state-of-the-art appears to be insufficiently developed to support the drafting of comprehensive performance criteria.

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The Influence of Model Codes and Their Associations on Acceptance of Innovative Technology at the Local Level

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Summary

Many positive actions have happened since 1968, when the Douglas Commission reported that "the alarms sounded over the past years about the building code situation have been justified. If anything, the case has been understated." Most conspicuously, an awareness of problems with codes and standards is evident. Change has been prompted; some has occurred.

Model codes and the related activities of their associations do help the implementation of innovative technologies at the local level. Most effective when buttressed by complementary State codes and/or State manufactured housing laws, the model codes can be an increasing influence for implementing innovative technologies, regardless of the present small number of communities that maintain the most current, unabridged version of the codes.

Matters concerning model codes and building standards have improved since the Douglas Commission Report, despite the fact that model codes are often revised to suit local attitudes and are not kept current. But more valid information must be made available to local building departments; some of the decisionmaking burden should be removed from many building departments, especially the majority which are understaffed and underqualified.

There is wide consensus that if nationally approved standards and better resource information were available, many of the code-related problems would have less reason to persist. With these standards and related information readily available to them, the model code groups then could service their constituencies much more quickly and spend more time in important support activities, such as training. The present challenge is to increase the positive influences and to decrease the negative aspects of model codes and their associations, within the abilities of those codes and associations to perform.

The current speeded-up evolution of positive change will continue, but indications are that it will peak out as the resources and procedural base of the present system prove to be improperly structured to achieve the required change. The impartial, broad, creative approach now necessary for coordinating all research, testing, standards, codes, certification, and training in the building-related fields is beyond the potential scope of the code associations. Major gaps, blockages, and problems will not be resolvable until more of the decisive actions recommended by the Douglas Commission are achieved.

It is recommended that HUD: 1) Consider codes as just one element of a series of factors that must be coordinated and jointly improved; 2) plan a phased approach seeking certain goals first which, in turn, will enable follow-through actions; 3) reintroduce legislation pertaining to a National Institute of Building Sciences; 4) exercise some leverage to encourage the use of nationally approved standards and to curb restrictive provisions of local building codes; 5) take a lead in seeking elimination of unnecessary variations among the construction standards used by all Federal agencies; 6) encourage an increasing role for the States in building codes and related measures; 7) work closely with the States to define specifically the extent and specific areas of codes where local option may be exercised; and 8) work with the States, as an interim measure, to require that every locality publish a summary of elements in its local codes which vary from the model codes generally used in the surrounding area.

Introduction

The Department of Housing and Urban Development has requested an evaluation of the following statement:

> Model codes and their associations have made little difference as to whether local building departments accept or reject innovative technology.

The evaluation is to consider the following three questions:

1. *Are model codes generally revised by local communities to suit their local attitudes, and if so, do these revisions act as a deterrent to the introduction of new technology?*

2. *Do local communities tend to adopt model code revisions in a timely manner? And if not, is the use of new materials and technologies held up?*

3. *Does a gulf often exist between an adopted model building code and its administration and enforcement?*

Following assessment of the above statement and questions, recommendations will be advanced as to whether the building community (including the professional community, regulators, housing producers, developers, and consumers) is best served by proceeding on the present course.

The National Commission on Urban Problems (also known as the Douglas Commission) did extensive research and analysis during 1967–1968 concerning all the guide and regulatory instruments, including building and related codes, that affect community development. Numerous research papers and the Commission's final report, "Building the American City", were published throughout 1968. Some reports were not published but were available to the author as background for this paper.

Anyone who reads about zoning or urban housing problems is accustomed to seeing references to the existence of "thousands of zoning regulations" or "thousands of building codes." But he will search in vain for more specific comprehensive figures, backed by meaningful evidence.[1] The Douglas Commission provided much of that evidence on codes.

There has been no equivalent research and analysis updating the comprehensive materials of the Douglas Commission, to the author's knowledge. Therefore, Commission materials will serve as a baseline for this paper and for responding to a fourth question:

4. *Have matters concerning the model codes and building standards improved, deteriorated, or remained unchanged during the past five years?*

Methodology

The paper is largely structured from observations made on the west coast, primarily the State of California, although some information does pertain to the East. (It is generally recognized that the building code situation is "better," with more adherence to model codes and less negative political influence, in the West than in other parts of the country.)

Findings and recommendations are based on the following: 1) Personal experience gained with the Douglas Commission (The author was an Assistant Director of the staff, and Ezra D. Ehrenkrantz was a Commissioner appointed by President Johnson); 2) collective recent experience of two architectural and research firms, Building Systems Development of San Francisco and Ezra D. Ehrenkrantz and Associates of New York; 3) a series of personal and telephone interviews; and 4) a small mail questionnaire sent to selected San Francisco area building departments.

Interviews were random. But they provided a sense of the current situation from a broad spectrum of people with direct and indirect interest in the building field. Twelve personal interviews averaging 2 hours apiece, were completed with persons representing:

- Development and administration of codes and standards.
- Drafting and administration of the State of California Factory Housing Law.
- Private practice of architecture and engineering.
- Architectural education.
- City building inspection and approvals.
- Associations of home builders.
- City councils.

Twelve telephone interviews were completed with housing producers and developers, nine on the east cost and three on the west coast. And a mail questionnaire was sent to the same nine local jurisdictions in the San Francisco area that were surveyed for the Douglas Commission by the National League of Cities in 1967–1968. This followup survey, to which seven jurisdictions responded, inquired only about codes now in effect (edition, adoption date, and changes as generically related to new technologies), adoption in toto of specific sections of the Uniform Building Code, and existence in the jurisdiction of housing certified by the State of California.

No attempt has been made to achieve the same scale of comprehensiveness as that undertaken with the extensive personnel and financial resources available to the Douglas Commission. Statistical validity is not implied in the paper. Obviously, neither an extensive survey, such as that conducted for the Douglas Commission by the Bureau of the Census, nor even a moderate-

[1] Manvel, Allan D., *Local Land and Building Regulation*, Research Report No. 6 prepared for consideration of the National Commission on Urban Problems, 1968, U.S. Government Printing Office, p. 1.

sized survey could be completed within the limited time and budget available.

Persons interviewed expressed many opinions. And they spoke of "facts," some of which have not been confirmed as to their truth or background. In the latter case, either the source is identified in some way, or an expression such as "it is reported that" is used to qualify the "fact."

Overview—What Has Happened Since Publication of the Douglas Commission Report?

Much has happened since 1968. Most conspicuously, an awareness of code and standards problems is evident. Change has been prompted; some has occurred. But it is also still obvious that major gaps, blockages, and problems will not be resolvable until more of the decisive actions recommended by the Douglas Commission are achieved. In summary:

- The overall rate of "change" in codes, standards and related processes has been speeded up.
- Model codes themselves have been a force, but not an extensive influence nationally in getting new technologies accepted at the local level. (That is not a primary function of a model code.) It is the combination of model codes with a host of other factors that are jointly working to the potential benefit of new technologies.
- The fundamental processes of developing and approving building standards remain basically the same.
- Concepts related to a national framework for building standards, research, testing, and training, and to the development of a National Institute of Building Sciences were considered by Congress in 1971 (S. 1859), but not enacted into law.
- HUD, on occasion, assumed a much stronger stance in seeking compliance by localities with certain standards accepted by the model codes (e.g., plastic pipe in San Francisco.)
- HUD generated national interest in industrialized housing with the Operation Breakthrough program. It also developed "guide criteria" (not standards) for the construction of housing built under the program.
- Many States have passed factory housing laws. Complementary relationships of those laws with specific model codes were often expressed.
- More State building codes have been adopted and new ones—e.g., Massachusetts—are in process. "Opportunities," or loopholes for local options in some State codes—e.g., California and New York—are considered excessive by many persons.)
- Testing labs with a primary orientation to new materials and technologies have been increasing, e.g., the Texas State Building Materials and Systems Testing Laboratory. (For further information: Secretariat, Texas Building Materials and Systems Testing Laboratory, Division of Housing, Texas Department of Community Affairs, P.O. Box 13166, Capitol Station, Austin, Texas 78711. Phone: 512/475–3383.)
- The Council of American Building Officials was formed; coordinating standards and procedures among the major code groups is one of its purposes.
- Code groups have increased their attention to educational programs. More training programs are being made available to local building inspectors, although the influence has been negligible on a nationwide basis.
- Organizations like the Industrialized Housing Council of the Associated Homebuilders of the Greater Eastbay (Berkeley, Ca.), as well as the States, are becoming increasingly involved in the related issues of codes, standards, and new technology.
- FHA is developing and reviewing with interested persons portions of its new Minimum Property Standards. (FHA's MPS tends to be a model code itself.)
- Some localities have achieved means other than building codes to inhibit manufactured housing, e.g., ordinances regulating the size of items which may be moved through the streets.
- Legislation for the National Institute of Building Sciences was included in the proposed Housing and Urban Development Act of 1972 (not enacted into law.)

Are Model Codes Revised to Suit the Local Attitudes of Communities?

Are model codes revised to suit the local attitudes of communities? The Douglas Commission reported a decisive "yes." The data speak for themselves, and even if a new nationwide survey were taken, a shift of a few percentage points would not make a significant difference.

The question may be slightly loaded to the negative side, however. Actually, there are both negative and positive reasons why localities make modifications in a model code. Negative—

politics, excessive influence of labor, or excessive influence of subcontractors. Postive—local physical conditions that are not adequately covered by the code, honest difference with an element of the code, lack of faith in a standard, or addition of a factor not covered by the code. Depending on the specific subject, certain of the potentially "positive" factors can become "negative" if the intent is to increase unduly the restrictive aspect of the code. Note that there should be ways to accommodate unique local attitudes for living (such as allowing sleeping lofts in lieu of bedrooms) or for design (such as requiring all orange tile roofs.) Problems—when do local options become too restrictive? How are a locality's particular firefighting abilities or available water supply to be reflected in its code?

Who Changes the Codes?

There is considerable opinion that the "filter-down" process from both the Basic Building Code and the Southern Standard Building Code to the local codes is not working. One active participant in the codes process commented that "about only 60 percent of the SSBC recommendations are accepted in turn by SSBC communities—in contrast to about 99 percent by communities using ICBO's Uniform Building Code." Another person, noting that votes are not recorded at SSBC meetings, spoke of persons who he knows voted for certain actions at a code meeting. But in their own communities, where political pressures were different and their model code vote could not be identified, those same persons voted against the code element.

Code Amendments and Effect on Technologies
Seven San Francisco Area Code Jurisdictions

Code in Use	Code Amended	Not Amended	Effect on Technologies
Uniform Building Code	7	0	7 - "no change"
National Electrical Code	5	2	4 - "no change" 1 - "easier"
Uniform Plumbing Code	6	1	5 - "no change" 1 - "more difficult"

The comment about the high filter-down rate among UBC communities was clearly verified by the current mail questionnaire for this paper. All seven of the San Francisco area communities responding use three model codes—The Uniform Building Code, the National Electrical Code, and the Uniform Plumbing Code. The building inspectors were asked if any amendments or modifications were made to each of the codes, and, if "yes," whether the changes make implementation of innovative building technologies in their community "easier," "more difficult," or "no change." Only one building inspector reported a belief that amendments to a model code made innovative technologies more difficult to implement in his community.

The building inspectors' opinions that code modifications effected "no change" on innovative technologies tend to be substantiated by responses to additional questions concerning five specific sections of the Uniform Building Code. All seven reported that the following four sections of UBC had been *adopted verbatim,* and not modified in *any* way:

- Section 106 (Alternate Materials and Methods of Construction).
- Section 107 (Tests).
- Section 305 (c) (Approved Fabricators).
- Section 402 definition of "approved."

On the other hand, the communities all modified Section 204 (Board of Appeals), an administrative section of the code. Regardless of answers just described, however, more indepth questioning is needed to find out the total impact of code changes in implementation of innovative technologies.

Subcontractors were identified by one architect as a major influence in model code modification on a national basis. They are the "villains," he reported, because unlike labor, they are the persons who now sit on all the local boards, attend Junior Chamber of Commerce meetings, etc.

Current Examples of Modifications: Local and State

A developer in California who specializes in construction from stock plans cited two current examples of modifications from the Uniform Building Code in UBC communities. In Upland, Calif., for installation of a roof-pack heating and air conditioning unit (a relatively new practice), the developer was required to use 2-hour construction for the duct from the roof to the dwelling unit below, whereas the building as a whole was only 1-hour construction. UBC requires only 1-hour construction in this instance. In several other cities, the developer has been required to vent clothes dryers horizontally, whereas UBC

permits vertical venting. Although the latter is not an expensive factor if known early, it is the kind of item typically not discovered until the plan check stage. And for this stock-plan builder, the changes, like the clothes dryer venting and others required due to "code findings" at the plan check stage, cost about $100 per unit.

Many California cities (including Mountain View, Palo Alto, Santa Cruz, Santa Clara, Napa, and Fresno) reportedly all have sprinkler ordinances in excess of UBC requirements.

The new 1973 edition of UBC permits certain high rise buildings to use the innovative method of compartmentation as an alternate to sprinklers. Anticipating the new 1973 code edition, which will be effective shortly, Orange County and Los Angeles County, Calif. (both UBC-territory), already have adopted ordinances which prohibit compartmentation as an alternate method.

In a situation unrelated to new technology, but involving State conflict with UBC, the California State Housing Act requires fire alarms in all apartment buildings containing 15 or more units. The 1970 edition of UBC had no requirement for alarm systems in apartment occupancies.

Based on surveys and information sources of the Associated Home Builders of the Greater Eastbay, an official of AHB reports that the number of localities that amend the model codes is generally increasing.

Architects in New York report that they are finding it difficult to use post-tensioning in many New York communities because local codes will not approve it, although the model codes do.

In the continuing plastic pipe controversy, the Chief Building Inspector of San Francisco stated that he has consistently fought everyone, including HUD, on using plastic pipe in situations approved by UBC. He has "a complete lack of faith in the plastic pipe standards" and maintains that neither he nor anyone else has any solid evidence to hang his hat on. The inspector said he has repeatedly asked for the evidence he requires—and commented that to his knowledge HUD is just now requesting the same kind of information he has been seeking for years. As a very active person in ICBO proceedings, Mr. Goldberg commented that "approval of the model code group is not sufficient *evidence.*" In another case, the city of San Bruno has just abolished the use of plastic pipe after 5 years of being an accepted code item in San Bruno. Because technical reasons reportedly were not cited, the person commenting on the situation believed that politics was the prime motive for the exclusion. He also agreed, however, that if a more substantial information base were available, items like plastic pipe would be much less politically vulnerable.

How Much Local Option?

The City of Fresno recently required the installation of sprinklers in many buildings for which the UBC does not require sprinklering. The city indicated that this action would save the taxpayers money, as well as increase public safety, while acknowledging that builders' costs and consequently housing costs would increase. Where is the higher public objective?

If building codes establish a minimum level of performance, is a maximum level also implied? What are acceptable levels of "safety hazard" or "property hazard?" It is now becoming more evident, as the trend increases toward State building codes and State certification of building tecnologies, that States must delineate the extent and specific subject areas where local option will be permitted in codes. There is a vast range between the extremes of no local option and total local option.

Inconsistency in Standards Used by Federal Agencies

Douglas Commission documents established that Federal agencies are no better than local governments in the extent to which "local option" is exercised in the standards field. For example, there was no indicated effort at coordinating standards among the several Federal agencies dealing with housing. Recent discussions with architects reconfirm this problem.

One architect noted that standards used only within the Occupational Safety and Health Administration (Department of Labor) are "staggering in their inconsistency." And within the Department of Health, Education and Welfare, he noted the requirement to use a 1969 NFPA standard in work for the Health Services and Mental Health Administration, and a 1967 NFPA standard (on the same subject) in work for the Social and Rehabilitation Service. Keeping track of who is using what standard, and *why,* is costly and is a nuisance.

Are Model Code Revisions Adopted on a Timely Basis?

Douglas Commission documentation again shows a negative response. As of 1968, and on a

national basis, localities were not quick to adopt either the latest edition of a model code or the annual revisions recommended by code groups. Communities adopting or basing their local codes on the Basic Building Code or the Southern Standard Building Code still are reported to be the slowest in responding to recommended code changes, in marked contrast to Uniform Building Code communities.

Results of the mail questionnaire for this paper show reasonable response in the San Francisco area, but still laggard in some cases. All seven jurisdictions have adopted the 1970 edition of the Uniform Building Code and the 1970 edition of the Uniform Plumbing Code, with adoption dates ranging between 1971 and 1973. One community had gone from the 1964 to the 1970 edition without adopting the 1967 edition, as had the other communities. But only four of the seven jurisdictions are using the latest edition of the National Electrical Code.

Code Editions and Adoption Dates Seven San Francisco Area Jurisdictions

	Edition in Use	Year of Adoption
Uniform Building Code	1970	1971–4 1972–1 1973–2
Previous Adopted Edition of UBC	1967	1968–5 1969–1
	1964	1965–1
National Electrical Code	1971	1972–2 1973–2
	1968	1969–1 1971–2
Uniform Plumbing Code	1970	1971–5 1972–5 1973–1

Variations due to different code editions are a great nuisance to housing producers and developers. One manufactured housing producer in California has received State approval for a kitchen-bathroom-core unit. The housing using these units is to be built in four areas with slightly varying codes and four varying interpretations of the code.

Santa Ana	1970 UBC, but using fire and life safety standards of 1973 UBC
Long Beach	1970 UBC
Garden Grove	1967 UBC, with elements from other codes
Los Angeles	local City code somewhat based on UBC, but with many revisions.

Code adoption and amendment is part of the political process. Amendment, especially, can be very slow within that process. One California city councilman referred to the great "political game" concerning the interrelationships of building codes, zoning ordinances, and development policies in many cities. Very often, he commented, cities don't want to keep their code revisions up to date, or to keep their zoning and planning elements up to date, or most importantly, to keep all essential elements of the development process in phase with one another. Gaps are intentionally created to give cities the opportunities to wheedle and get what they want out of developers.

Gaps in keeping up to date are typical not only of the filtering down process from model codes to local codes, however. Model codes themselves often are not up to date in reflecting the most currently accepted standards. One architect commented that model codes are good when they refer to the most current standards. When they do not, he favors local modification to the model code.

The National Fire Protection Association's 1969 standard for the storage and handling of flammable liquids, for example, is published in the 1969–70 edition of the National Fire Code. This is clearly more relevant to current issues for industrial safety than NFPA's 1959 standard, which is referenced in the 1970 edition of the Uniform Building Code.

Does a Gulf Often Exist Between an Adopted Model Code and Its Administration and Enforcement?

Yes, a gulf often exists between an adopted model code and its administration and enforcement. The Douglas Commission solidly confirmed that building code inspectors and administrators are poorly paid on a nationwide basis. Any poor pay attracts lesser qualified persons than are desirable and needed for today's complex building problems and potential. In several interviews, numerous comments pointed to confrontations with local building code officials (as well as fire marshals and zoning officials) "who have no knowledge, training or competence for making judgments related to construction."

All the blame for problems obviously should not be placed on officials who, through no fault of their own, may be unqualified to make the full range of decisions required of them, and for whom a conservative approach is often the "safe" approach. Even inspectors who are ex-

ceptionally qualified in one field—say, structural engineering—cannot be expected to be expert also in the dozens of other subjects for which decisions must be made.

A building department becomes more qualified in direct proportion to the resources and information it has available. Therefore, more information must be made available to local building departments, or some of the decisionmaking burden must be removed. State and national certification for building systems and subsystems is a major step in removing some of the decisionmaking burden from local officials.

The acceptance of a model code by a community is no guarantee that alternate materials and innovative processes can be implemented in that community. Much depends on personnel qualifications, as previously discussed, and on attitudes and procedures of the building department (and possibly other local departments).

One California developer recently proposed the use of post-tension slabs in a project. There was no question of code acceptance by the County. But building department personnel, never having seen post-tensioning in use, required the developer to pay an outside (noncounty) inspector for continuous inspection at all times when post-tensioning was in process. The developer does not mind paying the fees, which will run $500–$1,000 for 27 slabs, but he firmly objects that no one in the county building department will have learned anything from the process or his expenditure. Even the outside inspector knew nothing about the Prescon Corporation system, so even he had to be briefed fully by the manufacturer. What happens in the next project, and how many times will the developer have to pay for training that would be better directed to county inspectors? How should responsibilities be allocated among manufacturers, developers, professional consultants, code groups, and local code officials?

Variation does exist in interpretation of the same code. A housing producer commented that interpretations of UBC vary widely in the four different State, county, and city agencies with whom he is working in two States. The differences primarily concern fire safety.

Actually, interpretive variations must be expected. As a case in point, the Chief Building Inspector of San Francisco discussed how interpretations vary among his 17 city inspectors. Meetings are held to discuss cases where opinions vary, and a decision is made.

If interpretations vary within one city concerning one code, they must be expected among several jurisdictions using the same code. As indicated by the San Francisco procedure, discussions among building officials obviously help to clarify issues. The practice should be greatly broadened—and there is present evidence that code groups are making progress in that direction.

Do Model Codes and their Associations Influence the Acceptance of Innovative Technology?

The Douglas Commission worked extensively with an advisory committee of the Homes Manufacturers Association in assembling data on code problems, added costs resulting from local building regulations, and firms engaged in prefabrication. One theme constantly emerged from all meetings—"uniformity in standards is needed." Although *rationalized* standards were stressed, the need for uniformity was given more importance. For the mobile home manufacturer or housing producer with a present or potentially broad-ranging market area, the larger the area with uniform standards, the larger his potential market area for a product. (Uniformity, per se, is somewhat less critical to many other participants in the building process.)

As reported by the Commission:

> The most significant information was revealed in an analysis of the problems of one manufacturer who must adjust his product to all codes in the region within which he operates.
>
> . . . Within a relatively small (east coast) market area of 25 code jurisdictions, cited by the manufacturer, there are reported 75 *different* code requirements considered to be excessive. The reported excessive code items for each one of the 25 individual code jurisdictions ranged in number from one to 13, with extra costs ranging from $50 to $520 per house within each jurisdiction.
>
> If the single manufacturer attempted to produce a standard product which would meet the code requirements of the 25 areas, he would have to introduce 75 separate extra factors in materials and/or methods of construction exceeding the normal requirements in model codes and FHA regulations. The cost of each basic home would thus be raised by $2,492.[2]

From the points of view of home manufacturers—and consumers—the case for uniformity in standards was made. Lack of uniformity, whatever its extent does reduce the producers' market area for a given product—and raise the final prices to the consumer.

Model code standards have the potential of being implemented over broad areas. And that potential increases in proportion to the number

[2] National Commission on Urban Problems, *Building the American City*, 1968, U.S. Government Printing Office, pp. 262–263.

of communities that adopt the most current standards without modification. Based on Douglas Commission findings, however, "only about 15 percent of all the municipalities and townships above 5,000 in population had in effect a national model building code which was reasonably up to date; about 85 percent of the units either had no code, did not use a model code, or had failed to keep the code up to date." [3]

Model codes and the related activities of their associations do help the implementation of innovative technologies at the local level, however, regardless of the small number of up-to-date model code communities. Of the 12 housing producers and developers recently interviewed, nine stated, one way or another, that model codes have been a great help wherever they have been adopted. (Of the remaining three, one directed most of his attention to the need for uniformity in standards. One commented that the model code has not specifically helped, although it has not been a hindrance. And the main theme put forth by the last producer was that the "New York State BOCA-based code is far too specific and limits innovation." (See Appendix C for comments by all producers.)

Model codes tend to be most effective when buttressed by complementary State codes and/or State manufactured housing laws. Problems occur, as previously noted, when State codes permit unlimited local option, and when State manufactured housing laws become either so restrictive or administratively cumbersome that they inhibit rather than promote innovative approaches.

Thus, model codes are and can be an increasing influence for implementing innovative technologies at the local level. The challenge is to increase the positive influences and to decrease the negative aspects of model codes and their associations, *within the abilities of those codes and associations to perform.*

Because standards are the primary element of codes—the administrative aspects being wholly secondary—major attention should be placed on the quality of those standards and the complementary methods for their research and approval.

There was considerable consensus among all persons interviewed for this paper. All agreed that nationally approved criteria or standards are needed for the benefit of the entire building industry. All agreed that better information is needed as a base upon which to make decisions. Nearly all agreed that there is no existing public, quasi-public, or private group which has the financial, professional or personnel qualifications and lack of self interest to do the job called for. And, except for some of the housing producers who were not familiar with the proposal, almost everyone else was familiar with and endorsed the concept and functions of a National Institute of Building Sciences, as initially proposed by the Douglas Commission. These concepts have broad-based support, regardless of other attitudes which vary concerning model codes,[4] uniformity of standards, and local option in codes.

Basically, there is considerable feeling that if nationally approved standards and better resource information were available, many of the code-related "problems" would have less reason to persist. With these standards and related information readily available to them, the model code groups then could service their constituencies much more quickly and spend more time in important support activities such as training.

Some of the Code-Related Problems of the Code Associations: Problems with code associations, as reported by the Douglas Commission, were repeatedly signaled during recent interviews:

> The contents of the four national model building codes—BOCA, ICBO, Southern and National—are more up-to-date and progressive than is generally assumed. Most of the controversial materials and methods of production are now included under their provisions.
>
> This is not to say that there are no serious defects in model codes. The system for adopting new products and methods has shortcomings . . . .
>
> The system is often far too slow. A product which is accepted by one code group is often not accepted by another until a producer has complied with a second or third set of procedures.
>
> Another very proper complaint is that decisions are made by the building code officials and not by a more representative group of the industry, let alone of the general public.
>
> Furthermore, there are no uniform objective standards or tests, or groups of certified agencies for testing, which would make the acceptance of a product or method a question of objective analysis.[5]

Current references to the above-listed problems will not be cited, to assure reasonable brevity of this paper. Collectively, the experiences again indicate that the approvals processes are

[3] Ibid., p. 257.

[4] For example, the Chief Building Inspector of San Francisco commented: "If San Francisco adopted the Uniform Building Code, safety would go down and costs would go up. San Francisco is unique as a larger city and does not relate to the norm to which UBC is directed. UBC should not try to meet every unique situation because the code would then be too cumbersome for most of its users.

[5] National Commission on Urban Problems, op. cit., p. 265.

excessively cumbersome, confusing, slow, and costly—so much so that innovative processes and potential innovators tend to be inhibited.

The code associations have reacted to criticism of their problems, obviously concerned that some code group functions could be shifted because of Federal actions. The newly formed Council of American Building Officials (CABO) is considering coordination of standards and product approval among all code groups. The latter could result in a "nationally approved research card," possibly resembling a function proposed for a National Institute of Building Sciences.

These actions to eliminate differences among code groups are commendable. But, as noted earlier, there is serious doubt that presently constituted or even reorganized code groups can get at the real problems. Code groups' constituencies are limited. Financial resources are limited. Major work is done on a voluntary nonpaid basis. And, most importantly, the impartial, broad, creative, (rather than reactive) approach which is now necessary for coordinating all research, testing, standards, codes, certification, and training in the building related fields is considered to be beyond the potential scope of the code associations.

Recommendations

Five years ago the Douglas Commission reported:

> The facts disclosed by the exhaustive inquiries of this Commission at the local, State, and national levels, and the problems faced by producers, builders, and professional people in the building industry, show unmistakably that alarms sounded over the past years about the building code situation have been justified. If anything, the case has been understated. The situation calls for a drastic overhaul, both technically and intergovernmentally.[6]

This paper began with the observations that much has happened since 1968. Most conspicuously, an awareness of codes and standards problems is evident. Change has been prompted; some has occurred. But it is also still obvious that major gaps, blockages and problems will not be resolvable until more of the decisive actions recommended by the Douglas Commission are achieved.

The following actions are therefore recommended for consideration by the Department of Housing and Urban Development:

- *HUD should consider codes as just one element of a series of factors which must be coordinated and jointly improved. These include research, testing, standards development, codes development, certification processing, and training.*

If significant improvements are to be made in areas where gaps, blockages, and honest differences of opinion are to be eased, the whole fabric of interdependent factors must be considered together.

- *HUD should anticipate that code and related problems cannot be resolved all at one time or too quickly. Therefore, plan a phased approach, seeking certain goals first which, in turn, will enable follow-through actions.*

There has been modest improvement in codes and related factors, with noticeable buildup in the speed of "change" during the past 5 years. Indications are that the evolution will continue, but will tend to peak out as the resources and procedural base of the present system prove to be improperly structured for achieving the required major changes. As a first, and major, step:

- *HUD should reintroduce legislation equivalent to Section 711 of the proposed Housing Act of 1972, S.3248 (not enacted), pertaining to a National Institute of Building Sciences.*

The proposals recommended in Section 711 sought resolution of problems and realization of opportunities that are appropriately coordinated and achieved on a national basis. Originally proposed by the Douglas Commission, the concepts have been extensively discussed. Now there is considerable agreement that the objectives of NIBS would benefit the entire building industry, and that there is no existing private, public, or quasi-public group appropriate or qualified to do the job. A better information base for decisionmaking is required. National standards, especially, are sought regardless of varying personal positions on codes (as distinct from standards), uniformity, and local options in the codes process.

The Senate Committee on Banking, Housing and Urban Affairs described section 711 as follows:

> Sec. 711.—States the feeling of the Congress that there is need for a single nationally recognized institution to evaluate and make recommendations concerning use of new technology in housing and building regulation. Such an organization could provide a national solution to present problems of inconsistency and inefficiency which result from purely local efforts to regulate building practice and to utilize technological advances. Care would have to be

[6] Ibid., p. 266.

taken to encourage and utilize present efforts in this direction by various private and governmental groups. With this consideration in mind, the Government, with the advice of the National Academy of Sciences-National Academy of Engineering-National Research Council (to be referred to as the "Academies-Research Council") and various other groups, would create a non-governmental instrument to serve the function described above.

Authorizes the establishment of a nonprofit, nongovernmental instrument to be known as the National Institute of Building Sciences. The Academies-Research Council and other knowledgeable organizations will assist in its formation and in the development of an organizational framework which would encourage the participation of groups now engaged in related activities. Efforts would be made to include in the Institute's operations the widest possible variety of interests and experience, and to obtain recommendations and assistance from entities presently operating in the field. The Academies-Research Council need not itself assume any function or operation of the Institute.

Subsection (c) would provide for a Board of Directors of the Institute of between 15 and 21 members, appointed by the President with the advice and consent of the Senate, and would establish the conditions under which members would serve. An effort would be made to fairly represent diverse geographical areas and interests. A Consultative Council would be established with members from interested private and public bodies, to serve as a connection between these groups and the Institute.

Sets limitations on the financial and political activities of the Institute.

Describes the responsibilities of the Institute to include the areas of: development and promulgation of nationally recognized criteria which might be adopted by regulating bodies; of evaluation of new and existing technology; appropriate investigation; and dissemination of information. As much as possible of this work should be delegated to organizations capable of performing it, and the Institute should promote coordination of its efforts with other programs being carried on in the public interest, and use of its findings and recommendations.

Provides that the Institute may accept grant and donations, and may establish fees and other charges for its services in addition to its initial appropriation.

Provides that all federal agencies involved in building and construction should be encouraged to make use of the Institute's work, as should all Federally assisted projects and programs. Such agencies would be authorized to contract with or request grants to the institute for support and services. Efforts would be made to encourage or assist states to modify laws to conform to the Institute's findings, and to develop training programs for building officials and technical advisers.

Authorizes an appropriation for initial capital of $5,000,000 for each of the first two years after enactment, $3,000,000 for each of the next two and $2,000,000 for the fifth. After this five-year period the Institute would be financially self-sustaining.[7]

• *HUD should exercise some leverage to encourage the use of nationally approved standards and to curb restrictive provisions of local building codes.*

This approach was recommended by the Douglas Commission and has been practiced to some extent by HUD.

Considerable agreement does exist concerning the need for some type of sanctions—but there is much less agreement about how and when the sanctions should be applied.

If HUD is to apply the "stick" approach, it should improve its testing and resource base. People involved in several different aspects of the building-related industry sincerely believe that great gaps exist in the present data base—and that in applying that existing resource material, HUD is not operating from a position of strength.

Before extensive sanctions are applied, therefore, it will be appropriate to assure that the standards and related data proposed for NIBS will be forthcoming.

HUD and other Federal sanctions probably would be best applied in relation to direct loan or grant programs. For revenue sharing, sanctions probably would be better applied by the States, e.g., by withholding revenue sharing "pass-through" funds.

• *HUD should take a lead in seeking elimination of unnecessary variations among the construction standards used by all Federal agencies.*

This is another endorsement of previous recommendations by the Advisory Commission on Intergovernmental Relations and the National Commission on Urban Problems.[8]

• *HUD should encourage an increasing role for the States in building codes and related procedures. This should include the adoption of State building codes; the mandating of building code uniformity, especially within metropolitan areas; and the strengthening of State supervision over building code administration.*

This is an endorsement of recommendations by the National Commission on Urban Problems.[9]

In the process of achieving the above recommendation:

• *HUD should work closely with the States to define specifically the extent and specific areas of codes where local option may be exercised.*

[7] U.S. Senate Committee on Banking, Housing and Urban Affairs, *Report on the Housing and Urban Development Act of 1972* to Accompany S. 3248, February 28, 1972, pp. 113–114.

[8] National Commission on Urban Problems, op. cit., NCUP recommendation No. 2(c).

[9] Ibid, NCUP recommendations No. 3 and No. 4.

Most special regional or local requirements can be covered within the model codes. Certain other requirements might well be determined by the States to be appropriate for regional or local option and/or addition to a code, such as requirements which are unique to one or a few areas, so that their addition to the model code would make the code unduly cumbersome for all other users—provided the modification or addition will not restrict the introduction of innovative technologies or be otherwise unduly restrictive.

• *HUD should work with the States, as an interim measure, to require that every locality publish a summary of elements in its local codes which vary from the model codes generally used in the surrounding area.*

These summaries would considerably ease the problems and costs faced by designers, developers, builders, and manufactuers in ferreting out the unique variations in every local code from the model codes generally in use.

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Alfred Goldberg	Chief Building Inspector; San Francisco, Calif.
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David Pellish	Architect, New York State UDDC
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Milton Smithman	Assistant Staff Vice President, National Association of Home Builders; Washington, D.C.
Anonymous City Councilman	San Francisco Bay Area

Housing Producers and Developers Interviewed by Telephone

Echo Module Systems; Quincy, Mass.
Fontaine Modular Structures; Northampton, Mass.
Fredericks Development Corp.; Fullerton, Calif.
Hodgson Houses; Hartford, Conn.
Housing Systems, Inc.; Penfield, N.Y.
Scholz Homes; Toledo, Ohio
Unitized Systems Co.; South Hill, Va.
Anonymous; California
Anonymous; California
Anonymous; Connecticut
Anonymous; New Hampshire
Anonymous; New York

Building Department Jurisdictions that Responded to Code Questionnaire

Daly City, Calif.
Marin County, Calif.
Martinez, Calif.
Menlo Park, Calif.
Newark, Calif.
Pittsburg, Calif.
San Mateo County, Calif.

Appendix B. Responses By Local Jurisdictions to Questionnaire [1] (June 1973)

	Daly City	Marin County	Martinez[2]	Menlo Park[2]	Newark (City)	Pittsburg	San Mateo County
Model Building Code							
Name[3]	U.B.C.	U.B.C.	U.B.C.	U.B.C.	U.B.C.	U.B.C.	U.B.C.
Edition	1970	1970	1970	1970	1970	1970	1970
Date adopted	Oct. 1971	Apr., 1972	1971	July, 1971	Feb., 1971	Jan., 1973	Jan., 1973
Any amendments or modifications?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
If yes, do the changes make implementation of innovative building technologies in the community easier, more difficult, no change?	No Change	No Change	No Change	No Change	No Change	No Change	No Change
Name, edition, and adoption date of code immediately preceding the one now in effect.	U.B.C./1967/ August 1969	U.B.C./1967/ 1968	U.B.C./1967/ 1968	U.B.C./1967/ 1968	U.B.C./1964/ July 1965	U.B.C./1967/ 1968	U.B.C./1967/ June 1968
Model Electrical Code							
Name[4]	N.E.C.	N.E.C.	N.E.C.	N.E.C.	N.E.C.	N.E.C.	N.E.C.
Edition	1968	1971	1968	1971	1968	1971	1971
Date adopted	Oct. 1971	Apr. 1972	1969	Sept., 1972	Feb., 1971	Jan., 1973	March, 1973
Any amendments or modifications?	Yes	Yes	Yes	No	Yes	No	Yes
If yes, do the changes make implementation of innovative building technologies in the community easier, more difficult, no change?	No Change	No Change	No Change	---	Easier	---	No Change
Model Plumbing Code							
Name[5]	U.P.C.	U.P.C.	U.P.C.	U.P.C.	U.P.C.	U.P.C.	U.P.C.
Edition	1970	1970	1970	1970	1970	1970	1970
Date adopted	Oct., 1971	Apr., 1972	1971	July, 1971	Feb., 1971	1971	Jan., 1973
Any amendments or modifications?	Yes	No	Yes	Yes	Yes	Yes	Yes
If yes, do the changes make implementation of innovative building technologies in the community easier, more difficult, no change?	More Difficult	---	No Change	No Change	No Change	No Change	No Change
State Approved Technology							
Has any construction been completed in the jurisdiction that involves a building system, subsystem, or other technology that has been approved by the State of California Department of Housing and Community Development in accordance with the State's "Factory Built Housing" Law?	Yes	Yes	Yes	No	No	No	Yes

(Continued on p. 828.)

Appendix B—Continued

	Daly City	Marin County	Martinez[2]	Menlo Park[2]	Newark (City)	Pittsburg	San Mateo County
If no, is any in process or in the approved stages?	---	---	---	---	No	No	---
Sections of the Uniform Building Code							
Has section 106 (Alternate Materials and Methods of Construction) been adopted verbatim, or modified to *any* extent?	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim
Has section 107 (Tests) been adopted verbatim, or modified to *any* extent?	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim
Has section 204 (Board of Appeals) been adopted verbatim or modified to *any* extent?	Modified	Modified	Deleted/ Substi-tution	Deleted/ Substi-tution	Adopted Verbatim	Modified	Deleted
Has section 305(c) (Approved Fabricators) been adopted verbatim, or modified to *any* extent?	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim
Has the definition of "approved" in section 402 been adopted verbatim, or modified to *any* extent?	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim	Adopted Verbatim

[1] A questionnaire was sent to nine jurisdictions in the San Francisco Bay area. These same jurisdictions responded to a survey in April 1968 conducted for the National Commission on Urban Problems by the Department of Urban Studies of the National League of Cities, namely, Marin County, San Mateo County and the cities of Berkeley, Daly City, Martinez. Menlo Park, Newark, Pittsburg, and Woodside. Written responses were received from four localities. Responses from three additional localities were received from a followup telephone inquiry.
[2] Responses from followup telephone inquiry.
[3] Uniform Building Code (U.B.C.)
[4] National Electrical Code (N.E.C.)
[5] Uniform Plumbing Code (U.P.C.)

Appendix C. Comments About Model Codes from Housing Producers

• "Model codes are a help not a hindrance, but they should be adopted more universally and should be reduced in number to one."

(Connecticut producer of high rise system using precast concrete panels.)

• "When adopted by local authorities, model codes have been a help to us and our systems. When a model code is in effect locally, the local officials require fewer variances for the systems approvals than when a unique local code is in effect."

"Many local authorities recognize that they have inadequate building codes, and although they have not yet adopted a model code, they will approve a new technology without delay if it has the approval of a model code group."

(Echo Module Systems, Inc., Quincy, Mass. Producer of high rise housing precast concrete boxes and panels.)

• "Virginia has a manufactured housing law which supersedes all local codes. For other states, we have found it expeditious to get UL, labor, and BOCA approval; this helps in getting local approvals."

(Unitized Systems Co., South Hill, Va. Producer of two-story limit wood frame box system and six-story limit steel and concrete box system.)

• "Wherever BOCA has been adopted, it has been a help to us. BOCA is quite adequate as a code in terms of relating to new technologies."

(Fontaine Modular Structures, Northampton, Mass. Producer of low rise wood-frame box system.)

• "Our experience has been favorable wherever we've worked with localities which have adopted a model code."

"BOCA approval has been especially helpful."

"New York State has a BOCA-based code which is very good. However, it costs about $7,000 to get approval from New York and it takes two months. It's a very stringent and precise code."

(Hodgson Houses, Hartford, Conn. Producer of low rise wood-frame panel system and one-story wood-frame box system.)

• "The New York State BOCA based code is far too specific and limits innovation."

(Producer of low and high rise site-constructed concrete box system in New York State.)

• "BOCA code is quite acceptable and helps get approvals."

(Producer of wood-frame panel system in New York State.)

• "We're in favor of getting model codes accepted across the country. They help companies like ours."

"In the area of multifamily housing, BOCA needs revisions and updating."

(Producer of wood-frame panel system and wood-frame box system in New Hampshire.)

• "Model codes in local areas are a definite help."

"Our system is designed to conform to BOCA and SSBC."

"Somewhat often in localities which do not have a very sophisticated code, or which do not have a code which accommodates prefrabricated products, we only have to show our BOCA approval to circumvent having to meet the local code."

"We supply 33 states. Four model codes are too many."

(Scholz Homes, Toledo, Ohio. Producer of wood-frame panel system.)

• "Uniformity of standards is more important especially for developers like us who make extensive use of stock plans."

(Fredericks Development Corp., Fullerton, Ca.)

• "UBC has not specifically helped us, although it has not been a hindrance . . . . CBO requirements are very tight under the 'alternate clause'. . . . Breakthrough approval has been helpful."

(West Coast housing producer.)

Appendix D

"Summary Highlights" From *Local Land and Building Regulation,* Research Report No. 6, National Commission on Urban Problems.

Summary Highlights

The statistics in this report supply a factual background on many aspects of local planning, zoning, and building regulation activity. Following are a few highlights, to be more fully and critically examined, with related recommendations for appropriate public action, in the forthcoming final report of the National Commission on Urban Problems.

Planning and regulatory activities are widespread, directly affecting a high proportion of the

Nation's population, and involving many thousands of local governments.

Most of the regulating governments are relatively small—apparently too small in most instances to engage any full-time employees for such work. This, of course, is a reflection of the prevailing atomized pattern of local government under which, for example, one-third of all the incorporated municipalities in metropolitan areas have fewer than 2,500 inhabitants and one-half are less than one square mile in area.

Even among the regulating governments that do have any full-time employees for such work, pay rates generally average low, and only the largest governments have top-ranking jobs paying enough to attract and hold well-trained professional or technical people.

Local expenditure for these planning and regulatory activities is not insignificant—some $300 million annually. However, this sum is far less than 1 percent of all urban government expenditure, and is even more strikingly dwarfed by the property values which are affected by such activities—much more than $1,000 billion worth of urban real estate, and over $50 billion annually of new urban construction.

Similarly, local government employees engaged in these activities number only 33 thousand (full-time equivalent) persons, compared with some 3 million persons employed in the construction activities affected by their work.

Despite growing Federal Government concern with urban problems, less than one-twentieth of local expenditure for these planning and regulatory activities is being financed from Federal aid.

Local "community improvement programs," although promoted and encouraged by the Federal Government, now operate in less than one-tenth of all the Nation's municipalities, and do not apply to areas with the bulk of the population of metropolitan suburbia. (See Appendix A.)

Control of land use through local zoning ordinances and subdivision regulation is widespread and expanding. Of all zoning ordinances, a large proportion originated since 1950, and many have been condiderably revised in recent years. Also, most zoning governments have reportedly prepared "master plans" of prospective land use.

A significant number of zoning ordinances include provisions—for example, as to minimum lot sizes and minimum floor-areas—that may prevent or severely limit the provision of low- or moderate-income housing.

Zoning governments deal with large numbers of requests for rezoning and "zoning variances," and on the average reject less than one-fourth of such requests.

Nearly all municipalities in metropolitan areas and a majority elsewhere have a local building code, but a considerable fraction of these codes have not been materially changed in recent years.

Of the cities and towns of 5,000-plus that have building codes, about two-thirds report that their local provisions are based upon a national or regional "model" code. However, only about one-fourth of these have recently adopted at least 90 percent of the updating changes recommended by the model code organizations.

There is great diversity in local code regulation of particular residential building practices. The survey asked about 14 specific building practices, including 13 approved by all applicable "model" codes, and one practice accepted by some but not all the "model" codes. Of these 14 practices, one is prohibited by over half the municipalities of 5,000-plus which have building codes, 4 others are prohibited by more than one-third, 3 by about one-fourth, and each of the remaining surveyed practices is rejected by some of these governments. Similar proportions of rejection appear for the municipalities whose local codes are reportedly based upon some national or regional "model" code.

Great variation appears also in local fire safety regulations, with differing standards used for fire-resistance ratings, exit corridor distances, and other fire-safety features.

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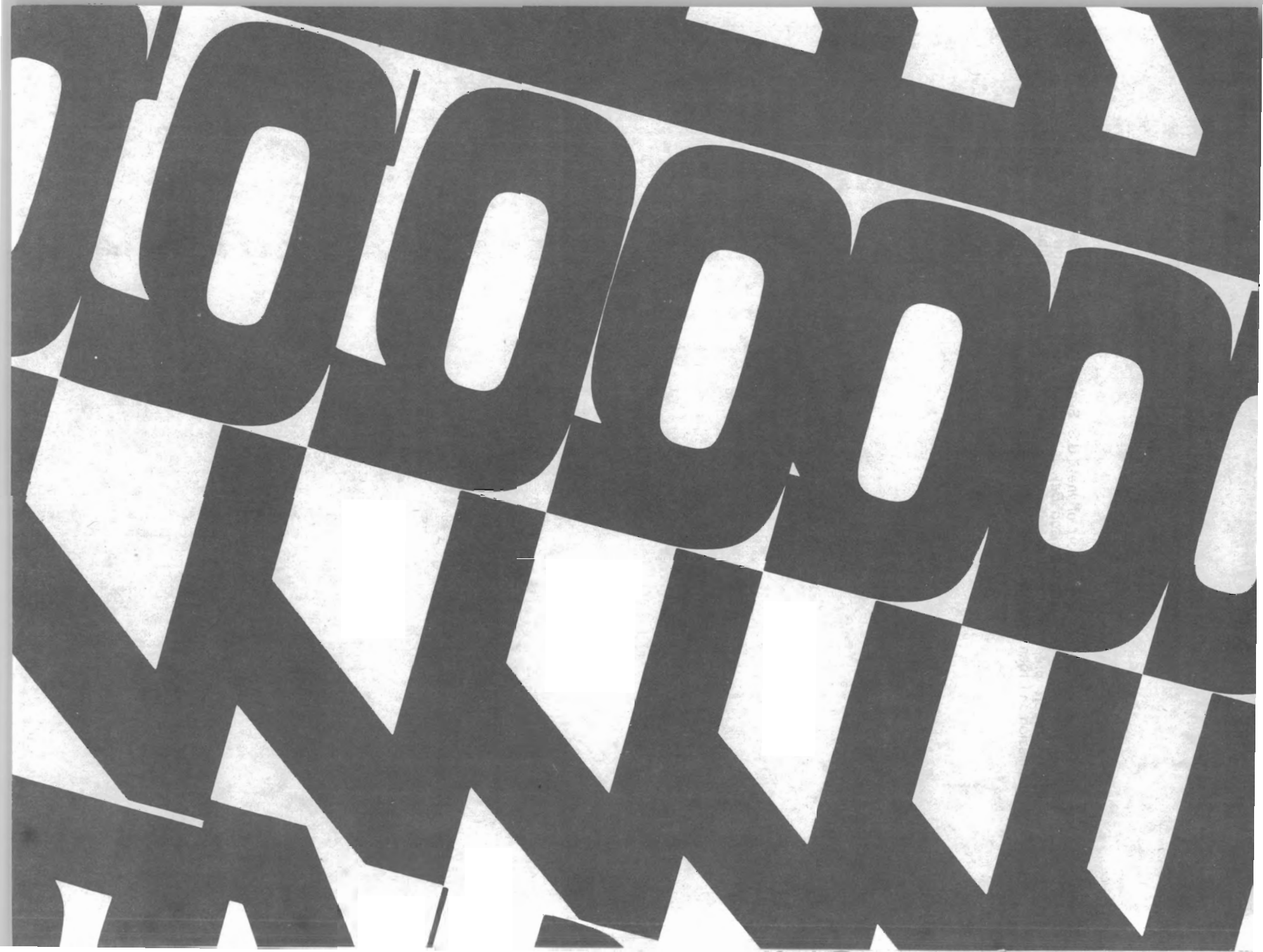

6 Housing Subsidies and Housing Markets

Housing Subsidies and Housing Starts

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Introduction

This paper examines the impact of Federal housing subsidy programs on housing starts. The Federal Government has been involved in subsidizing a large number of housing starts in recent years. Have these starts been a complete add-on to unsubsidized starts? If the subsidy programs had not existed, would housing starts have been the same? How much larger is the U.S. housing stock because of the subsidy programs?

It is important to know the impact of housing subsidies on housing starts. In bad times it is often argued that housing subsidies should be increased to stabilize homebuilding and/or to stabilize general economic activity. In good times it is argued that any reduction in subsidy programs will be catastrophic for homebuilding. Without even discussing the desirability of stabilizing homebuilding, it is important to know whether housing subsidy programs have any impact on homebuilding. It is not sufficient to cite the number of subsidized starts as proof of their ability to increase housing starts.[1] The subsidy programs could merely increase prices with no impact on total quantity. A model of housing activity is needed to separate price effects from quantity effects.

The paper develops a quarterly model of housing starts, borrowing heavily from the work of Ray Fair (1971) and Fair and Dwight Jaffee (1972). Estimates of the model are presented, as well as simulation performance both within and outside the estimation period. Finally, the implications of the model for the impact of housing subsidies on housing starts are discussed.

It should be made clear at the outset that housing subsidy programs have several goals and that stimulating housing production is only one of them. Even if it turns out that subsidy programs have little or no impact on total starts, that is not sufficient grounds to dismiss the programs. The more important issue on which the subsidy programs should be judged is their ability and effectiveness in providing certain segments of the population with increased access to decent housing.[2]

Table 1 presents data on the magnitude of the subsidy programs. From 1960 through 1972, subsidized starts have totaled almost 2 million units. As a percent of total private starts, subsidized starts have varied from just under 3 percent in the early 1960's to just over 30 percent in 1970. Over the past 3 years, with the 235 and 236 programs in full force, subsidized starts have averaged almost 400,000 units a year. According to Downs, over half of all subsidized units created in the last 37 years have been produced since 1968.

The Model

The model presented is a quarterly version of a disequilibrium model of housing starts. The overall structure of the model is derived from Ray Fair's monthly disequilibrium model of housing starts.[3] The model views housing starts as potentially determined by either of two functions. It is a disequilibrium model because, as discussed below, prices do not adjust to clear the market every period. The first function, called the demand for housing starts, refers to the number of housing starts that individuals and builders would like to build if mortgage financing, labor, and materials were readily available. The second function, called the supply of housing starts, refers to the supply of mortgage financing for housing.

Housing starts could conceivably be limited by a third function—that is, by the availability of labor and materials. It is assumed that this real supply function is never a constraint on the number of starts.[4] Wages, material costs, and inter-

[1] See Downs (1972), p. 9, for an example of this error.

[2] For more detail on the specifics of the subsidy programs themselves, see Henry Aaron, *Shelter and Subsidies*; *The Economics of Federal Subsidy Programs*, a compendium of papers prepared for the Joint Economic Committee; and *Housing Subsidies and Housing Policies*, hearings before the Subcommittee on Priorities and Economy in Government of the Joint Economic Committee.

[3] See Fair (1971). For an earlier version of the quarterly model presented here and a brief discussion of its differences vis-a-vis Fair's monthly model, see Swan (1972).

[4] This assumption of a very elastic real supply of houses is based on econometric evidence and industry studies. For econometric evidence see Muth (1960) and Cassidy and Valentini (1972). For examples of industry studies see Dunlop and Mills (1968), Mills (1972) and Swan (1971). Dunlop and Mills suggest that there may be a cyclical element to the supply of labor to residential construction.

Table 1. Subsidized Starts

	Total Subsidized Starts	Total HUD Subsidized Starts	Section 235 Starts	Section 236 Starts	Total Subsidized Starts as Percent of Total Private Starts
1960	32,400	28,800	--	--	2.3
1961	36,162	30,341	--	--	2.8
1962	38,896	27,242	--	--	2.7
1963	47,625	33,897	--	--	3.0
1964	55,094	43,515	--	--	3.6
1965	63,686	48,176	--	--	4.3
1966	70,941	48,484	--	--	6.1
1967	91,370	64,869	--	--	7.1
1968	165,218	137,355	637	--	11.0
1969	199,933	167,813	28,127	10,168	13.6
1970	429,797	372,013	116,073	105,160	30.0
1971	430,052	355,414	133,222	108,335	21.0
1972	340,257	247,819	83,282	81,418	14.4

Source: HUD, Division of Research and Statistics
The data on subsidized starts includes programs for new units.
The data excludes programs for acquiring or rehabilitating existing units. It also excludes FHA and VA mortgage insurance and guarantee programs. Specific subsidy programs include 235, 236, low rent public housing—conventional, turnkey, and leased—202, rent supplement, 221(d)(3) BMIR, uninsured state projects and college housing.

est rates are assumed to determine construction costs independent of the volume of construction. That is, given wages, material costs, and interest rates, the construction supply curve for housing starts is assumed to be horizontal. There is no implication that the demand for housing is not sensitive to construction costs, but it is likely that construction costs have most of their impact on the size and quality of units built rather than on the number of units. Our model of housing starts uses the mortgage rate as the price variable that eventually equilibrates the demand and supply for housing starts.

The Demand for Housing Starts

The structure of the model and variable names are presented in Table 2. More detailed information about data definitions and sources is presented in the data appendix. The demand for housing starts depends on the mortgage rate, the vacancy rate, the stock of houses, and the size of the subsidy programs. It is expected that the mortgage rate will have a negative sign in the demand curve. The variable used is the nominal mortgage rate. One might argue that the relevant variable should be the real rate, that is, the nominal rate corrected for inflationary expectations. The argument for the real rate suggests that if nominal rates rise because of the expectation of increases in house prices, there is no change in the real mortgage cost. While the higher nominal rate entails higher expenses, these expenses are offset by the increased value of the house. As Poole points out, however, the increased mortgage costs from higher nominal rates are incurred immediately, while the increase in house value is only realized when the house is sold sometime in the future.[5] This asymmetry leads to what Poole calls a financing gap and suggests that simply subtracting inflationary expectations—if one knew what they were—from the nominal interest rate is not correct. When estimating the model, I experimented with several proxies for real mortgage rates—primarily a variety of lags on past increases in construction costs. These experiments led to inconclusive or puzzling results and were consequently abandoned for this paper. This is an important area for further research.

The vacancy rate is included to reflect the demand pressures of low vacancy rates (or the lack of pressure from high vacancy rates). The particular formulation of the variable deserves some discussion. Census data on the number of households—which are by definition equal to occupied housing units—and data on the aggregate occupancy rate are used to derive estimates of both the number of vacant units and the total number of housing units. Given the na-

[5] Increases in house value will also mean higher taxes and insurance payments that also must be met currently.

Table 2. The Model

HS^D	= f (LAGRM, LAGVAC, STOCK, SUBSIDY)	(1)
HS^S	= g (LAGRM, LAGFUNDS, TIME)	(2)
HS	= min (HS^D, HS^S)	(3)
Δ RM	= γ ($HS^D - HS^S$)	(4)

where

HS^D	—demand for housing starts
HS^S	—supply of housing starts
HS	—actual housing starts
LAGRM	—lagged mortgage rate
LAGVAC	—estimate of deviation from "normal" number of vacant units
STOCK	—stock of houses
LAGFUNDS	—lagged net savings inflows at S&L's and MSB's plus lagged change in FHLB advances
SUBSIDY	—number of subsidized starts

ture of the census data, these numbers should not be interpreted literally but should be viewed as rough approximations. The estimates of the number of vacant units are then subtracted from an estimate of normal or equilibrium vacancies to get an estimate of the shortfall or excess number of housing units.

The definition and measurement of the number of equilibrium vacancies is a difficult task by itself and depends among other things on the cost of holding a vacant unit, interest rates, and mobility patterns. The concept used here is a simple 10 percent equilibrium vacancy rate or a 90 percent occupancy rate. A 10 percent vacancy rate may seem high when one is used to rental vacancy rates of 5 percent and owner-occupied vacancy rates of 1 percent. The data used here have to do with all housing units, and what are called vacant units include units for rent and sale, units sold or rented awaiting occupancy, seasonally vacant units, and units held off the market for other reasons. The 10 percent vacancy figure is consistent with postwar experience. Further, if one is willing to assume a constant equilibrium vacancy rate, which rate one chooses makes little difference for the econometric results.

The stock of houses is included to pick up any systematic depreciation patterns. Housing starts are the gross flow of new units which includes any net increase, as well as the replacement of units that have worn out or been destroyed, a number expected to increase with increases in the stock. The use of the stock is clearly an approximation. The necessary data for alternative approaches do not exist in a usable form for our model. The size of the coefficient on the stock variable in Table 3 seems quite large. As a mechanical matter, the magnitude of the coefficient is influenced by the assumed normal vacancy rate, and the variable may be acting as a generalized time trend. Attempts to include measures of family or household formation were not successful and were abandoned. Our inability to isolate the impact of household formation may be a reflection of the inadequacies of the data.[6] The evidence that does exist suggests that family formation is at higher rates now than the early 1960's. The time trend character of the stock variable may also be picking up some influence of the time trend history of family formation.

The last variable in the demand function is the number of subsidized starts. Given the way the programs work, there is some question as to exactly how the subsidy variable should enter the model. Typically, a subsidy is associated with the unit, not with an individual. A builder will get a commitment from FHA that makes his units eligible for a subsidy program. One might argue that—given the FHA commitment—the subsidy programs work to shift the construction supply curve of houses. Our model is consistent with this interpretation, because the assumption of a perfectly elastic real supply of new units implies that there will always be builders willing to build units, subsidized or nonsubsidized.

When we look at the total number of starts we still must determine the demand for new nonsubsidized units. We do that by subtracting the number of subsidized starts from total starts. That is, it is assumed that subsidized units do not decrease the demand for new nonsubsidized units. This seems to me to be the most favorable assumption one can make about the subsidy programs. The ultimate effect of the subsidy programs on actual starts, not just the demand for starts, will be determined by the interaction of the demand and supply curves.

A brief word should be said about the measurement of the subsidy variable. I had originally hoped that a quarterly time series on subsidized units would be available. For most programs, however, only annual data are available before 1968; and one is forced to some sort of interpolation for a quarterly series. Several types of interpolations were tried. There were essentially no differences in results using the different interpolations.

[6] The Census Bureau reports figures on the stock of families and households. Small errors in estimating the stock turn into large errors when estimating the change in the stock.

The Supply of Housing Starts

The supply function for housing starts depends on mortgage rates, savings flows at thrift institutions, and a time trend. The coefficient of the mortgage rate is expected to be positive because higher rates are expected to induce financial institutions with portfolio flexibility to allocate more of their funds to mortgages. Theoretically, one would expect that the relevant interest rate variable for portfolio allocations is not the absolute mortgage rate but, rather, relative rates. Attempts to include appropriate alternative interest rates were not successful—coefficients on alternative rates were typically not significantly different from zero.

Savings inflows at thrift institutions plus Federal Home Loan Bank advances are included explicitly in the equation because of the close link between the thrift institutions and the mortgage market. A predominant portion, if not virtually all, of their deposits are held as mortgages, and they account for a substantial portion of residential mortgage holdings. The actions of other private lenders and the asset flexibility of the thrift institutions are accounted for by the mortgage rate. The time trend is included in the equation to deflate the increasingly large nominal deposit flows into real housing starts.

While FHLB advances are included, the supply equation does not explicitly include the actions of other government agencies in support of mortgage markets, primarily mortgage purchases or sales by the Federal National Mortgage Association (FNMA). Attempts to include such measures were unsuccessful. Coefficients were often insignificant or of the wrong sign. The countercyclical nature of FNMA activity works against its explicit inclusion in our equation. While FNMA actions may be exogenous in an economic sense, they are not exogenous in a statistical sense. That is, FNMA actions are themselves reactions to developments in housing and mortgage markets. This feedback and reaction work against the simple inclusion of a FNMA variable in a housing-starts equation.[7]

Estimation of the Model [8]

The structure of the model implies that housing starts are alternatively determined by demand or supply factors. Thus, simply including all the observations when estimating either the demand or supply curve would be incorrect. Certain observations trace out the demand curve while other observations trace out the supply curve. Equations (3) and (4) assume that one can use changes in the mortgage rate to identify demand- and supply-determined points. If the mortgage rate rises, starts are assumed to be supply constrained; if the mortgage rate falls, starts are assumed to be demand constrained.

One could use the information from changes in the mortgage rate to divide the sample into demand-determined and supply-determined periods. One could then estimate each function with a subset of observations. We have chosen an alternative procedure that is more efficient, gives us more degrees of freedom, and, in the first step, gives us two separtate estimates of δ. The closeness of these two estimates can be used as a check on the model.

As mentioned above, one can use observations when the mortgage rate is falling to estimate the demand curve. But what about observations when the mortgage rate is rising? We know that at such times starts are supply-contrained. From equation (3) we can substitute HS for HS^S in equation (4) and solve for HS.

$$HS = HS^D - \frac{1}{\gamma} \triangle R_m \qquad (5)$$

Remember that equation (5) is only relevant when the mortgage rate is rising. We know the demand for starts exceeds their actual number—that is why the mortgage rate is rising. By itself HS^D exceeds HS, but subtracting the term $\frac{1}{\gamma} \triangle R_m$ makes the adjusted demand—adjusted for market disequilibrium—equal to actual starts. Thus, including the change in the mortgage rate when it is positive will enable us to estimate the demand equation using all the observations. Analogous considerations for the supply curve lead to the inclusion of $\triangle R_m$ when it is negative.

Separate estimates of the demand and supply curves will yield two separate estimates of δ. Separate ordinary least squares estimates are presented in the first two columns of Table 3.[9] Note that coefficients of all independent var-

[7] For a complete discussion of policy reaction functions and their implications for estimation see Goldfeld and Blinder (1970). For an attempt to estimate reaction functions for FNMA and FHLB see Silber (1972).

[8] See Fair and Jaffee (1972) and Fair and Kelejian (1972) for a complete discussion of alternative techniques of estimating disequilibrium models.

[9] These estimates ignore the simultaneity of the model. From equation (4), the change in the mortgage rate is correlated with the error terms in equations (1) and (2). The model is estimated with data through 1969:4 so that the model's predictions can be checked against actual experience outside the period of estimation. Estimation through either 1970:4, 1971:4, or 1972:3 does not alter the demand curve in any significant way. There are some changes in the supply curve, but the elasticity of the supply curve with respect to the mortgage rate drops which reduces the impact of subsidies on total starts.

iables have their expected sign. In particular, the mortgage rate has a positive coefficient in the supply equation and a negative coefficient in the demand equation. Note also the closeness of the absolute values of δ. Columns (3) and (4) are reestimates of the coefficients imposing the condition that both estimates of δ are equal. Only one set of summary statistics is reported because only one equation is estimated.[10]

Figure 1
Simulation Results
1960:1 – 1972:3

Figure 1 gives an indication of how well the model tracks housing starts and the mortgage rate both within and outside the sample period.[11] One simulation was performed over the period 1960:1 to 1972:3. Two separate simulations, one within and one outside the estimation period, gave virtually identical results because the model is tracking so closely in 1969. This simulation is a dynamic simulation; that is, the model predicts the mortgage rate for this period, which is then fed into the starts equation for the next period. For the whole simulation the root mean squared error (RMSE) between actual and simulated housing starts is 141.3 thousand units. The squared correlation coefficient between the two series is .955. For the mortgage rate simulation, the RMSE is 43 basis points and the squared correlation coefficient is .885.

Subsidies and Starts

To investigate the impact of the subsidy programs on total housing starts, it is a simple procedure to simulate the model with a different value for the subsidy variable. At this point the manner in which most subsidy programs work is relevant. Note that the subsidy variable is assumed to shift only the demand curve; the supply curve is unchanged by changes in the subsidy variable. Congressional appropriations for subsidized starts are used to subsidize interest payments; they do not provide mortgages. Individuals constructing subsidized units must usually find mortgage financing in the private market. While these mortgages may be attractive to lenders because of assocated government insurance or guarantees, they are made in place of mortgages on unsubsidized units.

It is true that a substantial proportion of 235 and 236 mortgages end up in the FNMA portfolio and that these purchases make up a substantial proportion of FNMA purchases.[12] But the relevant question is not the size of FNMA purchases but, rather, what FNMA purchases would be in the absence of the subsidy programs. Would FNMA purchases have been reduced, or would FNMA have purchased nonsubsidized mortgages? As with all counterfactual questions, it is easy to speculate and difficult to find hard evidence. The subsidy variable was included in the supply equation to see if subsidized starts had induced an expansion of mortgage credit. The coefficient for the subsidy variable was of the wrong sign and statistically insignificant. One

[10] The equation was estimated by stacking variables in the manner described by de Leeuw (1965), p. 523. The standard error of estimate and t statistics reported in Table 3 are based on the implicit assumption that the variance of the errors for both the demand and supply equations are equal. The separate ordinary least squares estimates suggest these variances are not equal and that the stacked equation is heteroscedastic not homoscedastic. As a consequence, the equation was also estimated by a two-step, generalized least squares procedure to correct for heteroscedasticity. The estimates correcting for heteroscedasticity were virtually indistinguishable from the uncorrected estimates. When rounded to 2 decimal points all coefficients were identical. Eleven out of 15 coefficients were identical to 4 decimal points. As was to be expected there were minor changes in the t statistics for all coefficients.

[11] The model was estimated with seasonally unadjusted data. For the plot the errors of the model have simply been subtracted from a seasonally adjusted series on housing starts.

[12] Precise estimates of FNMA purchases by program are difficult to come by. The numbers presented below for FNMA purchases are only estimates. In 1971 FNMA purchased $691 million of 236 and 221(d)(3) mortgages; these purchases were 38.3 percent of total 236 and 221(d)(3) mortgages insured by FHA in 1971. FNMA purchased $989 million of 235 mortgages; these purchases were 41.3 percent of total 235 mortgages insured by FHA in 1971. Total FNMA purchases of subsidized mortgages were 47 percent of total FNMA purchases. There is a systematic bias in these numbers that tends to understate FNMA's role in financing 235 and 236 mortgages. The figures for FNMA purchases represent the purchase of a mortgage on a completed project. The figures for FHA insurance often represent commitments for projects yet to be built. The rapid build up in the magnitude of the programs and the lag in the completion of projects work to understate FNMA's role.

Table 3. Regression Results for Quarterly Disequilibrium Model of Housing Starts (1960:1 to 1969:4)

	Unconstrained Estimates		Constrained Estimates	
	HS^D	HS^S	HS^D	HS^S
Constant	3.726	.238	3.720	.282
	(6.06)	(1.38)	(6.85)	(1.22)
	−.224	−.208	−.224	−.208
S1	(4.82)	(−5.71)	(−5.39)	(−5.07)
	.416	.368	.417	.367
S2	(9.00)	(9.57)	(10.09)	(8.82)
	.254	.206	.254	.207
S3	(5.43)	(5.75)	(6.10)	(5.09)
	—.699	.114	−.699	.114
LAGRM	(7.28)	(3.03)	(−8.15)	(2.69)
		.054		.054
LAGFUNDS		(10.54)		(9.45)
		−.0042		−.0042
TIME		(2.68)		(2.43)
	1.165		1.166	
LAGVAC	(7.34)		(8.24)	
	1.0		1.0	
SUBSIDY	*		*	
	.031		.031	
STOCK	(3.99)		(4.19)	
	−.924	9.60	−.930	.930
CHGRM	(−3.99)	(2.20)	(4.87)	(4.87)
R−2	.868	.918	.895	
D/W	1.30	1.20	1.26	
SEE	.101	.080	.090	

t statistics in parentheses
* coefficient imposed a priori

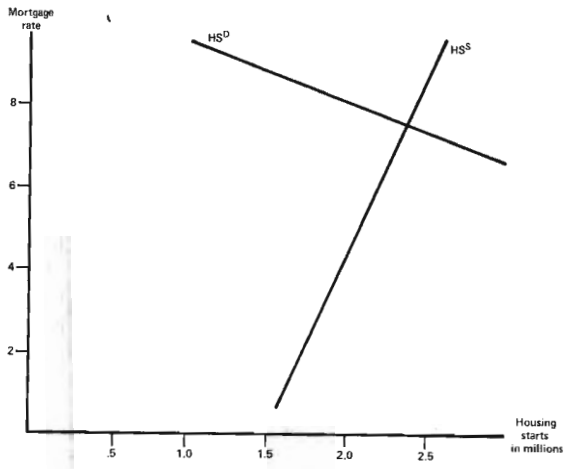
might argue that FNMA's support of subsidy programs really started with the 235 and 236 programs. A variable measuring only the number of 235 and 236 starts was also tested with similar results: wrong sign and statistically insignificant. As a result, the simulation results reported below assume that the supply curve is unaffected by changes in the subsidy programs.

When discussing the impact of the subsidy programs on starts, one needs to distinguish between the equilibrium impact and the adjustment path. Consider first the equilibrium response. Using the estimates in columns 3 and 4 of Table 3, Figure 2 illustrates the longrun demand and supply curves for housing starts. Note that the demand curve is very elastic, while the supply curve is quite inelastic. Using mean values for 1971:1 to 1972:3, the demand elasticity is 2.4, while the supply elasticity is .40. The large demand elasticity is not at all surprising; after all, the demand for housing starts is the flow demand for a very long-lived asset.[13] The very low supply elasticity indicates the importance for housing of savings flows at thrift institutions. The very low supply elasticity also means that a change in the subsidy programs will have little impact on actual starts. Changes in the mortgage rate will act to eliminate or encourage nonsubsidized demand. For example, an increase (decrease) in the subsidy programs of 300,000 units per year—approximately the size of the existing programs—will eventually raise (lower) starts by only 42,000 and will raise (lower) mortgage rates by 37 basis points.[14]

[13] See Brownlee (1968).

[14] These results, as well as the time paths discussed below, are based on a ceterus paribus assumption that savings inflows, vacancy rates and the stock of houses do not change. This paper does not offer any systematic way of incorporating any of these effects. However, consider the induced effects following an increase in subsidized starts. (Analogous conclusions hold for a decrease.) As increased starts lower the vacancy rate, the effect is to shift the demand curve to the left, offsetting the increase in the subsidy program. As increased starts raise the stock of houses, there is a tendency for more starts. But given the steepness of the supply curve, the magnitude of both the vacancy rate and the stock effect must be quite small. The increase in subsidized starts does work to raise mortgage rates. If this increase gets transmitted to other market rates, then deposit inflows are apt to decline as market securities are now more attractive. This effect could be quite strong given the sluggish adjustment of deposit rates and effective deposit rate ceilings. The decline in deposit inflows works to shift the supply curve to the left, offsetting the impact of the increase in the subsidized starts. In sum, relaxing the ceterus paribus assumption is most likely to reduce the impact of a change in subsidies on total starts.

Figure 2
Equilibrium Relationship
Quarterly Disequilibrium Model of Housing Starts



As indicated before, the time path of adjustment to a change in subsidies depends upon whether starts are demand- or supply-constrained. When starts are supply-constrained, as in 1969–1970, changes, especially increases, in the subsidy programs will have only very minor immediate impacts on starts. Only when starts are demand constrained will changes in the subsidy programs have substantial shortrun impact and then only as long as any increase in subsidies does not make the supply constraint operable. Even when starts are demand-constrained, however, the dynamics of the model suggest that the magnitude of the shortrun effects damp down fairly quickly.

Table 4 shows the time path of adjustment for housing starts and the mortgage rate following an increase and a decrease in subsidies of 300,000 units. Table 4 is based on the assumption that before the change in subsidies both the demand and supply for housing starts are equal. Thus an increase in subsidies has no initial effect on the number of starts because starts are immediately supply-constrained. The excess demand raises the mortgage rate, which increases starts as one moves up the longrun supply curve. The negative numbers for quarters 4, 5, 6, and 12 reflect the dynamic structure of the model that gives rise to an adjustment path of damped cycles. A decrease in subsidies, which makes starts demand-constrained, has an immediately shortrun impact. However, the induced decline in the mortgage rate stimulates the demand for nonsubsidized units quite quickly.

Table 5 shows the effects of holding subsidies at their 1969:1 level of 175,227 units. Over the period 1969:2 through 1972:3, the reduction in subsidized units totals 593,000 units, while the

Table 4. Simulations of the Response to a Change in Subsidy Programs

	Increase by 300,000		Decrease by 300,000	
Quarter	Change in Starts (000) (Annual Rate)	Change in Mortgage Rate (Basis Points)	Change in Starts (000) (Annual Rate)	Change in Mortgage Rate (Basis Points)
1	0	32	−300	−32
2	12	55	−224	−55
3	34	62	− 96	−62
4	−48	50	− 58	−50
5	−91	34	− 65	−34
6	−42	23	− 56	−23
7	42	24	− 47	−24
8	32	32	−108	−32
9	32	42	−112	−42
10	40	46	− 70	−46
11	22	42	− 48	−42
12	− 1	37	− 52	−37
13	8	34	− 50	−34
14	36	32	− 46	−32
15	42	35	− 60	−35
16	41	38	− 66	−38
17	42	40	− 55	−40
18	38	40	− 46	−40
19	29	37	− 47	−37
20	30	36	− 47	−36
Final	42	37	− 42	−37

reduction in actual starts is only 70,000. The drop in demand from the reduction in subsidized units reduces the mortgage rate, which in turn encourages the demand for nonsubsidized units. Note that through all of 1969 and the first three quarters of 1970, there is virtually no impact from the reduction in subsidized units. This is a period when mortgage rates were rising and, with or without the subsidized units, starts were supply-constrained. It is only by 1970:4, when the large upsurge in savings flows had released financial constraints, that the position of the demand curve becomes relevant for determining starts. By then, while the decline in subsidized units is at an annual rate of 258,000, the decline in the mortgage rate works to increase nonsubsidized units substantially, so the net effect in 1970:4 is a reduction of only 121,000 units.[15]

Table 5. Effects of Holding Subsidy Programs at 1969:1 Level

	Reduction in Subsidized Units (000) (Annual Rate)	Change in Housing Starts (000) (Annual Rate)	Change in Mortgage Rates (Basis Points)
1969.1	0	0	0
.2	− 8	0	− 1
.3	− 17	0	− 2
.4	− 25	− 1	− 4
1970.1	− 83	− 4	−12
.2	−141	− 6	−21
.3	−200	− 3	−32
.4	−258	−121	−41
1971.1	−257	− 45	−42
.2	−256	+ 9	−35
.3	−255	+ 18	−29
.4	−254	− 45	−25
1972.1	−230	− 42	−20
.2	−206	− 26	−23
.3	−182	− 12	−22

Conclusions

The analysis of this paper suggests that while the size of the housing subsidy programs has been substantial, the impact of the subsidy programs on actual starts has been relatively minor. There are three factors that lead to this conclusion. One, the elasticity of the demand for new units with respect to the mortgage rate is quite high. Two, with existing institutions, the supply of mortgage credit depends to a large extent on the inflows of funds to thrift institutions and is quite unresponsive to changes in the mortgage rate. Third, existing subsidy programs have not provided mortgage financing directly. The result of these three factors is that while increases in the subsidy programs increase the demand for new units, they do not expand the volume of mortgage financing. Competition to finance more units increases the mortgage rate, which in turn reduces the demand for nonsubsidized units.

There are several implications for policy that should be made explicit. The major implication is that housing subsidies should not be used as a technique to increase or decrease housing starts. The temptation is to increase subsidies at precisely the time they have least effect on total starts, when mortgage credit is tight. The cyclical pattern of starts is primarily a reflection of the cyclical pattern of savings flows. The way to stabilize starts is to stabilize the flow of funds to thrift institutions.[16] Housing subsidies should be used to solve distributional problems—not in attempts to influence the total number of starts.

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[15] The positive responses in 1971 are a result of the dynamic structure of the model.

[16] The creation and strengthening of Federal agencies—FNMA, FHLMC—and new securities—GNMA guaranteed mortgage securities—are attempts to stabilize the flow of funds to mortgages. These actions can have a significant impact but to date their influence has been swamped by the swings in savings flows.

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Data Appendix

HS—Total private housing starts. Source: *Construction Review.*

LAGRM—Simple average of the conventional mortgage rate on new homes in the three preceding quarters. Source: 1960–1964 FHA; 1965–1972 FHLBB.

LAGFUNDS—Simple average over the two preceding quarters of the net change in savings at savings and loan associations and mutual savings banks plus FHLB advances to savings and loan associations. Source: Federal Reserve, Flow of Funds.

LAGVAC—Simple average over the three preceding quarters of the following: ((.9–occ)/occ) HH,) where occ—occupancy rate. Source. Current Housing Reports, H–111. HH–linear interpolation of the number of households. Source: Current Population Reports, P–26.

STOCK—Estimate of stock of housing units, computed as HH/occ.

SUBSIDY—Number of federally subsidized units. While these units are primarly private starts with Federal subsidies, the numbers do include public starts. Public starts have averaged only 40 million units a year over the sample period, with little year to year variance. Consequently, the intercept of the regression equation will adjust for their inclusion. Source: HUD.

TIME—Time trend, equals 100 in 1971:4.

An Analysis of the Filtering Process with Special Reference to Housing Subsidies

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Introduction

The literature dealing with filtering consists mainly of a collection of descriptive narratives that examine the process of adjustments in the existing housing stock that takes place in response to factors affecting housing supply. It is clear that opinions on the subject of filtering center around the single question, "Are there any benefits realized by lower income households as a result of filtering?" This question is of obvious importance, particularly in light of the increasing commitment by government to housing improvement that has occurred in recent years.

The purpose of this paper is to develop a position on the question of filtering and low income households with special reference to supply-oriented subsidized housing programs. The development of this position is based on the contents of this study paper which is presented in six sections. The first section of this paper provides a brief review of various definitions of filtering and descriptions of the filtering process which have been advanced in the housing market literature. The filtering process is then analyzed using elementary microeconomic theory so that what is alleged to occur as a result of filtering may be better understood. In the second section, a number of popular misconceptions of filtering are presented, analyzed, and shown to be inaccurate as to the benefits claimed to accrue to low income households in the housing market. In the third section certain conditions regarding supply impediments in the housing market, which must exist if filtering is to provide any long run improvement to low income households, are specified. Empirical studies on whether, in fact, these market impediments exist, are also discussed at length in the third section. The fourth section contains an examination of dynamic influences on housing market behavior. Problems in interpreting the effects of shifts in housing demand and population on empirical work done on supply impediments are pointed out. Empirical work done directly on the filtering process using the chain of moves methodology in analyzing housing turnover, is summarized in the fifth section. In addition to the summary in the fifth section, criticisms are offered with regard to the chain of moves methodology, and an alternative method of measuring housing improvement in relation to price changes is suggested. The paper concludes with general observations relating to filtration and public policy.

A "Benefits" View of Filtering

The term "filtering" appears to have been coined by Ratcliff [1] in his description of a market response to a condition of excess housing supply. Beginning with the assumption that excess supply, usually brought on by overconstruction, occurs in a housing market where the distribution of housing values and housing quality are positively related to income of households, and where demand is constant, a series of adjustments in the housing market begins. According to Ratcliff, a condition of oversupply results in a decline in rents and prices in the existing housing stock that enables successively lower income households to obtain better quality dwellings at lower prices. More specifically, "This process is described as 'filtering down' and is described as the changing of occupancy as the housing that is occupied by one group becomes available to the next lower income group as a result of the decline in market price, i.e., sales price or rent values."[2] Eventually this process of housing turnover reaches low income households that are able to acquire better housing at a lower price.

While filtering, as viewed by Ratcliff, is expected eventually to aid low income families, any condition of oversupply is obviously only temporary and sporadic in occurrence. Therefore, as he observes, filtering as an integral part of the normal operation of the housing market ". . . is a totally inadequate remedy to the acute problem of substandard housing." [3]

[1] Richard U. Ratcliff, *Urban Land Economics*, 1949, p. 320.
[2] Ibid., p. 321.
[3] Ibid., p. 333.

Because of Ratcliff's initial observation that benefits might accrue to low income households as a result of filtering, and its implications for public policy, a discussion of filtering has continued in the housing market literature for some time. Fisher and Winnick modified Ratcliff's definition by observing that households do not have to change occupancy to be affected by falling rents and prices, since filtering involves housing units and not households. They redefine filtering ". . . as a change over time in the position of a given dwelling unit or group of dwelling units within the distribution of housing rents and prices in the community as a whole." [4] This reformulation simply means that all housing prices and rents respond to changes in supply and demand. Therefore, any decline in housing prices occurs throughout the entire housing stock and would not be limited to households changing housing occupancy.

Grigsby concurs with the Fisher-Winnick definition of filtering, but added Ratcliff's quality component as a necessary condition for filtering to occur. According to Grigsby ". . . filtering only occurs when value declines more rapidly than quality so that families can obtain either higher quality and more space at the same price, or the same quality and space at a lower price than formerly." [5]

The importance of these modifications to Ratcliff's definition lies in the fact that filtering is a process that involves housing price and quality changes. Hence, the focus of filtering should be on housing units. Households improve housing condition as a consequence of a differential rate of change between housing price and quality. Although the final effect of filtering on households is of obvious importance, the analysis of filtering should center on the price and quantity of the commodity in question.

A Critical Analysis of the Benefits View

It is in connection with the apparent "benefits" of filtering—that is, the possibility of a differential rate of decline between price and housing quality, which enables lower income households ultimately to experience an increase in housing quality for the same housing expenditure or maintain existing housing quality at a lower housing expenditure—that confusion and controversy arise over what exactly filtering is and what it is expected to do. Clearly, if there are any benefits associated with filtering, promotion of the process would reduce substandard dwellings and improve the lot of lower income households inhabiting them.

Whether these benefits are more apparent than real can be explored by applying microeconomic theory in a partial-equilibrium analysis to the housing market and to the question of filtering.[6] The framework for analysis used is a purely competitive market for housing service,[7] with absolutely no market impediments.

Beginning with the assumption that the housing market is in longrun equilibrium—that is, the supply and demand for housing service at a particular time determine a price which is equal to the industry's minimum longrun average cost of production—a one-time condition of excess supply in the market should yield the following results. Initially, prices and rents decline throughout the stock of housing, and successively lower income households seeing "bargains" will take units containing larger quantities of housing service at reduced prices. This condition will not exist in the long run, however, producers of housing service, faced with declining rents and prices, will reduce the quantity of service supplied by following a policy of reduced maintenance, alteration, or repair.[8] The reduction of expenditures by suppliers eventually re-

[4] Ernest M. Fisher and Louis Winnick, "A Reformulation of the 'Filtering' Concept," *Journal of Social Issues*, 1951, pp. 47–59. These authors, however, make no statements concerning a difference between the price of housing and housing quality.

[5] William Grigsby, *Housing Markets and Public Policy*, 1963, p. 95.

[6] For an extended microeconomic analysis of the housing market, see: Edgar O. Olsen, "A Competitive Theory of the Housing Market," *American Economic Review*, 59, September 1969, pp. 612–622.

[7] Housing service is defined more extensively in Edgar O. Olsen, op. cit., pp. 612–613. Because housing represents a combination of space, quality, and other attributes the term housing service is used to reduce these attributes to a common denominator. Housing service represents an unobservable, homogeneous commodity which represents anything in a dwelling unit to which consumers attach value. By using this abstraction, the housing market can be reduced to a discussion of the market for housing service, and differentiation among dwelling units—such as apartments, single family dwellings, renters, owners, location, and the like—can be avoided. Since this paper is a discussion of a general market response to oversupply and supply-oriented subsidy programs, rather than the determination of housing values, the use of an abstraction, such as housing service, merely enables us to translate many housing attributes into one commmodity and apply accepted microeconomic theory to the analysis.

The concept of housing service has been used in other important studies in housing, see: Richard F. Muth, *Cities and Housing*, 1969, passim; "The Demand for Non-Farm Housing," *The Demand for Durable Goods*, ed. Arnold C. Harberger, 1960, pp. 29–96; Henry J. Aaron, *Shelter and Subsidies*, 1972, pp. 45–47; "Income Taxes and Housing," *American Economic Review*, December 1970, pp. 789–806.

[8] For homeowners, the reduction would come about through a decrease in imputed return on equity capital. For a discussion of imputed rents, see: Ira S. Lowry, "Filtering and Housing Standards: A Conceptual Analysis," *Land Economics*, November 1960, pp. 362–370; Henry J. Aaron, *Shelter and Subsidies*, 1972, pp. 53–54.

duces the quantity of service per housing unit, and eventually the original price and quantity of housing service is restored. Therefore, in the long run, any condition whereby units providing housing service at a price less than production cost is eliminated. The same quantity of housing service in existence prior to the excess supply is again restored. All households pay the same price per unit of housing service. Producers earn an equilibrium return on capital investment.

If one is willing to accept the strenuous conditions imposed by the assumption of a purely competitive housing market, then, as Olsen puts it, filtering ". . . merely represents a process by which the quantity of housing service yielded by a particular dwelling is adjusted to conform to the pattern of consumer demand. The profit incentive leads producers to make these adjustments." [9]

When filtering as viewed by Ratcliff is reexamined in terms of a perfectly competitive housing market, the following conclusion is reached: The alleged "benefits" referred to in Ratcliff's definition are really price changes that provide better housing for lower income households in the short run. This condition exists only until producers of housing service are able to reduce the quantity of housing service supplied. Producers will continue to reduce supply until the equilibrium price that existed prior to the excess supply is attained. Therefore, if the housing market is competitive, any benefits enjoyed as a result of oversupply that might occur in the normal operation of the housing market are only short-run in nature.

Popular Misconceptions of the "Benefits" View

Because, as Lowry [10] observes, the term filtering has become an oral tradition, some popular views on filtering have apparently developed that seem related to the benefits view, but differ over the original impetus to the process. According to Lowry, there appears to be a view held by various observers of filtering that—because the quality of housing units decreases with age—households in higher income categories eventually find their existing units are no longer adequate. In order to maintain quality standards, they obtain newly constructed housing. Under the assumption that demand for housing in the local market remains constant, these writers would argue that units released by high income households "form a price depressing surplus in the adjoining quality strata," which eventually results in a filtering down of all units, shifts in housing occupancy, and a betterment of all successively lower income groups who improve housing quality.[11]

Unfortunately, what these writers fail to understand is that even when supply and demand for housing service are in equilibrium (again assuming competitive markets), the quantity of housing service supplied decreases in an amount equivalent to the amount of deterioration per time period, because houses decline in quality with age as the stock of housing deteriorates or becomes obsolete. If the quantity of housing service demanded remains constant, an increase in the quantity supplied will result (in response to replacement demand) in an amount equal to the amount of deterioration per time period. Therefore, housing released by households moving into new construction exhibits a reduction in quality because of deterioration or obsolescence; this accounts for the reduction in price and value. Lowry maintains that if this relationship between decline in quality and value did not exist, and for some reason landlords faced declining rents in relationship to the quality of units provided, undermaintenance would occur, causing an acceleration in the decline in the quality of units. The results in this case would be the same as results obtained in the case of excess supply analyzed above.

Another common misconception with regard to filtering is that filtering takes place in any housing market in which new construction occurs.[12] As new construction takes place and households change occupancy, somehow this is filtering, and it ultimately will provide better quality units to successively lower income households. Clearly, this observation is based on a lack of knowledge concerning supply and demand relationships. If, for example, an increase in the quantity of housing service supplied through new construction comes about as a result in an increase in income (or any other determinant of demand), then one would expect the price per unit of housing service to increase throughout the entire stock of housing.[13] Al-

[9] Edgar O. Olsen, op. cit., pp. 615–616.
[10] Ira S. Lowry, op. cit., p. 364.
[11] Ibid., p. 364.
[12] This is a view which seems to be held by several researchers of filtering. The question of filtering and new construction is developed later in this paper when the chain-of-moves methodology is analyzed.
[13] Assuming a positively sloped housing supply function, see Richard F. Muth, "The Demand for Non-Farm Housing," *The Demand for Durable Goods*, ed. Arnold C. Harberger, 1960, pp. 29–96 on this point.

though the distribution of housing service may change in accordance with the change in the distribution of income, there is no reason why filtering, in the benefit context, should occur.

Therefore, filtering, as construed in the benefit view, must be a process that is endogenous to the operation of the housing market, or must result from temporary resource misallocations, as in the case of excess supply. Although adjustments in the housing stock will take place in response to increases in supply and demand resulting from changes in exogenous variables (i.e., income, population), the way in which these adjustments take place should not, in and of themselves, result in any change in housing benefits if the housing market is efficient.

In summary, the issue of filtering analyzed thus far narrows down to two views: The "benefits" view of filtering sees the possibility of differential rates of decline in housing prices and quality, enabling households to acquire better dwelling units at lower prices particularly when conditions of excess supply exist; the second view treats the differential rate of decline between housing prices and quality as only temporary, which cannot persist in the long run, given a competitive housing market. Eventually, a transformation in the quantity of services yielded per unit will be made by suppliers, eliminating any differences between price and resource cost. This latter view sees filtering as a process of adjustment in housing service provided by dwelling units that takes place in a competitive market in response to changes in supply and demand. This view treats housing like any other durable good that may require "shifting-about" among different households as its relative usefulness decreases or increases.[14]

It becomes clear, in light of the above analysis, that welfare questions associated with housing turnovers come about only if the reallocation of housing service, in response to market forces, takes place efficiently or inefficiently. If reallocation of housing service takes place efficiently, filtering in response to deterioration of housing quality or a temporary misallocation of resources may well leave aggregate as well as individual housing welfare unchanged, assuming a perfectly competitive market. If reallocation does not take place efficiently, there can be a change in housing welfare as a result of impediments to the allocation process. If the latter case is an accurate description of housing market operation, government policy affecting the supply of housing and the encouragement of filtering may be justified.

Market Impediments and Other Conditions Affecting Filtering

A relevant question concerning housing policy in light of the above discussion should center on whether the benefits view of filtering—that is, a differential rate of decline in housing price and quality enabling households to acquire better quality housing (more service) for the same housing expenditure—is possible in the operation of a housing market and, if so, under what conditions? Clearly, this is an important question from the point of view of housing subsidy programs, for if government subsidizes housing, via the supply route, with the intention of improving housing quality of households indirectly through the filtration process, it may be that ceteris paribus, (1) no longrun quality improvement will be realized by those households indirectly affected, and (2) the quantity of housing services in dwellings contained in quality strata below the level at which the supply of subsidized housing appears may actually decline over time.[15] In other words, the stock of housing in lower quality strata may actually increase in its rate of deterioration because of price declines facing producers, brought on by the added supply of subsidized housing.

However, if impediments exist in the housing market that result in an inefficient reallocation of housing service, in turn resulting in persistent economic profits to suppliers of housing service to low income households, then price declines without corresponding reductions in housing quality are theoretically possible. Clearly, however, a condition of persistent economic profits must be shown to exist before any reliance may be placed on filtering, as an indirect result of a subsidized supply of housing, to achieve a wealth transfer from producers to consumers of housing service. Various impediments to the supply of housing service have been alleged to cause persistent economic profits in the housing

[14] This is not a particularly new observation regarding the market for housing. See Wallace F. Smith, *Filtering and Neighborhood Change*, 1964, p. 14.

[15] It should be pointed out here that indirect improvement means possible secondary benefits beyond those direct benefits realized by occupants of subsidized housing units. Secondary benefits would be housing price reductions caused by the supply of subsidized housing, which are realized by households through the filtration process. It is the possibility of these secondary benefits accruing to households not occupying subsidized housing units that is the primary focus of this paper.

market, particularly for suppliers of small bundles of housing service. These impediments will now be discussed.

Supply Restrictions

The analysis of filtering thus far has been made under the assumption that the market for housing is competitive and free from impediments. No realistic analysis of the market for housing can be made, however, without recognition of certain supply restrictions that might alter competitive conditions and, therefore, influence the filtering process.

For example, if a perfectly competitive housing market existed, we would observe a distribution of households consuming a desired quantity of housing service from given incomes. Some households with very high incomes would be occupying housing units with very large bundles of housing service, and low income households would be consuming very small bundles of service. If the majority of households (those not consuming small bundles of service) take action to remove substandard dwellings because they do not like its appearance, fear a general decline in housing values because of it, or for other reasons, it follows that certain adjustments will take place in the housing market.

Condemnation of Housing Units: To the extent that a community systematically destroys or restricts the supply of substandard housing,[16] holding all other variables constant, low income households demanding small bundles of service will be forced to overconsume housing relative to other goods. This will result in an increase in the price of housing service for units containing the minimum standard quantity of service.

If the market for housing is competitive, this condition would not exist in the long run. As higher prices are charged by suppliers of marginally standard units, suppliers of housing in slightly higher quality ranges would allow units to "filter down" by being able to provide smaller quantities of service for the same price. This process eventually would lead to shortages in higher quality ranges, and eventually filtering down would result in new construction. In the long run, an equilibrium price would be restored.[17] However, if market imperfections exist which prohibit the filtering down of units, and it is not more costly to suppliers to produce small bundles of housing service, it is possible that producers of housing service in small quantities could begin to earn economic profits.

The question of above-normal rates of return to producers is an important consideration in the context of filtering and public policy. If producers of housing service in small quantities earn above normal rates of return consistently, it is possible that increasing the supply of housing service, through government subsidy or otherwise, could cause a decline in rents with no decrease in the quantity of service supplied. The net effect of the subsidy would be to promote filtering and to effect a wealth transfer from producers of small bundles of housing service allegedly earning economic profits to consumers of housing service.[18] Theoretically, this transfer should stop at a point where price per unit of housing service is equal to longrun average cost of production.[19] If no economic profits are earned by suppliers, reliance on filtering to achieve secondary benefits from a subsidized supply of housing is incorrect and may actually result in a quality decline in the remaining housing stock.

Building Codes, Zoning, Deed Restrictions: Aside from enforcement of restrictions against violation of building codes through demolition of substandard housing, other market imperfections that constrain the operation of the housing market, and are alleged to contribute to the perpetuation of economic profits, include: Building code restrictions that constrain suppliers attempting to alter dwellings in order to change

[16] Destruction could come about as a result of urban renewal and highway construction as well as enforcement of building code violations leading to condemnation. Restrictions could come about through zoning and deed restrictions.

[17] Exactly how long it would take for this process to work out is difficult to estimate. Muth estimates that the elasticity of the supply of new construction with respect to price is very high. See: Richard F. Muth, op. cit., pp. 164–165.

It should also be pointed out that there will be a persistent incentive for producers of housing service to allow units to filter down to substandard levels "in violation of the law" because of increased returns available due to such a shortage. How effective local authorities will be in preventing this from occurring depends on how rigorously building codes and the like are enforced. In any event, forcing overconsumption of housing relative to other goods by simply demolishing substandard dwelling units is obviously only a short run, symptomatic solution to the problem of substandard housing.

[18] This analysis also provides some insight into the order of magnitude by which one could expect rents to fall if filtering were encouraged through a subsidized supply of housing.

[19] This process would be similar to government regulation of producers in an imperfectly competitive market, where instead of taxing or regulating excess profits, government increases the supply of subsidized units and indirectly reduces price. Unfortunately, it must be pointed out that government action, via zoning, building codes, etc., partially may have caused economic rents to develop in the first place.

the quantity of service supplied; zoning ordinances that restrict areas of ghetto expansion by limiting the areas in which dwellings yielding small bundles of housing service may be located; and deed restrictions that specify minimum square footage requirements for new construction, which—when coupled with building codes and zoning—insure that new construction will be provided for upper income households in the housing market.[20] These impediments are viewed as restrictions on the ability of suppliers to transform the quantity of housing service produced in small bundles to meet consumer demand.

Technological Impediments: Although creation of the definition of the homogeneous good, housing service, makes for ease in analyzing housing market behavior, this simplification also makes the supply of housing service appear to be much akin to problems faced by suppliers of a continuously manufactured product. This may be a naive view indeed. In fact, it may be more difficult for a supplier of housing service to reduce or increase quantity supplied because of physical constraints and the time required to alter factor inputs to effect changes in supply. In other words, faced with a decline in rents, a supplier of housing service will take action to reduce quantity supplied per unit of stock, but it may take time to realize (1) that the rent decline is permanent, (2) that alteration may be profitable by packaging services in "smaller bundles," and (3) because of physical contraints,[21] or because of zoning, building codes, and the like, alteration may not be possible. These lags and impediments in the transformation of housing service are also alleged to allow excess profits to persist.

Discrimination in Housing: In addition to the above-mentioned supply restrictions, discrimination in housing is alleged to result in economic profits to suppliers of small bundles of housing service. By charging higher rents for the same quantity of service, suppliers supposedly earn an above-normal rate of return only on the basis of being willing to rent to minority groups.

The question of housing discrimination has resulted in what has been called "the-poor-pay-more" hypothesis. This hypothesis implies that because of supply restrictions poor households, which are normally demanders of small bundles of housing services, pay more for housing per unit of service than other households. If this proposition is true, and it is not more costly to provide housing in small quantities, then suppliers of housing service in small bundles would earn economic profits.

Do the Poor Pay More? There have been many case studies and much empirical research that have investigated the possibility that suppliers systematically earn above normal rates of return from nonwhites, or on properties located in ghetto areas.[22] Although studies are too numerous to detail here, most of them have generally consisted of using either sample or census data to explain differences in housing expenditure of families living in ghetto versus nonghetto areas. Using multiple regression techniques, these researchers attempt to remove the effects of housing quality and location from housing expenditure. Then, by using dummy variables, representing either predominantly white or nonwhite (ghetto) census tracts, they attempt to determine whether a significant relationship exists between the race (or ghetto) dummy variable and housing expenditure. A significant relationship implies that occupants in ghetto areas (primarily black) systematically pay more for housing, holding housing quality constant. The majority of studies find a significant relationship between being black (or living in a ghetto) and housing expenditure.[23] Estimates of the so-

[20] For an analysis of zoning and its effects on housing, see: Martin J. Bailey, "Note on the Economics of Residential Zoning and Urban Renewal," *Land Economics*, 35, August 1959, pp. 288–292.

[21] For example, a building might have enough space to be converted into two units. Because this may be physically impossible to accomplish, however, the owner simply may leave the space unchanged but completely eliminate maintenance. Eventually the unit will filter down into a desirable rent range.

[22] For examples, see: Martin J. Bailey, "Effects of Race and Other Demographic Factors on the Values of Single Family Homes," *Land Economics*, 42, May 1966, pp. 215–220; Robert A. Haugen and A. James Heins, "A Market Separation Theory of Rent Differentials in Metropolitan Areas," *The Quarterly Journal of Economics*, November 1969, pp. 660–672; John F. Kain and J. M. Quigley, "Housing Market Discrimination, Homeownership and Savings Behavior," *American Economic Review*, June 1972, pp. 263–277; "Measuring the Value of Housing Quality," *Journal of the American Statistical Association*, June 1970, pp. 532–548; Luigi M. Laurenti, "Effects of Non-White Purchasers and Market Prices of Residents," *Appraisal Journal*, July 1952, pp. 312–329; Chester Rapkin, "Price Discrimination Against Negroes in the Rental Housing Market," in *Essays in Urban Land Economics*, 1966, pp. 333–345; Ronald G. Ridkir and John A. Henning, "The Determinants of Residential Property Values with Special References to Air Pollution," *The Review of Economics and Statistics*, 49, 1967, pp. 246–257; George Sternlieb, *The Tenement Landlord*, 1969; and Richard F. Muth, *Cities and Housing*, 1969, passim.

[23] Two studies do not support these findings. One study shows no significant relationship between race and housing value, see: Martin J. Bailey, loc. cit. The other study finds a significantly positive relationship between race and housing value, but attributes higher prices to the possibility that it may cost more to operate housing units in ghetto areas, see: Richard F. Muth, loc. cit.

called "discrimination markup" range from between 5 and 10 percent.[24]

Studies dealing with housing discrimination and "rent markups" are very important to the issue of filtering, primarily because they provide the only statistical evidence on the question of whether above-normal rates of return are earned by suppliers of small bundles of housing service. A review of these studies, however, indicates that it is not clear whether rent markups result solely because of race differentials or other influences. For example, in each of the studies cited above, an attempt is made to remove all housing quality influences from housing expenditure and "pickup" the discrimination markup by using a dummy variable. Obviously, if all quality influences were not removed and some systematic influence affecting housing expenditures exists in ghetto census tracts but not in white tracts, this systematic influence would be "picked up" in the dummy variable. Such a systematic influence could be a shortage of housing units containing small quantities of housing service caused by supply impediments, or a combination of both racial influences and shortages. If the extent to which shortages exist could be considered, perhaps by looking at the number of abandonments or vacancies in the areas studied, this question could be partially resolved. Clearly, if a substantial number of abandonments or vacancies existed in an area, a shortgage would not be evident. If, after giving consideration to the number of vacancies and abandonments and the dummy variable representing racial differences still appeared significant, then the rent markup on racial grounds would be strengthened. Unfortunately, when a situation of few vacancies and abandonments is coupled with a significant relationship between racial difference (ghetto location) and housing expenditure, the question remains.

Clarification and further study of this problem would appear to be important on the consideration of subsidies that increase the supply of housing, with indirect filtering effects in mind as secondary objectives. Clarification is important, because if above-normal rates of return are being earned solely because of race, then the probability of a reduction in rents coming about as an indirect result of a housing subsidy would not be very great. If, however, above-normal rents are charged because shortages exist due to impediments in the supply of housing in small service bundles—which are primarily demanded by poor, nonwhite households—then rents might fall in the wake of the increased supply without corresponding reductions in housing service.[25]

Market Dynamics and Filtering

Although the preceding section provides some evidence that the poor pay more for housing service, there are other considerations dealing with changes affecting the demand and supply of housing service that must enter the analysis of filtering before statements regarding excess profits for suppliers of housing to the poor can be safely made. To illustrate, the studies referred to in the previous section, like all empirical studies using regression analysis, assume that the overall market supply and demand for housing service are in equilibrium at the time of study. The price, or housing expenditure, observed and used in the analysis is assumed to be an equilibrium one. The question of whether this assumption is valid in light of dynamic influences affecting housing markets is an important one.

Shifts in demand, particularly due to changes in population and income, that characterize rapidly growing urban areas, would obviously affect the price of housing service in a given community. For example, if low income families migrate to an area at a faster rate than other households in a given income distribution, clearly the demand for housing service in small bundles will increase relative to the demand for housing service in larger bundles. This increase in relative demand will force prices up on small bundles of service because of a short supply. Therefore, if rental markups due to racial considerations or supply impediments exist in a given market at a time of relative change in population and income, the question of how much of the markup is attributable to supply impediments and how much is attributable to a shift in demand immediately arises.

Increases in the price per unit of housing service in ghetto areas is also related to shifts in

[24] In one recent study, however, an estimate of housing expenditures by blacks was made taking into account discrimination against homeownership, the consequent tax loss and loss in imputed return on equity. As a result, they estimate housing expenditures could be as much as 30 percent higher for nonwhites, given housing quality. See: John F. Kain and J. M. Quigley, "Housing Market Discrimination, Homeownership, and Savings Behavior," *American Economic Review*, June 1972, pp. 263–277.

[25] It would be very difficult to understand how rent markups due to race alone could persist in the face of prolonged vacancies in an area. Because of this, it would seem that premiums probably exist because of racial discrimination, but only when coupled with a shortage of available units.

demand in other segments of the housing market. For example, if the number of middle income households increases relative to lower and upper income families in a given community, the price of housing service in bundles desirable to middle income households will increase. This would lead to a shortage of units of the size desirable to middle income households. To the extent that it is profitable, units containing smaller quantities of service would be refurbished and allowed to "filter up" to serve the needs of middle income households. Filtering up would result in a shortage in units for lower income households and an increase in rents. Eventually, the process of adjustments will ultimately lead to new construction, and because of competition everyone would eventually pay the same price per unit of housing service. The point is, in the short run, that middle income households will be absorbing all units filtering down from higher income households and causing some filtering up of units occupied by lower income occupants. This series of events may result in a long period of time between the initial increase in demand by middle income households and new construction, and the rate at which units are allowed to filter down to fill the housing shortage experience by low income households. This sequence of events might also explain part of the rent markups observed in ghetto areas.

Some solace may be found in the fact that studies on "discrimination markups" were made in different cities and yielded fairly consistent results. The probability that all of the cities studied would be undergoing the same underlying shifts in demand by households in ghetto areas relative to nonghetto areas seems unlikely. It is clear, however, that housing markets are subject to frequent changes in demand, and in any empirical work involving housing markets this problem is always present and difficult to deal with.

A Note on Housing Abandonment

The idea of looking at housing abandonment and vacancy in an area was briefly discussed in connection with a test suggested in regard to discrimination markups in the previous section. The existence of housing abandonments and/or vacancies in particular urban areas has recently been reported [26] and may be of considerable importance to the encouragement or discouragement of filtering from a public policy viewpoint.

If a housing market is experiencing significant abandonment or vacancy, this would indicate that a shortage of substandard units does not exist. It follows that the probability of economic profits on substandard units is very low. If it is observed that households are still inhabiting substandard units when such a condition exists, it is more than likely because of a lack of effective demand.[27] Clearly, encouragement of filtering by increasing the supply of subsidized housing would have little, if any, beneficial secondary effect. If migration out of a ghetto in an urban area is causing abandonment or vacancy, this would also reduce the probability of the existence of excess profit on substandard units. Under these circumstances, it is also obvious that additional subsidized housing would have little effect on low income households as far as filtering is concerned.

Empirical Studies of the Filtering Process

It is apparent from the preceding sections that the benefits view of filtering is possible if economic profits persist because of impediments to transformations in supply of housing. Empirical studies on the "poor-pay-more" hypothesis indicate that economic profits probably exist, but, as indicated in this paper, it is not absolutely clear that racial characteristics are the sole cause. Rather, as pointed out here, there appears to be considerable room for argument that rental markups exist because of impediments in the supply of housing units yielding housing service in small bundles, or possibly because of an increased demand for the units. In any case, the preceding section points out that analysis of housing markets is a very complex problem.

Because of the problems associated with trying to develop testable hypotheses in specific housing markets, particularly in light of the continuous changes occurring in the market and because of the lack of adequate housing data, attempts to study filtering have generally used field survey techniques, or what might be called the "chain-of-moves methodology."

[26] Frank S. Kristof, "Federally Subsidized Production, Filtration and Objectives, Parts I and II," *Land Economics*, November 1972, pp. 309–320 and May 1973, pp. 163–174.

[27] Basically what could be done in a situation such as this, would be to use housing allowances or direct payments to households so that eventually the existing stock of housing would be upgraded.

This methodology was used in Hartman [28] in studying the relocation patterns of households displaced by urban renewal programs. Subsequently it was used by Kristof [29] in examining the turnover of moves by households in a housing market in response to new construction. Essentially the method involves tracing, through a series of interviews, the movement of households by interviewing occupants of new dwellings, determining the location of their prior dwelling, interviewing those occupants, and continuing the process. This process continues until the "chain" or sequence of moves ends due to a new family formation, demolition, condemnation of a unit in the chain, conversion, or other causes. The principal objective of the technique is to gather socioeconomic information on all households in the chain and to determine the quality of the units contained in the chain in order to answer basic questions concerned with: (1) the number of households improving housing quality [30] at the same or lower rent (essentially the benefits view of filtering), (2) the number of households directly affected in the chain of moves, (3) the number of low income households in the chain of moves, and (4) whether any differences exist in the chain of moves associated with different types of new construction, i.e., apartments versus single family units.

Information gathered in these types of studies is intended to provide evidence as to whether filtering (described here as the benefits view of filtering) has actually occurred. By examining data on rents before and after a move—in relation to qualitative measures such as changes, crowding, rating of physical structures, and attitudes of occupants toward their dwelling before and after the move—some judgment concerning welfare changes experienced by households changing occupancy is attempted.

The New York Study

A chain-of-moves study conducted by Kristof [31] was undertaken in New York City in the summer of 1963. Beginning with a sample of 64 newly constructed units, interviews with successive households were carried out in the chain of moves, or housing turnovers, starting with the occupants of the new units. A total of 154 units (including the new units) was surveyed, which indicates that 2.4 households changed occupancy for every one new unit constructed. Survey results showed that average income per household decreased in each position in the chain, indicating that successively lower income families were affected in the series of moves. Of the 154 households interviewed, six moved from substandard to standard units (as rated by those interviewed), and the majority of households indicated a preference toward their present unit when contrasted with their former dwelling. Common reasons given for wanting to move were a change in income, family size, or employment. The survey results also indicated that the majority of households increased their monthly rental payment in order to acquire better housing. The main conclusion reached by Kristof as a result of this study was that families were generally upgrading the space and quality of their accommodations, while noting that they did so at an increased rent.

The Lansing, Clifton, and Morgan Study

This study [32] is by far the largest study undertaken to date utilizing the chain-of-moves methodology. It was the first study of housing turnovers done on a national, rather than regional, basis.

In order to obtain data on the chains of moves started by new construction, the authors sampled building permit data for new single fammily units and apartments completed in 17 standard metropolitan statistical areas in the United States during late 1965 and 1966. The sample consisted of 1,133 units, approximately equally divided between new single family units and apartments in various price and rental ranges. Occupants of sample units were interviewed, as were families who took units released by sample occupants, and so on, until each sequence originated by the sample units came to an end. Interviews were taken in various parts of the country in order to follow chains of moves in cases where families migrated. A total of 3,039 interviews were completed by the end of 1967.

Survey results showed that housing values encountered in the successive stages were, on the average, lower. Beginning with a mean value

[28] Chester Hartman, "The Housing of Relocated Families," *Journal of the American Institute of Planners*, 30, November 1964, pp. 266–286.

[29] Frank S. Kristof, "Housing Policies and the Turnover of Housing," *Journal of the American Institute of Planners*, 31, August 1965, pp. 232–245.

[30] The term housing quality customarily appears in the housing market literature. Improved housing quality would be the same as obtaining an increase in housing service as it has been defined in this paper.

[31] Frank S. Kristof, loc. cit.

[32] J. B. Lansing, C. W. Clifton, and J. N. Morgan, *New Homes and Poor People: A Study of Chains of Moves*, 1969, passim.

of $26,000 for all new single family units in the sample, units with lower values were encountered in successive stages and eventually reached $17,300 in stage six. All sample apartments had a mean rental of $135 per month, and as units were traced by stage, rents declined and eventually reached a mean rental of $100 from stage three on.

The study also focused on the extent to which the lowest income groups are reached in the turnover process. Using one measure of low income as $1,000 plus $500 per individual in a family, survey results showed that an average of 333 low income families made adjustments in housing condition in the chain of moves for every 1,000 new housing units constructed. Data presented in the study concerning improvements that households realized when they changed housing units showed that they generally experienced a reduction in crowding by moving to a larger unit, and expressed favorable attitudes regarding their new dwellings when compared with their old ones. These improvements, however, did not come at a reduced price. Surveys indicated that the average rental expenditure increased in each position in the chain of moves.

The study provided data regarding the extent of participation of blacks in the turnover of housing. Findings strongly indicate that the housing market is segmented by race. In areas where blacks represent about 11 percent of the total population and 8.43 percent of all families in the same income groups occupying new housing, only 5 percent occupied newly constructed dwellings. Interview data showed that in only 3 percent of the total units surveyed did blacks take units vacated by whites and in only 1 percent of the cases did whites take units vacated by blacks. In 94 percent of the cases, housing units were passed to households of the same race.

Based on findings from this study, the authors generally conclude that poor families benefit from new construction if they move into new housing or if they occupy any positions in the sequence of moves begun by new construction.

The Columbus, Ohio Study

This study is the only turnover study done to date that is specifically related to federally subsidized housing.[33] Essentially, the objective of this study was to ascertain what effects subsidized housing programs had in a local housing market in terms of its effect on housing rents and prices.

The study centered on federally subsidized programs which were categorized as moderate income programs (FHA Section 235, Section 221 (d) (3) BMIR, and Public Housing Homeownership) and low income programs (Public Housing Lease, Acquisition and FHA Section 221 (d) (3) BMIR-RS). Because moderate income programs were estimated to require less subsidy per household than programs for very low income households, to acquire standard housing, another topic of interest was: With a fixed amount of subsidy dollars, would more units show a decline in rents by injecting subsidies at moderate income levels or at lower income levels? The methodology used in the study was similar to the New York and Lansing studies.

Survey results showed that the number of housing units affected in the chain of moves initiated by moderate income programs was greater than the number started by low income programs. A greater percentage of housing units linked to moderate income programs were located in areas outside the inner city and were in better physical condition than those linked to the low income programs. Generally, households viewed their new residence as more desirable than their former residence. The average monthly rent on units showed no appreciable change by position in the chain of moves. The rents charged on units in the turnover of housing were generally the same for occupants at the time of the study, compared with rents charged to prior occupants. This finding suggested that households moving to units linked to subsidized units were acquiring units of better quality at the same rents.[34]

The primary conclusion reached in this study was that more households were affected with a fixed amount of subsidy dollars by injecting them through moderate income programs (e.g., Sec. 235, Sec. 221(d) (3) BMIR). In addition, more low income families (defined as any household that could qualify for public housing) improved housing quality with subsidies directed at moderate income programs than low income programs. However, when the magnitude of ben-

[33] William B. Brueggeman, Ronald L. Racster, and Halbert C. Smith, "Multiple Housing Programs and Urban Housing Policy," *Journal of the American Institute of Planners*, May 1972, pp. 160–167.

[34] By "same rents" is meant that the rents charged by owners of units had not changed appreciably from time of subsidy until the survey date. This does not mean that households paid the same rent for units which they acquired when compared to their former units. In this respect the study referred to here differs from findings in Lansing, et al., loc. cit. and Kristof, loc. cit.

efits from subsidies made directly to fewer low income families through public housing programs was examined in relation to a larger number of households indirectly affected by moderate income subsidy programs, the improvement in the latter situation appeared to be relatively meager.

A Critical Analysis of Chain-of-Moves Studies

Use of the chain of moves methodology approaches the problem of filtering with the objective of determining whether price changes have occurred in a series of housing turnovers, in order to make a judgment concerning changes in housing condition by lower income households. This is a direct approach to an examination of the filtering process, but leaves considerable room for improvement.

A first concern with chain-of-moves studies generally is the lack of a framework for analysis which would indicate on theoretical grounds whether filtering (in the benefits sense) is expected to occur. With regard to the New York and Lansing Studies, specifically, no hypothesis was advanced as to why filtering (in the benefits sense) was expected or not expected to occur as a result of the new construction traced in each study. Both studies approach the question of filtering by simply tracing moves started by new construction. It has been pointed out in this paper that in order for a differential between housing price and the quantity housing service per unit to exist in the long run, and for filtering to effect wealth transfers between producers and consumers, impediments to supply must exist which result in the persistence of above normal rents and prices. The studies referred to make no mention that this condition does, or is assumed, to exist.

The Lansing study seems to imply that the quantity of new construction which occurs annually may not be exactly equal to demand and that therefore excess supply could result. This assumption is the same as Ratcliff's initial observation concerning filtering, which has been shown in this paper to be a shortrun phenomenon. Furthermore, there is no evidence that a condition of excess supply existed during 1966–1967. In fact, as has been suggested in this paper, if the new construction traced in the New York and Lansing studies was simply a result of a shift in demand (i.e., income or population change), these studies amount to no more than tracing adjustments made in the existing housing stock in response to an increase in demand. Admittedly, the distribution of housing service among households may change in response to shifts in demand, and these studies may very well reflect how the redistribution of service takes place, but unless certain conditions (e.g., supply impediments, shortages, etc.) can be shown to exist in a given housing market, assertions regarding longrun benefits from filtering are extremely difficult to make.

Because the Columbus study focused on subsidized housing in a local market, it does not suffer from quite the same shortcomings evidenced in the other studies, with regard to the general market condition assumed to exist. It does, however, share with the other two studies the same limitations of the methodological approach of the chain-of-moves survey method.

Methodological Considerations: Because the chain-of-moves methodology examines the distribution of rents and prices in the turnover of housing at one point in time (at the time of survey), a general shortcoming of the technique is that only shortrun effects are observed. For example, if a downward price adjustment in the chain of moves occurs as a result of a new subsidized unit or excess supply, and households appear to improve their quality of housing, this may only be a shortrun effect. In order to verify that they have in fact experienced a longrun improvement, a longitudinal study would be required to observe the condition or quality of the unit over time. If quality were to decrease rapidly, it would be apparent that the improvement initially observed was only shortrun in nature.

Another problem with the methodology is that price changes are observed only on units directly affected in the chain of moves. If the housing market is reasonably competitive, price changes will be evident on all competing units in the housing market. Therefore, any generalization concerning changes in housing condition in the chain of moves understates the total market change considerably.

Finally, a problem with the chain-of-moves methodology, as used in studies to date, is that primary focus is directed to improvement in housing quality made by households. The typical quality indexes used in these studies are changes in crowding, rent-to-income ratios, and dwelling quality as perceived by households or interviewers. The relevant focus in filtering should not be on households, but whether the rent or price and quality dimensions of the dwelling unit have changed. For example, the

relevant data necessary to measure rent change would be rent-per-unit before and after an injection of a subsidy in a local market, not changes in rents paid by households as they move from dwelling to dwelling. If declines in rents and prices occur, households, depending on their relative price elasticities, will automatically bid for better quality at the lower prices.

The chain-of-moves methodology is not totally devoid of value, however. In a field as diverse as housing market research, studies utilizing this methodology have served to add to the meager body of knowledge on how housing markets operate. In addition, findings such as those contained in the Lansing study, with regard to racial mobility in the housing market, are valuable insights that could not be obtained any other way. Examining the relative lengths of the chain —that is, how soon they end due to in migration and new family formation—gives some indication of how tight the market is due to increased demand. Examining locational patterns developed by tracing movements has value in that it may provide evidence as to whether a household obtains the same or better quality of housing condition for the same housing expenditure but experiences a real improvement due to a reduction in transportation costs or amenities present at the new location.

A Suggested Alternative

It would seem from the foregoing criticisms of the chain-of-moves methodology that it must be supplemented with additional methods of analysis in order properly to examine the filtering process. One suggested alternative would be the development of a "hedonic" price index.[35] This index would be based on a procedure similar to that used by Kain and Quigley [36] in attempting to measure the value of housing quality. Basically, the technique involves regressing market price per unit on individual quantity and quality measures one would expect to influence housing value. The coefficients for each of the variables expected to influence value represent the contribution each makes to total value. These coefficients can then be combined as weights to form a hedonic price index.

The usefulness of such an index lies in measuring the responsivness of price and rents, before and after an injection of a subsidized supply of housing in a local housing market, while controlling for quality. In order to accomplish this task, sample data on housing characteristics and price would be gathered before and after housing subsidies were made. A dummy variable would then be used to pick up the change in price over time. The coefficient on the dummy variable would indicate the direction and magnitude of the price change from the time of the subsidy until data collection, which would indicate whether price has decreased more rapidly than quality. This process could be repeated as part of a longer-range longitudinal study.

This suggested methodology would not be without its shortcomings. It does not get around the aggregation problem—that is, estimating how many units in a given market are undergoing change indirectly as a result of the supply of subsidized housing.

Although the methodology suggested does not completely solve the problem of studying filtering, it does provide a measurement of housing quality that has been totally lacking in studies of housing turnover. With this quality measurement, statements concerning improvements in housing quality could be made with more reliability than the generalizations that have been made in studies to date.

Filtering and Public Policy—Conclusion

Government housing policy traditionally has been based on a filtering strategy with the expectation that it will provide adequate housing for lower income households. As Aaron [37] has pointed out, government—through tax policies which favor homeownership and allow liberal depreciation writeoffs for apartment owners—has consistently encouraged new construction. Most of the housing subsidy programs implemented to date have been designed to provide new housing units for moderate income households with the secondary objective of encouraging filtering.[38] Based on the amount of funds available for housing subsidy and the number of households

[35] For a discussion of a hedonic price index see: Zvi Griliches, "Hedonic Price Indexes Revisited: Some Notes on the Art," *1967 Business and Economics Statistics Section Proceedings of the American Statistical Association.*

[36] John F. Kain and J. M. Quigley, "Measuring the Value of Housing Quality," *Journal of the American Statistical Association,* June 1970, pp. 532–548.

[37] Henry J. Aaron, *Shelter and Subsidies,* 1972, passim, and "Income Taxes and Housing," *American Economic Review,* December 1970, pp. 789–806.

[38] Public housing and the FHA Section 235 and 236 programs are the best examples of supply oriented programs. As to the policy encouraging filtering see: President's Committee on Urban Housing, *A Decent Home,* 1968, p. 95.

occupying substandard housing, the strategy of trying to aid as many households as possible, rather than expending more funds on a few, has obviously been the course of action adopted thus far.

The question that arises with regard to filtering and public policy does not center on the issue of whether or not filtering will occur as a result of government housing subsidies. It is clear that regardless of the form of subsidy used —whether it affects the supply of housing units directly or increases demand with housing allowances—filtering will occur. The more important question centers on what the longrun effects of adopting a specific subsidy policy will be on the existing housing stock, and to what degree households improve housing conditions because of it. Based on an examination of the influence that a subsidy policy has on these questions, action can be taken to encourage or discourage filtering, as the case may be.

In order to determine the influence of a particular subsidy policy, certain conditions must exist in a given housing market in order for filtering to alter the distribution of housing service and improve housing conditions for those who need it. If a filtering-down strategy is being considered by increasing the supply of housing in a given area, this paper has reiterated that longrun improvements in housing conditions by households indirectly affected by subsidies will result only if it can be ascertained that supply impediments have existed in a market that has allowed consistent economic profits to be made by suppliers of housing to the poor. Filtering will only be effective to the extent that economic profits are eliminated. Any filtering encouraged beyond this will most likely result in a detrimental effect on the remaining stock of housing.

The order of magnitude in the amount of price reduction that filtering can cause before economic profits are eliminated is not clear. If empirical studies dealing with rent markups allegedly due to racial discrimination are partially indicative of restrictions in supply, it may be that a maximum reduction in rents and prices might only be from 5 to 10 percent. Considerably more research must be done on the measurement of housing quality and its sensitivity to price changes before any statistically reliable estimate can be made on this point.

This paper has also pointed out conditions under which a filter-down strategy would be inappropriate. Evidence of significant housing abandonment or prolonged vacancies in areas would tend to indicate that the probability of the existence of economic profits is slight. Additional filtering down resulting from increasing the supply of subsidized housing would appear questionable in such a case. In fact, if evidence of significant abandonment and vacancy exists, it may be that a "filtering up" policy is in order, and direct assistance payments to increase effective demand may be the most efficient way to achieve this.

Another observation that must be made regarding filtering is that additional research must be undertaken in a general economic equilibrium framework, rather than the partial equilibrium framework used here, to ascertain whether the source of subsidy funds (provided either through capital markets via government guarantees or by tax collections) used in housing, displaces or causes reductions in housing activity in the private sector. If increases in subsidized housing cause reductions in private construction (because of government competition for a relatively fixed quantity of funds, for example), then questions can be raised concerning how much of a net increase in supply actually results from housing subsidies.[39]

Finally it should be said that if a filter-down strategy were employed, even assuming supply impediments, no guarantee could ever be made that all households might eventually occupy a standard housing unit because of filtering. Although some rent and price reductions may be possible, holding housing quality constant, the magnitude of reduction may not be great enough to enable households with low incomes to bid for a quantity of housing service that would constitute socially acceptable standard housing.

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[39] For an example of a study dealing with housing displacement in the private sector as a result of subsidy funds divested from capital markets, see: Craig Swan, *Housing Subsidies and Housing Starts,* 1973, passim.

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Social Aspects of Federal Low Income Housing Programs

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Introduction

This report summarizes the existing research regarding (a) the attitudes of the public, particularly low income households, toward homeownership and residence in public housing; and (b) the secondary effects of homeownership and residence in public housing. It was prepared for a single purpose: To provide supplementary information to HUD Task Force Team 2 in its assessment of Federal housing programs.

The second section of this report summarizes the research findings dealing with the issue of homeownership. First, it covers consumer housing tenure preferences as they have been revealed by attitude surveys. Second, it discusses the impact of homeownership on people's satisfaction, behavior, and mobility. Third, it reviews the evidence on the presumed relationship between housing maintenance and homeownership and the incentives for better maintenance provided by ownership, particularly as they apply to low income households. This section concludes with a review of some social impacts of managerial actions—owner selection, services, and housing type and site selection—in subsidized homeownership programs for the poor.

The third section of the report summarizes research on the public housing program, including the amount of popular support for this program, the impact of public housing on other social conditions, and the impact of three managerial initiatives that can affect public housing: Site selection, architectural design, and tenant selection. Appended to the end of this report is a group of research summaries requested specifically by the HUD Task Force Team 2 that provide additional details on individual studies.

The reader should be aware of the obvious limitations of this report. First, it attempts to cover only the literature relevant to two specific Federal housing programs: Section 235 and low rent public housing. These two programs constitute but a small fraction of the activity of the entire housing market, and thus any review of only these programs will not necessarily identify the critical factors affecting homeownership or public housing conditions for low income families. For instance, owner-occupied units subsidized under Section 235 represent less than 2 percent of the total owner-occupied units by households with an annual income below $10,000. Similarly, the number of public housing units represents less than 2 percent of the total housing units in the country. The Federal role is considerably larger with regard to middle income housing, through direct loan programs, rent supplement programs, and income tax deductions.

Second, the research findings generally have not compared these programs with others that may seek similar ends. Third, recent research on the social aspects of homeownership and residence in public housing is sparse, and many conclusions have to be based on older research that may not capture correctly the policy options relevant today. Typically, research is neither sustained over time nor fully representative of all issues. Finally, this review relies on published studies and has not attempted to cover new research or surveys where the preliminary results may already be available, but not in published form.

Homeownership for the Poor

Limitations of the Research

Homeownership has long been encouraged by using a variety of Federal policies. These policies include low interest credit for mortgage lending institutions; tax incentives; and Federal insurance and guarantees of home mortgages. These policies have mainly benefited the middle and high income groups. Federal housing programs for low income groups have been mainly concerned with the provision of rental units. It was not until the Housing and Urban Development Act of 1968 that Congress established a program of homeownership for low income families (Section 235 of the Act).

While there has been much research on attitudes toward homeownership and of the social and economic effects of housing tenure in general, little comparable research has been carried out on the Section 235 housing program. Much of the available research is anecdotal. This re-

search must be interpreted in the light of an important limitation:

• The Section 235 program of homeownership for low income families has produced only an insignificant fraction of the owner-occupied units in the country (see Table 1); the program is small even in comparison with the other Federal subsidy housing programs for low income households (see Table 2).

The research regarding the attitudes toward and the impact of housing tenure must also be interpreted in light of the fact that few surveys meet accepted standards of statistical sampling. In addition, there are at least two methodological and conceptual problems that have been inadequately dealt with. First is the identification problem:

• Homeownership—even in its legal aspects—is multidimensional.

Table 1: Owner-Occupied Housing Units by Household Income, 1970

Income $	Section 235 Program [a]	Total Owner-Occupied Housing Units, U.S.
Below 3,999	8,900	7,557,844
4,000–6,999	224,100	5,748,201
7,000–9,999	130,700	7,330,273
Above 10,000	7,800	19,249,227
Total	371,500	39,885,545

[a] As of December 1972.
Source: HUD-Task Force Team II for data on 235 program and 1970 Census of Housing, *Metropolitan Housing Characteristics,* HC(2)-1, Tables A-1 and A-4.

Table 2. Unit Starts—New or Rehabilitated—Under HUD's Low-Income Housing Programs, 1969–71

Year	Section 235 Program	Low-Rent Public Housing	Others	Total
1969	2,715	79,246	79,925	161,886
1970	48,000	102,000	91,792	241,792
1971	144,600	100,000	131,999	376,599

Source: HUD-cited in Taggart (1971).

In the minds of most people, homeownership forms a single, unified image including the form of tenure, housing type, and location. Few studies have attempted to control for those other aspects of homeownership other than the form of tenure. In the absence of such controls, their findings cannot be conclusively interpreted.

Second:

• Ownership includes a wide variety of different legal forms.

Conceptually, homeownership may include a variety of different rights, powers, privileges, and immunities into which it can be desegregated. Single family ownership differs from cooperative-apartment or condominium ownership. The set of ownership rights and liabilities also differs depending on the institutional setup. Typically, research has not dealt with this issue, and, as a result, comparison of findings between studies cannot be readily made.

Preferences for Homeownership

General Preferences: For the last 40 years, attitude surveys have consistently shown that more than 70 percent of the country's population desire homeownership for themselves (Meyerson, et al., 1962; Foote, et al., 1960; Michelson, 1966; Sengstock, 1969). This preference is shared by all income, ethnic, and age groups, though there are small variances (Wilner, et al., 1962; Grigsby, 1971; Hinshaw and Allot, 1972; The Committee on Housing Research and Development, 1972). For instance, in their comprehensive study, Meyerson et al. (1962) indicate that:

> The degree of preference for homeownership varies among income groups. In the upper-income group it runs to about 80 percent, in the middle-income group to 75 percent, in the low-income group to 66 percent.

This majority preference for homeownership appears to have been stable over time. Furthermore, Hinshaw and Allott (1972), who described the housing preferences of future college educated consumers of all social and economic backgrounds in New York City, found that the desire for single family homeownership is not in the process of radically changing:

> The recent attention given to the 'counter-culture' and its contemplation of alternative life styles is not reflected by our respondents, who seem to prefer housing environments similar to current patterns.

Nor does it appear from review of these attitude surveys that a person's previous experience or present location affects these preferences drastically. In short, there seems to be ample evidence for the common notion that "the ambition to own one's home is shared by virtually all Americans". (National Advisory Commission on Civil Disorders, 1968).

Regarding low income families, one indicator of their desire for homeownership may be provided by the "waiting list" to participate in

governmental or privately subsidized homeownership programs for the poor. For instance, within 5 months of the inception of the new Section 235 homeownership program, FHA had received applications for more than double the amount of housing that could be approved for assistance payments under existing appropriations (NAHRO, 1969). Frieden and Newman (1970) report that in four private ownership programs they surveyed, there were as many as five applicants for each of their houses. Also Grigsby (1970) in his housing study in Baltimore concluded that "the potential demand for homeownership among low income families, even in the short run, clearly exceeds by a considerable margin the combined volume of ownership being supplied through public programs and the private market."

In summary:

- Research has consistently indicated a strong preference for homeownership by the general population and by low income groups.

Specific Preferences for Attributes Related to Homeownership: The motives for homeownership are many and closely interrelated. Homeownership may represent upward social or economic mobility, increased privacy, a separate plot of land, or other characteristics that are really the source of an expressed preference for homeownership in general. For instance, Meyerson, et al. (1962), quote a survey made by the editors of *Architectural Forum* in 1937. The survey showed that:

> Four out of five persons who preferred homeownership did so because they liked the 'feeling' of homeownership and liked to be able to fix up their dwellings to suit themselves. These two points accounted for half of all the expressed motives. Men stressed their pride in ownership and its attendant independence, and women, the opportunity ownership provided for change in the dwelling. The relative strength of independence as a value was greater among the older families than among the younger, higher in the middle-class than in the lower middle-class, and greater for smaller families than for larger ones. The editors concluded that 'the urge to own is based more on emotional than on financial grounds; it is more concerned with satisfaction of the ego than with considerations of economy.'

Also, Foote, et al., in their study on Housing Choices and Housing Constraints, indicate:

> The very fact of homeownership seems to give many people a larger measure of prestige and social status than they obtain through rental tenure. These persons believe that, in the eyes of the community, they become stable and dependable citizens when they become homeowners.

Expressed preferences of ownership over tenancy as a form of tenure also appears to be intertwined with preferences for single family housing and the private yard that typically is associated with it, and for suburban location and privacy. In many questionnaires, the reasons given by families for wanting to own their own home is "a yard," "room for the children to play," "quieter," "no one overhead or underfoot to complain about the noise," and "increased freedom of action." In Sengstock's study (1969), for instance, "You have your own yard," was the most frequently mentioned reason for desiring single family homeownership—91 percent of those that had purchased. In Ladd's survey (1969), of 60 black youths of the lowest socioeconomic status of a junior high school in a blighted area of Boston's Roxbury-North Dorchester area, 54 indicated they wanted suburban housing:

> A one-family house with a big fence around it . . . a garden and a place where kids can play.

Again, these preferences appear to cross ethnic, age, and income groups (Rainwater, 1970; Hinshaw and Allott, 1972; Committee on Housing Research and Development, 1972). Schermet and Levin (1968), reviewing a few market studies conducted among middle and moderate income black households, indicate a strong preference among these households for detached houses, individual lots, and other features that are more characteristic of suburbia than central city. Steinitz (1971) reports that in a study of preferences for photographs of houses, both urban and suburban fourth and seventh graders preferred suburban houses.

All those studies suggest that:

- Attitude surveys have not adequately distinguished preferences among ownership and the qualitative dimensions associated with homeownership: e.g., single family housing, suburban locations, individual plots of land, upward mobility and status, and improved sense of social well-being.

Homeownership, the suburbs, and the single family detached house form a single unified image in the minds of most Americans (Marcuse, 1972). This image is not without cause: 83 percent of all single family detached occupied units in SMSAs are in fact owner-occupied; 75 percent of all occupied units in metropolitan areas located in the noncentral city parts of those areas are single family detached units; and homeownership is in fact the form of tenure of 71 percent of the occupied housing in these suburban

areas.[1] As a result of this interdependence, which analysts have too often failed to recognize —an exception is Grigsby (1971)—the specific attitudes toward ownership as a form of tenure cannot be stated singularly.

Preferences for Homeownership of Low Income Families: Some research has focused on the preferences for type of homeownership among low income families. This research has generally shown that such a preference is highly related to considerations concerning the families' immediate housing conditions. For instance, Louis Harris and Associates (1969) surveyed a representative sample of heads of households in New York City neighborhoods in transition from predominantly white occupancy to predominantly nonwhite occupancy. They found that, at best, no more than just 30 percent have any real desire to participate in a cooperative ownership of their building. The idea of cooperative ownership, however, was more popular among those respondents with the most current housing problems, who tended to be in lower income brackets, and were black or Puerto Rican. Such respondents were clearly motivated more by a desire to find some source of satisfaction for their housing grievances than by any commitment to homeownership.

Other studies have found that the desire for homeownership by low income families drops sharply if the location is not changed. Grigsby's Baltimore study (1971), for instance, found that prospective purchasers did not want to purchase homes in their own neighborhoods. When George Sternlieb (1971) asked welfare recipients whether they would be interested in measures leading to the owning of their present apartments, he found that even of those who said yes, more than half said that they would not be interested in any apartment or homeownership that involved staying in the same neighborhood. It is not clear, however, whether this desire is motivated more by dissatisfactions with the neighborhood or with the dwelling unit than by the impossibility of reaching the type of homeownership that is associated with single family dwelling and suburban location.

In summary, research suggests that:

- Only a minority of low income families would desire to participate in cooperative ownership or to own their present dwelling unit.

[1] 1970 Census of Housing, *Metropolitan Housing Characteristics*, HC(2)–1, Table A–3, A–4.

Social Aspects of Homeownership

Beyer (1965), in his compendium of the nontechnical aspects of housing, concludes:

> . . . social and psychological factors probably play a role just as important as economic factors when the individual family makes a decision concerning whether or not to buy a home.

There is nevertheless little empirical support for the conviction that "a man who owns his home acquires a new dignity or that becoming a homeowner transforms him." The evidence of the social and psychological impact of homeownership is mostly anecdotal, especially as it concerns low income families. In addition, no research has separated the tenure aspect of homeownership from its associated qualitative dimensions, including, among others, single family dwelling unit and location.

A sociological study undertaken in 1947 (Rosow, 1948) found that homeownership may satisfy important emotional goals of the family. Listed as goals were (a) ego satisfaction (family pride in owning, and its desire for self-expression and creativity); (b) family security (a stable location and family symbol); and (c) psychic security (being one's boss, having a sanctuary, and the romatic nostalgia attached to homeownership). This study found that status and prestige also ranked high in importance. Following were certain living-pattern goals (domicile, facilities, neighborhood, and location). Then came financial goals, and, finally, other reasons such as family tradition or a passively accepted cultural goal. Another study stated the case for homeownership, also in terms of social reasons (Muller, 1953). The social reasons given, which overlap with the above, include (a) security and stability, (b) higher status in the community, and (c) better citizenship.

These older studies concentrated on middle income and high income families. There has been no systematic objective documentation, however, of changes in attitudes, satisfactions, or aspirations of low income homeowners, and in particular of the participants to the Section 235 program or to private programs promoting homeownership for the poor. Only anecdotal evidence has been reported. For instance, Frieden and Newman (1970), after analyzing four pilot projects designed to facilitate homeownership for the poor involving some 600 families in four large cities, reported:

> As for benefits to family life, all the projects cited individual cases in which children who had been dropouts

returned to school, men found better jobs, and families reduced their credit obligations. However, most of these reports are anecdotal . . . and since the pilot programs provided help and counseling with budgets, credit and employment, as well as housing, it is impossible to claim that improvements were the effect of ownership alone.

In considering claims that homeownership will produce various motivational benefits, it is useful to recall . . . [that] . . . a single housing measure proved insufficient to cure the multiple problems of low-income families. The present argument about the motivational effects of ownership is uncomfortably similar.

In another report, the Commission on Civil Rights (1971) indicates that most buyers in the 235 program interviewed by Commission staff were well satisfied with their purchases. Only a relative handful of buyers—those who had purchased houses with major defects—were actually sorry they had participated in the program:

Typically one black Philadelphia buyer said: "It's a beautiful program. I feel I stepped way up. You always try to better yourself." A black buyer in Denver who told Commission staff that she had now "come off welfare and found a job," explained: "The program gave me encouragement and a little boost."

It is difficult, however, to separate the impact of tenure from the economic aspects of this program. Reportedly, a substantial proportion of 235 buyers are paying less in the way of payments for homes they now own than they were paying for homes that they merely rented (Commission on Civil Rights, 1971).

In conclusion, the sparse evidence suggests that:

- Even if homeownership is associated with deep-seated feelings of pride, psychic security, and residential satisfaction, these effects are difficult to attribute to the fact of homeownership alone.

Furthermore, as suggested by Schorr (1963), it must be noted that satisfaction with housing is multidimensional: There are tradeoffs, and any specific factor such as ownership may disappear or be cancelled out by the effect of another factor.

One possible significant impact of homeownership may be its stabilizing effect on the low income family's residential mobility. The 1970 Census of Housing indicates that approximately 44 percent of homeowners and 14 percent of renters had been in their present accommodations over 10 years.[2] A study by McAllister, et al. (1971), based on a longitudinal survey of 1,476 households in 43 U.S. metropolitan areas over a period of 3 years (between 1966 and 1969), found that tenure—whether or not the dwelling unit was owned or rented—was the only variable to have a statistically significant effect on the black/white mobility differences. A total of 10 percent more blacks than whites moved during the period; all but 4 percent of blacks remained within the same city or town, as compared with 17 percent of whites. The authors concluded that the slightly greater mobility of blacks is a result of their tenure status rather than of racial, demographic, socioeconomic, or attitudinal differences. Indeed, blacks are fully 30 percent more likely than whites to be renters (69 percent to 39 percent). They suggest that whites who rent are more likely to do so by choice because they anticipate a future move, while blacks who rent are likely to do so more as a result of the biased housing market than by choice. Also, the Committee on Housing Research and Development (1972) found that low-middle income homeowners residents of scattered sites had a much lower expected mobility than the low income renter residents of the two housing projects in Rockford, Illinois: A total of 28 percent expected to move versus 60 and 75 percent for the two housing projects, respectively.

In summary, research suggests that:

- Homeownership leads to greater residential stability.

One basic reason for this stability, but certainly not the only one, is the fact that standard amortization procedures do not lead to a significant buildup of equity in the first 3 to 4 years after buying. In the 235 homeownership program for the poor, the lag time may be typically even longer. This is due to its interest subsidy technique: The subsidy is built up into the lower interest rate the beneficiary pays, rather than as a direct loan to the buyer. Taggart (1970) computed that, for instance, after 15 years of payment on a 30-year, $15,000 loan at the 8.5 percent FHA rate, the homebuyer will have accumulated only $3,200 in equity. If, instead, the Government provided a direct loan to the homebuyer at a 1 percent rate, he would have $6,950 in equity after 15 years.

Two questions are raised by the stabilizing effect of ownership and the form of subsidy for the low income homeownership Section 235 housing program. The first deals with the long lag time before any equity is built up on the

[2] Ibid.

housing expenditures as an investment. If the family is forced to remain a long period of time in the same unit, it may incur other costs in the form, say, of decreased access to job opportunities. The second has to do with the objective of homeownership as a source of financial security:

> Equity represents the investment-security factor of homeownership. It is especially important to low income persons for whom homeownership is the only practical means for establishing a savings program and securing thereby some degree of financial independence. For them, homeownership is a form of security against financial adversity in the future (Sengstock, 1969).

This suggests that the interest subsidy technique tied to interest rates is not very well suited to a homeownership program for the poor: It detracts from one of the homeownership's most important benefits—the financial security it may provide.

Maintenance

Relationship between Maintenance and Homeownership: The most often quoted rationale in support of homeownership for the poor is its presumed effect toward better maintenance or at least prevention of the deterioration of the housing stock (Bethum, 1973; Civil Rights, 1971; Hearings on Housing and Urban Development Legislation and Urban Insurance, 1968). A correlation between homeownership and better physical maintenance appears to be accepted on both sides of the Atlantic and even by those who might otherwise not be expected to agree so strongly on matters of policy, such as The National Association of Manufacturers (1969), and The National Tenants Organization (1969). According to the Economic Commission for Europe (1969):

> Owner-occupiers are mostly good managers. They maintain their dwellings largely themselves, and only call in a craftsman for special work. The owner looks after his dwelling particularly well because it is his own. He regards work on his house an agreeable spare time hobby. It may be concluded that housing of this class is durable because it is well maintained.
>
> In the lease hold sector the problem is often very different. The tenant generally tends to take less care of his dwelling. The landlord, trying to obtain the best possible return from the building, tends to keep maintenance costs down to a minimum.

National housing surveys have produced some evidence that owner-occupied housing is kept in better condition than rental housing. According to the 1970 Census of Housing, 29 percent of renter families with incomes below $6,000 in metropolitan areas were living in substandard housing, compared with 20 percent of owner-occupants (Frieden and Newman, 1970). However, the relationship between substandard housing and maintenance is too tenuous to draw any definite conclusion about it. Moreover, a self-selection process running from better maintenance to ownership may have taken place; in other words, those placing a greater value on a well-maintained residence may also gravitate toward ownership. One is led to question whether such families are typical of the low income renter family in general (Grigsby, 1971).

There is, however, further, although not conclusive, evidence of an association between residence-ownership and building maintenance. Grigsby (1963) estimated that expenditures by resident-owners for maintenance purposes are larger than those for equivalent rental units. George Sternlieb (1966) found that resident-ownership in Newark was the single most basic variable which accounted for variations in the maintenance of slum properties. Unfortunately, the study did not control for other variables, including owners' and tenants' income. Finally, Homer and Rydell (1973) found that in New York City owner-occupancy of a building enabled the largest amount of discrimination between abandonment and nonabandonment buildings. In other words, buildings occupied by their landlord tended to have a considerably smaller chance of being abandoned by their landlord.

Possible Motives for Homeowners' Maintenance: The reasoning behind the expected causal relationship between better maintenance and homeownership is that the owner has social incentives—pride, status, personal enjoyment, community respect—as well as economic incentives for the upkeep of his property, most of which are absent for the renter. In particular, vandalism should be minimized. Frieden and Newman (1970), in their study of four homeownership programs for the poor, reported:

> . . . the projects we studied found that even families who had formerly lived in squalid apartments, which they not only failed to maintain but often damaged further, took excellent care of the homes they owned. Apparently, a combination of pride of ownership, realization that the house was an investment, and freedom from the dependence on a landlord for repairs prompted them to maintain and improve their homes.

On the other hand, in Sullivan's 1971 study of comparable middle income housing projects —one rental, the other cooperative—in New York City, in response to the question, "If you noticed children marking up the lobby of this building, what would you do?" 76 percent of the cooperators said they would intervene immedi-

ately; 60 percent would call for the parents; 12 percent would call for the manager. The comparable statistics for the rental project were 62 percent, 12 percent, and 2 percent. Sullivan does not interpret these differences as indicative of fundamental differences in attitude.

The second factor that may induce the owner to maintain his dwelling unit adequately is that it may lead to a greater value of the unit and to economies to the owner because major repairs may be avoided. As long as the tenant under the typical lease commitment commits no nuisance, the only advantage he gains out of superior maintenance is possible personal enjoyment of a temporarily better quality of housing. If he does commit vandalism or other nuisances, his economic responsibility is often limited to his security deposit, while an owner has equity in his house. Note, however, that if any savings in day-to-day maintenance or long-run repairs were reflected in savings in the occupancy cost to the tenant, he would have the same incentive for maintenance as the owner-resident has now.

A third factor that may lead to better maintenance is the owner-resident's opportunity to substitute his own labor for out-of-pocket expenditures in maintenance activities. One study (Grigsby, 1963), which attempted to take into account the value of the owner's own investment of time and effort, indicates that in 1960 the average expenditure per dwelling unit for maintenance was about $370 for the owner-occupied home, and $150 for rental units. But the opportunity for the owner-resident to substitute his own labor for monetary expenditures may vary depending on the skills and experience of the owner (BSD, 1970), on the type—single or multifamily—of dwelling unit and on age, construction materials, and size.

Finally, neighborhood process, public actions, and expectations about future public actions are important factors that will affect the incentive effect of ownership. The findings of a study of the Watts district by Fred Case (1966) are instructive:

> To a considerable extent (the attitudes of property owners) toward repairs were conditioned by their future expectations. . . . their feeling that little cooperation could be secured from various public agencies.

Numerous studies have established that the decision to move is highly correlated with neighborhood dissatisfaction and with the perceived quality of public services provided to the neighborhood (Rossi, 1955; Foote, et al., 1960; Droettboom, et al., 1971; Kasl and Harburg, 1972). Neighborhood characteristics thus may be as important to the quality of maintenance as any factor related only to an individual housing unit. For instance, parallel conduct of neighboring property owners (or residents) is required for the quality of maintenance and repairs to have a maximum effect on property value. To the extent that the economic and social incentives to better maintenance lie in the prospect of an ultimate increase in the capital value of the property, these public and neighborhood actions will be of decisive importance.

Maintenance by Low Income Homeowners: Many studies have indicated a correlation between low income and lack of skills and/or experience necessary to handle home maintenance and repairs. Ruby B. McZier reports:

> Frequently, the Section 235 mortgager is not equipped with the necessary skills or know-how to deal effectively with maintenance and repair problems. Repairs which in time become routine may appear overwhelming to a novice homeowner. A survey of construction complaints reveals that among the listed defects are such items as cracking or chipped plaster, popping nails, faulty plumbing, etc. This is not to imply that complaints are unwarranted. However, the average homeowner handles such repairs on a daily basis, and knows who to contact for major repairs. On the other hand, the 235 mortgager often lacks the benefit of previous experience and hence the awareness that as homeowner he will be faced with most minor maintenance and repair responsibilities.

Furthermore, since many maintenance tasks and/or major repairs require both unskilled and skilled labor (BSD, 1970), the opportunity to the owner to provide his own labor is linked to his ability to purchase materials and supplementary skilled labor. Consider the situation found by the House Committee on Banking and Currency (1970) in its investigation of Section 235 purchases:

> In one place there was a leaky commode which perhaps could have been fixed by a handyman. However, the welfare mother purchasing the house neither had the money nor the ability. As a result, the entire ceiling caved in.

What the individual can do to maintain his own unit is greatly reduced in a multistory, centrally heated building with common lawns, community rooms, laundries, and playgrounds (Marcuse, 1972). The impact of structural type on the possible scope of self-maintenance is obvious. One study (Organization for Social and Technological Innovation, 1969) of tenant participation in public housing examined the alternate ways in which, in projects in Baltimore, Cleveland, and several other cities, residents might best be involved in the maintenance process. The study

concluded that the tenant maintenance corporation was economically the most feasible vehicle because the major part of the labor involved was not specific to each tenant's own unit, but rather involved maintenance of common and shared areas—work on vacant apartments, outside repairs, or skilled labor.

For a realistic assessment of the link between better maintenance and homeownership for the poor, it is necessary to be aware of the economic constraints and other environmental factors. As suggested above, all the incentives may not work if the low income family does not have either the resources to purchase materials or supplementary skills. Ownership exposes to the owner-occupant the hazards of unusual repairs, especially in low cost new housing in which, too often, longrun durability has been sacrificed for low initial cost (Committee on Housing Research and Development, 1972). MacIntosh (1952) summarizes this problem:

> On the whole the owner-occupier tends to keep his home in good repair because it is his property and he has pride in it . . . . It does not follow that tenant ownership should be regarded as the ideal state of the small house or that one should necessarily start a campaign for a house purchase. The owner-occupier who has little capital can easily get into difficulties when large repairs are required or demands made. . . . There ought always be some method of adjustment by which the owner of a small house is as well placed as his neighbor who looks to the local authority as his landlord when questions of clearance, extensive repairs, or other public actions arise.

To some extent, tenancy accomplishes such a result. Hypothetically, a landlord will compute his average maintenance and repair expenditures over the anticipated period of his ownership, divide by the number of units and the number of months, and charge that amount per months for maintenance (Marcuse, 1972). Although it is hardly an insurance policy, the risk is nevertheless thus spread out among a number of units, and funded over an extended period of time. The Turnkey III program, by providing a reserve for nonroutine repairs collectively among all the occupants of a project, spreads the risk in a somewhat similar manner.

In summary:

- There is some, though not conclusive, evidence of a relationship between landlord residence or owner-residence with better building maintenance.

For low income homeowners, however, the research suggests that:

- Ownership incentives for good housing maintenance may not always be realized, because low income households may lack the means—economical and/or skills and experience—required for maintenance efforts.

Management of Subsidized Homeownership Program for the Poor

The little systematic research assessing the impact of the Section 235 or of private programs designed to facilitate homeownership for low income families stresses the importance of managerial actions for their success or failure. These managerial actions generally fall into three categories: Owner selection, supporting service, and type of housing and site selection. These three factors appear to determine whether a project will be successfully operated and whether the program will succeed in opening up housing opportunities for minority families outside areas of existing minority concentrations.

Owner Selection: The main criterion for owner selection is family income. The housing official has to balance the desire to serve the lowest income family possible against budgetary constraints and the sale price of housing. One limitation is that the interest subsidy provisions of the 1968 Housing Act, while designed for low income families, are not designed for the poorest (Freedman, 1969). The result is readily reflected in owner characteristics: In December of 1972, out of 371,523 families participating in the Section 235 program, only 2.4 percent had a gross income below $4,000; 60.4 percent had an income between $4,000 and $7,000; and the balance (37.2 percent) had incomes exceeding $7,000. Friedman and Newman (1970), however, suggest that income and credit rating alone are not very useful in screening families for low income homeownership programs. In particular, they cite two Federal agency studies of mortgage defaults and foreclosures that have failed to find a significant correlation between high failure rates and low incomes. The criteria they substituted in the four pilot projects they reviewed include: Steadiness of income and employment, credit history (which differed from the usual credit "rating"), marital stability, and motivation. Instability of the family's income and its members' employment is, of course, a factor which adversely affects many low income families, whether they own or rent. Typically, the low income family is more vulnerable to cyclical disposable income variations due to the impact of

variations in the national economy or simply due to family circumstances—an accident, an illness, or other events. These events may force the family to substitute housing expenditures for other necessary expenditures.

It appears also that allowing the families to rent their houses for a trial period before buying may be critical to screen out families who may not succeed as owners and thus minimize the risk of mortgage foreclosure (Friedman and Newman, 1970). Indeed, several studies have shown that the risk of mortgage foreclosure is greatest during the first year or two of payments. Also, Ruby B. McZier, Acting Chief of Homeownership Assistance Branch (HUD, undated), indicates that:

> It is noteworthy that an informal study of Section 235 failures discloses that in over 60 percent of terminated cases, the mortgager had made three or less payments.

A trial period may be especially useful to identify those people who are particularly dissatisfied with the change in neighborhood. According to McZier (HUD, undated), in many instances of abandoned properties the mortgager returned to the neighborhood in which he lived prior to his 235 purchase. Thus, if a family is legally a tenant during the trial period and is unable to maintain payments or is dissatisfied with the neighborhood, it can simply terminate its lease and thus avoid the costly and damaging process of foreclosure.

In summary, the research suggests that:

- Steadiness of income and employment—rather than the level of income alone—determines the success of a family as a homeowner.
- The homeownership programs need to screen carefully their beneficiaries in order to minimize the risk of mortgage foreclosure. But submitting families to such selection procedure may invade their privacy.
- In this context, a trial period before buying may be critical to screen out families who may eventually fail as homeowners.

Supporting Services: Postselection support services to the families appear also to be of great importance to the success of homeownership programs. Friedman and Newman (1970) indicate that in the pilot projects they studied:

> The sponsors were notified whenever an owner fell behind with his mortgage payments; they knew when a man was out of a job or when a couple was having marital trouble and they stood ready to help. If necessary, some were prepared to buy back the house.

McZier (HUD, undated) believes that untold added incentive can be gained merely by assuring the mortgager that someone is genuinely interested in his success as a homeowner. In an evaluation of a Turnkey II project in Mississippi designed to encourage low income family homeownership (NAHRO, 1969), the training program was rated "of particular importance to the success of the project, for many of the residents have had little formal education, and almost no knowledge of mortgage financing, budget keeping, home maintenance skills, and other aspects of homeownership." Typically, the services required include employment counseling, consumer education—including budgeting, buying habits, and use of credit—home management, and maintenance skills—including cleaning techniques, home safety, use of storage space, techniques for tackling minor repairs—and classes in responsibilities of ownership.

The need for supporting services in homeownership programs for the poor may make such programs particularly expensive, although no studies have attempted to price them out. Yet the cost of these services is an important issue. To a large extent, the goal of a high volume of housing production will necessarily compete with the goal of helping poor families succeed as homeowners. It also raises an obvious issue of equity: Is it fair that low income families screened to become homeowners should get higher subsidies and/or services than families slated to be renters?

If left on their own to shop for housing with brokers of their choosing, low income families participating in subsidized homeownership programs are particularly exposed to abuses and to a limited choice. The report on the Section 235 program for the Commission on Civil Rights concluded that:

> Speculators had been permitted to profit under the program at the expense of lower-income buyers, many of whom are unsophisticated in the complexities and technicalities of housing and home finance.

Low income families are likely to have less information about real estate prices, and they are inexperienced to bargain in buying a commodity, in the purchase of which bargaining is almost uniquely important (Marcuse, 1972).

Among low income families, minority families appear to be at a particular disadvantage in the homebuying market, whether private or governmental. In its evaluation of the Section 235 program, the Commission on Civil Rights (1971) indicated that:

> Most of the poor quality housing was existing housing located in the central city and nearly all had been purchased by minority families. Thus minority families have suffered disproportionately from the abuses that have occurred under the program—the same abuses that have occurred in connection with other nonsubsidized federal housing programs that are operating in the central city.

Also, Foley (1973), in his review of factors affecting the housing choices of minorities, reports that only a small proportion of minority households are willing to make a persistent search for housing in neighborhoods completely separated from concentrated minority areas: "Determination and self-confidence are needed to carry a household into unfriendly territory and likely rebuffs." In the case of Washington Park in the Boston area, "less than 5 percent of the families in a 10-month period actually inspected a dwelling outside of Roxbury and the families used public and voluntary bodies very little to assist them in hunting outside . . . ." (Watts, et al., 1964). In a recent Los Angeles study, it was found that most blacks still living in concentrated black areas had made no attempt to look for housing outside these areas (Bullough, 1969).

Finally, there is substantial, although not conclusive evidence of the existence of a markup in price to the detriment of black households (Kain, 1972; Rapkin, 1969). Muth (1969) estimates a 10 to 20 percent markup for single family owner-occupied units. Ridker and Henning (1967) found a 5 to 8 percent markup on single family homes in St. Louis. Kain and Quigley (1972) show the negative impact housing discrimination has had on Negro homeownership, on their housing costs, and capital accumulation: Persistence, a thick skin, and a willingness to spend enormous amounts of time house-hunting are minimum requirements for nonwhites who wish to move into white neighborhoods. They conclude:

> These psychic and transaction costs may be far more significant than out-of-pocket costs to Negroes considering a move out of the ghetto (Kain and Quigley, 1972).

In summary, research suggests that:

- Homeownership programs for the poor, at least the present subsidy levels, require the delivery of complementary services of a highly personalized nature. This requirement may conflict with the goal of a high volume of housing production.
- More than an income strategy appears to be needed to combat the lack of information and experience of low income families and to combat racial discrimination in the housing market.

Housing Type and Site Selection: If nothing else, programs facilitating accessibility to homeownership of the poor are justified on the ground that they may widen the housing choices for the poor (Freedman, 1969). Realistically, however, the choice is limited to low-cost new housing in the suburbs, or to rehabilitated older housing in the inner cities. The selection of location appears to determine the type of housing, and vice versa. However, the major impact of either site or housing type selection appears to be on the racial composition of the project (Commission on Civil Rights, 1971; Friedman and Newman, 1970). Just as in public housing projects, the project's residents are likely to reflect the racial composition of the neighborhood in which the project is located.

The Commission on Civil Rights (1971) reported that in Little Rock and Denver, the two metropolitan areas in which a substantial amount of new housing was being produced at the time of the Commission staff investigations, it was found that nearly all of it was being located in suburban areas. Much of this new housing was being purchased by white families. In contrast, most of the existing housing purchased under the Section 235 program was located in ghetto areas or "changing" neighborhoods in the central city. Nearly all was being purchased by minority families. In other metropolitan areas, black families purchasing Section 235 housing were located largely in subdivisions reserved exclusively for minority families. Similarly, Friedman and Newman (1970) reported that of the four pilot programs they studied, the two which were working in inner city neighborhoods had sold all their houses to black families.

The above discussion suggests that a second issue related to site selection is the question of the size of the homeownership project in a given location. It appears that scattered-site projects in suburban areas have the effect of excluding blacks from participation in the project. Homeowners have been reported to be more vehement than renters in their opposition to accepting black and lower income inhabitants in their neighborhoods (Millen, 1973; Johnson and Sieveking, 1972). In Berkeley, a proposed ordinance making it a misdemeanor to discriminate in the sale or rental of housing units was defeated by a narrow margin in a citywide referendum. Significantly, homeowners voted in heavier proportions against the fair housing law than did other groups in the city (Castevens, 1965). Friedman and Newman (1970) suggest that the surest way to serve black families would be to offer

low-cost ownership housing in or near areas where black families are already established, so that new homeowners are not required to take on the additional burden of serving as pioneers. With few exceptions, however, such areas are located primarily in the central cities where there is little available land for significant amounts of new housing.

In summary, research suggests that:

- The simultaneous choice of type of housing—new versus existing housing—and site location mainly determines the racial composition of families participating in low income subsidized homeownership programs.
- Homeowners are more vehement than renters in their opposition to accepting black and low income families in their neighborhoods.

The Social Impact of U.S. Public Housing Programs

Limitations of the Research

Public housing is the oldest subsidized housing program in the U.S. The program was established by the Housing Act of 1937. Federal funds are administered by a local housing authority, which acquires a site, prepares plans, and supervises the construction of new housing units. The units are intended to provide low-rent housing for low income families. While there has been much research on the social impact of public housing, this research must be interpreted in the light of two important limitations.

- The public housing program has produced only a small fraction of the housing units in the country (see Table 3).
- The public housing program has been small even in comparison to the new housing starts stimulated by other Federal subsidy programs (see Table 4).

As a result, the relative success or failure of the public housing program is likely to be heavily influenced by other housing market factors. Lowry's proposal for a rehabilitation approach (as opposed to new construction), for instance, is highly specific to the historic context of declining central city populations with fixed but deteriorating central city housing stocks (Lowry, 1971).

The usefulness of the research findings is also constrained by several other important factors. First:

- The public housing program has historically served several distinct population groups.

Before and during World War II, public housing is claimed to have represented a clearly desirable sign of middle-class mobility. The occupants had different population characteristics from the families dominating public housing after World War II, and both appear to have been different from a large number of the public housing occupants of the 1960s and 1970s (Gutman, 1970). As a result, much of the earlier research (no matter how well designed and executed, e.g., Rumney and Shuman, 1946; Chapin, 1947; Rumney, 1951; and Deutsch and Collins, 1951) may not be applicable to the contemporary public housing program.

Table 3. Occupied Public Housing Units

Year	Low-Rent Public Housing Units	Total Occupied Housing Units, U.S.	Percent Public Housing
1950	302,100	42,826,000	0.8
1960	593,300	53,024,000	1.1
1970	1,155,300	63,450,000	1.8

Table 4. New Housing Units Started

Year	Low-Rent Public Housing	With VA Aid	With FHA Aid	Total New Starts
1960	44,000	75,000	261,000	1,296,000
1970	35,000	61,000	421,000	1,469,000

Source: *U.S. Statistical Abstract, 1972,* Tables 1143, 1153, 1155.

Second, because of the complex nature of social systems,

- The examination of housing—or any other single factor—is unlikely to explain much of any social significance (Dean, 1949; and Glazer, 1967).

Moreover, if one compares the impact of improvements in public housing, the general standard of living in the United States is already so high that the incremental changes in housing conditions attributable to public housing are very small relative to the wide range of housing conditions possible.

Third,

• The public housing program includes a wide variety of types of projects built in a wide variety of social settings.

Research observations on a high-rise central city project may only be indirectly related to the experiences of a row-house suburban public housing project. Experiences in different cities, even given similar architectural design, are likely to be different as well (e.g., Starr, 1973). Any generalizations about the U.S. public housing program—like any other national program—are not likely to do justice to important regional, metropolitan, and other local differences. (For reports from a variety of inner cities, see the National Commission, 1968.)

General Support for Public Housing

Recent publicity over the demise of the Pruitt-Igoe project in St. Louis, Mo. (Wilson, 1973), and the vehement objections to new projects in Forest Hills, N.Y. (Goodman, 1972; Glazer, 1972), have highlighted an alleged public disenchantment over public housing. The generally declining support for public housing has primarily taken the form of critical notices from liberal intellectuals (e.g., Bauer, 1957; Salisbury, 1958; Jacobs, 1961; for a general discussion, see Lowe, 1967, pp. 254–262). Such researchers previously supported the public housing concept because of ultimately false hopes that improved housing would help to eliminate slums and poor living conditions.

A more general lack of support was perhaps reflected in the mid-1960s by the failure of the Federal Government to take any significant new steps with regard to public housing, even while it was initiating so many other major great society programs (Bellush and Hausknecht, 1967, who also noted that New York voters in November 1965, for the first time, turned down housing propositions for low income families). A recent survey of residents in 10 cities, however, found that increased public expenditures for housing ranked quite high among alternative public programs, and that most residents would not object to having low income housing in their neighborhood (Urban Observatory, 1971).

Research on the preferences of low income families themselves has been rare. A frequently cited study found that in one area of San Juan, Puerto Rico, 65 percent of those living in the slums liked the slums, while about 75 percent of those living in a 2- to 4-story public housing project disliked living in the projects (Hollingshead and Rogler, 1963). An apparently important factor was the effect of public housing in isolating the nuclear family and imposing many official restrictions, such as prohibiting livestock, for project life. As the authors summarize, to turn away a relative is reprehensible, but to disregard a government rule is not. A more recent survey of a southwestern city also found that a majority of black ghetto residents preferred not to live in public housing; however, this city was dominated by single family housing units, and it was subsequently found that more residents found multiunit dwellings acceptable if more private space and an option to own existed (Williams, 1971).

In comparison to these results of attitude surveys, the waiting lists for new occupants of public housing projects have generally been long and vacancy rates low (Joint Economic Committee, 1972, p. 576). The vacancy rates vary for different projects, of course, but to the extent that eligible families continue to apply for public housing units, this presumably reflects some preference for public housing relative to other housing.

In summary, two points may be made. First,

• Many previous supporters of the public housing program have become disillusioned with the program.

The raised expectations of many intellectuals—that through improved housing other undersirable social problems among the poor could be eliminated—have not been fulfilled. This has resulted in much popular critcism, whether justified or not, of the program. Second,

• While the preferences of low income families are not well documented by surveys, a preference for public housing in relation to existing alternatives may be inferred from the long waiting lists in most cities.

Impact of Public Housing on Other Social Conditions

There have been few studies that have examined the consequences of public housing residence on other social conditions. Unfortunately, most of the popularly known notions have been derived from intensive participant-observation in projects that have been the worst examples of public housing (Freedman, 1969, pp. 115–122). Rainwater's well-known study, for instance, took place in a housing project that consisted of 33 eleven-story buildings, with a high vacancy rate

(over 20 percent) during and just preceding the time of study (Rainwater, 1970).[3]

Similar biases may be found in research on a midwestern housing project, in which the elevators were not designed to stop on every floor, the project accounted for the bulk of that city's public housing deficit, and the vacancy rate was 20 to 30 percent (Moore, 1969), and research on Boston housing projects, deliberately chosen to reflect the worst of public housing conditions (Peattie, 1971). Despite these experiences, it is worth recalling Rainwater's own observations:

> No matter what criticisms are made of public housing projects, there is no doubt that the structures themselves are infinitely preferable to slum housing (Rainwater, 1966).

The only systematic survey of the social impact of public housing is a longitudinal study conducted over 15 years ago in Baltimore, Md. (Wilner, et al., 1962). This study compared families in a public housing project with comparable families living outside public housing over a 3-year period. The results were modest, but the public housing families showed better health in some illness categories, improved school attendance, and greater satisfaction with housing and neighborhood conditions; no differences were found in the other illness categories, family relations, school performance, or attitudes toward education, occupation, or homeownership. The results of this study, together with an exhaustive review of earlier research (Schorr, 1963; 1968), suggest that:

- For most residents up until 1960, public housing represented a positive experience, with distinct if modest social benefits.

Research on the general impact of public housing in the last decade has been limited primarily to the participant-observation studies previously cited (Rainwater, 1966, 1967, 1970; Moore, 1967; and Peattie, 1971). These studies, focusing almost entirely on "problem" projects, have shown that certain housing projects can result in an inordinate concentration of social pathology. Projects dominated by families on welfare and with large numbers of children, especially in combination with high-rise architectural designs, can result in high rates of crime and illness. The same projects tend not to attract new applicants, and thus have high vacancy rates, with life in the project appearing to be worse than life even in the surrounding slum area. In addition, one study has shown that, by virtue of the site and architectural characteristics alone, project residents can become quite isolated from residents in the surrounding area, unless many of the project residents were originally drawn from that area (Kriesberg, 1968).

One of the few studies to examine public housing conditions in many projects simultaneously, however, has produced a slightly different picture. This study analyzed crime rates in public housing projects for the whole city of New York in 1967 (Fairley and Liechenstein, 1971). On the average, the crime rates were lower than the crime rates of the surrounding precinct; the rates were also lower, with the exception of robberies, than the citywide rates. The investigators further found that the project crime rates were most highly correlated with the crime rate of the surrounding precinct, and also positively correlated with the number of families and the number of broken families in the project, and negatively correlated with the income of project families.

These results may be unique to New York City, where public housing has possibly enjoyed better maintenance, greater public support, and greater police protection (the public housing authority has its own police force) than in other cities. In addition, there may be a methodological bias, in that much more crime may normally occur in the streets and in commercial areas than in residential areas, making the low public housing crime rates not surprising (the appropriate comparison would be between crime rates in public housing and in other types of housing). Nevertheless, the results do suggest that the conclusions from individual participant-observer studies may not be representative of public housing projects in general.

In summary:

- For residents of public housing since 1960, research has not clearly determined the impact of housing conditions on other social conditions; however, public housing may still offer a better alternative to other types of housing.

Management of Public Housing

While the existing research provides few generalizations regarding the impact of the public housing program as a whole, there are a fair number of studies that have examined the im-

[3] The Rainwater study is often cited, but without the important caveat that Rainwater's main motive was not to comment on public housing, but to build a case for the need for social equality. To this extent, his study does not provide even a rudimentary analysis of the impact of public housing (Montgomery, 1971).

pact of individual aspects of public housing, particularly the effects of managerial actions. These actions generally fall into three categories: Site selection, architectural design, and tenant selection. These three factors appear to determine the type of life in the projects, and particularly whether a project will be successfully operated and consequently attractive to prospective residents. Unfortunately, the research has shown that the most effective managerial actions are often the most politically unpalatable ones, from the point of view of both the public in general and public housing residents themselves.

Site Selection: The area in which a new project is located appears to have an important impact on the nature of the project. In fact, site selection and tenant selection have been two of the most controversial aspects of the public housing program. The site selection process has often been the more publicized of the two, and has been the subject of major studies of local politics, especially in major cities such as Chicago (Meyerson and Banfield, 1955). There is also a considerable legal literature concerning site selection (Genung, 1971).

The major impact of site selection appears to be on the ultimate racial composition of the project (Ledbetter, 1967; Freedman, 1969; Peattie, 1971). The project's residents are likely to reflect the racial composition of the neighborhood in which the project is located, and—because most urban areas are so heavily segregated (Taeuber and Taeuber, 1970—the selection of a site generally makes the difference between a segregated or integrated public housing facility, and may ultimately have a strong bearing on the types of families that occupy the project.

In Newark, N.J., for instance, a new project was built in a heavily Italian neighborhood, and the housing authority attempted to give first preference to Italian residents who had been displaced by the project (Kaplan, 1963). This displeased the black community, which felt that black families had a greater need for new public housing. In the second year of operation, greater priority was given to black families, but this displeased the Italians. Similar problems have been faced by housing authorities in other cities (Roshco, 1960). The main dilemma stems from three somewhat contradictory factors: (a) It is difficult to create a project whose racial and income composition does not reflect that of the surrounding neighborhood, (b) there are not many racially integrated neighborhoods in cities in general, and there are even fewer willing to accept new public housing projects in their area, and (c) most community and political leaders will not support new public housing if there is a strong likelihood that they will become segregated facilities. Moreover, the dilemma persists in spite of the fact that there have been some notable successes in integrating families of different race and income in some projects (Boeschenstein, 1971).

A second issue related to site selection is the question of the size of a public housing project. Recent disenchantment with the social impact of large projects has created a preference for scatter-site housing. The presumption is that smaller projects will have less of an impact on the surrounding neighborhood, and hence be less obtrusive. However, little research has been carried out on this subject, and cities such as New York have not necessarily been more successful in gaining political acceptance for the new sites (Goodman, 1972). The limited experiences with scatter-site housing in Forest Hills should also not be misinterpeted; the proposed project involved 840 units in three buildings, a scale quite large by scatter-site standards (Goodman, 1972; Glazer, 1972).

In summary, research has shown that:

- The site selection process is a highly political one, and that the site for a project will strongly influence the racial composition of the project.

Architectural Design: Public housing projects vary in considerable degree with regard to their design characteristics. In height, for instance, some buildings are walkups; others are elevator buildings; still others have elevators that do not stop at every floor. The number of units per project and the number of rooms per unit vary, although there has been no consistent change in the national averages for these categories over the last decade (see Table 5). In spite of the design variations, and in spite of the known effect of design on social interaction (the classic study, dealing with campus housing, in Festinger and Back, 1950), only recently has there been a systematic study of the effects of public housing design on public housing life (Newman, 1972).

A general conclusion from earlier research had been that large project designs, while necessary to maintain a certain level of density (and hence to provide the desired number of units), produced undesirable social consequences: Vandalism, garbage and ill-kept hallways, elevator accidents, and general resident dissatisfaction

(Ledbetter, 1967; Freedman, 1969). Oscar Newman, in a thorough study of housing design, has corroborated the general relationships, but has carried the research much further (Newman, 1972). Newman examined housing projects in New York City, particularly comparing two neighboring projects that were similar in tenant composition and density, but that differed in that one was a high-rise and the other was a low-rise (see Table 6).

Table 5. Changes in Average Size of Public Housing Projects, 1960–1971

Year	Average Number of Units per Project	Average Number of Rooms per Unit
1960	114	4.9
1963	91	4.5
1964	76	4.2
1965	83	4.3
1966	89	4.1
1967	89	4.1
1968	92	4.1
1969	110	4.2
1970	96	4.3
1971	94	4.3

Source: *HUD Statistical Yearbooks*, 1968 and 1971, HAA Table 15 (1968) and Table 160 (1971).

The high-rise design produces many open spaces that cannot come under residential surveillance: Building entrances are too far from the street and hence lead to unprotected paths; building grounds are too extensive to allow activities to be closely seen from windows; the concept of superblocks leads to less vigilance of normal passers-by on streets; lobbies, corridors, stairways, and elevators serve too many people and hence are not adequately cared for; and the high-rise itself means that children playing outside are often beyond the visual and shouting distance of adults. As a result, Newman found that high-rise buildings, even when matched for other characteristics with low-rise projects, produced a more socially undesirable environment, primarily gauged in terms of crime rates (see Table 7).

Only few surveys have been made of public housing residents' own preferences for architectural design. The sparse evidence suggests, however, that these preferences are consistent with Newman's conclusions (Committee on Housing Research and Development, 1971; 1972).

One of the major tradeoffs in building low-rise projects is the cost of maintenance. Allowance for adequate maintenance appears to be a critical element in successful public housing

Table 6. Comparison of Two Public Housing Projects

A. Tenant Statistics

Characteristic	Van Dyke	Brownsville
Total population	6,420	5,390
Average family size	4.0	4.0
Number of minors	3,618 (57.5%)	3,047 (57.8%)
Percent families black	79.1%	85.0%
Percent families white	5.6%	2.6%
Percent families Puerto Rican	15.3%	12.4%
Average gross income	$4,997	$5,056
Percent on welfare	28.8%	29.7%
Percent broken families	29.5%	31.7%
Average number of years in project	8.5	9.0
Percent of families with two wage earners	12.2%	11.0%
Number of children in grades 1–6	839	904

B. Physical Design and Population Density

Physical Measure	Van Dyke	Brownsville
Total size	22.35 acres	19.16 acres
Number of buildings	23	27
Building height	13–14 story 9–3 story	6-story with some 3-story wings
Coverage	16.6	23.0
Floor area ratio	1.49	1.39
Average number of rooms per apartment	4.62	4.69
Density	288 persons/ acre	287 persons/ acre
Year completed	1955 (one building added in 1964)	1947

Source: Newman, 1972.

(Lowry, 1971). However, research on the maintenance costs for public housing in New York City has shown, for example, that such costs increase 1 percent as project size decreases by 10 percent (Rydell, 1970). In addition, maintenance costs decrease 4.3 percent as dwelling unit size decreases by 10 percent. One inference is that smaller projects will require higher expenditures for maintenance, with compensations perhaps feasible by having more small units as well.

In summary, the research on architectural design suggests that

- Large projects do produce more crime and other socially undesirable conditions; smaller projects, however, require more in maintenance costs.

Tenant Selection: Up until the early 1960s, public housing authorities apparently played a

Table 7. Comparison of Crime Incidents Per Thousand Population, 1965–1969

	Brownsville (B) versus Van Dyke (V)									
	1965		1966		1967		1968		1969	
	(B)	(V)	(B)	(V)	(B)	(V)	(B)	(V)	(B)	(V)
Total Crimes per Type										
Felonies	13.91	19.31	15.21	17.28	14.48	17.28	14.84	22.89	16.70	23.83
Misdemeanors	27.27	24.61	16.88	21.03	11.68	16.82	25.97	52.80	22.82	35.98
Offenses	19.48	21.50	1.30	4.67	3.05	4.05	14.65	12.74	21.70	17.60
Investigations/Warrants	104.26	96.11	105.19	89.10	115.76	98.60	83.48	81.15	97.59	108.72
Violation Housing Authority Rules	211.87	251.56	126.90	155.45	110.01	147.35	7.61	16.36	8.56	7.32
Sampled Specific Crimes										
Robbery	3.15	6.23	4.63	7.47	4.08	6.07	4.64	9.81	5.01	9.66
Drugs—Possession	2.78	2.80	1.48	5.29	1.48	2.49	2.37	2.95	2.04	8.10
Mischief—Criminal/ Tampering—Criminal	.92	2.34	1.11	2.02	.92	1.40	5.19	19.63	6.50	11.68
Fire	4.82	5.45	4.26	7.01	2.78	5.61	3.90	8.41	4.26	7.17
Lingering	16.51	23.05	8.16	11.21	8.71	16.51	5.38	9.65	4.65	5.60

Source: Newman, 1972.

strong role in determining application priorities and evicting unruly families, and hence informally controlling the demographic composition of projects. One investigator has described in some detail his own participant-observer experiences with a housing authority office, and how the housing official fulfills the "gatekeeper" function often found in public bureaucracies (Deutcher, 1968).

As a result of the housing authority's role, there have developed some experiences regarding tenant composition and the desirability of specific housing projects. One important criterion to guide the housing managers' policies has been the racial composition of the projects (Jahoda and West, 1951). The maintenance of an integrated project appears to have required a white-black ratio in which whites were a clear majority (60 to 70 percent). If a project had a lower proportion of white tenants, it was likely that the project would ultimately become completely occupied by black families (Spiegel, 1960; Silverman, 1965; Freedman, 1969, pp. 140–144). However, the precise definition of the tipping-point, whether applied to public housing or to changes in the racial composition of neighborhoods, has still not been systematically investigated, and the universality of the tipping phenomenon is still not known (Wolf, 1962).

A second criterion has been the family characteristics of the tenants. Here, it is claimed that "successful" projects are those that are able to maintain large proportions of the working poor and low proportions of the dependent poor, the latter defined primarily as female-headed households on welfare rolls (Starr, 1971). This claim has led to some debate concerning "problem families," and the notion that the exclusion of such families is necessary to minimize social chaos in a project (e.g., Scobie, 1973; Starr, 1973). However, while many observers have noted the need to minimize the number of problem families, no research has: (a) Defined the important characteristics of problem families, (b) suggested the appropriate mix, or (c) identified the consequences of having too many problem families (Friedman, 1967; McEntire, 1960, p. 330).

A third criterion has been family income. Here, housing officials have had to balance the need to serve the poorest families first against the need to minimize the budgetary deficit of the housing project. One problem that seems continually to appear is that, because of the limitations on income, higher income families would become ineligible for continued residence in public housing, even though such families could provide a socially stabilizing effect and improve the projects' financial ability to support more families with very low incomes (Abrams, 1965).

Changes during the 1960s, however, gradually reduced the impact of the housing officials on tenant composition (a broad survey of the socioeconomic characteristics of housing managers and their attitudes is found in Hartman and Levi, 1973). First, the demand for public housing rapidly increased among black families. This meant that a housing official had either to allow projects to become entirely black, or to leave a number of units unoccupied in anticipation of new applications from white families. This artificial maintenance of a significant number of vacancies raised public objections, and thus hous-

ing officials had to abandon the policy (Hill, 1966; Ledbetter, 1967). The Civil Rights movement also resulted in new legislation prohibiting such discrimination. Similarly, the demand for public housing increased among larger families, so that the smaller units suffered higher vacancy rates. In Pruitt-Igoe, for instance, Rainwater (1967) noted that, while the project's overall vacancy rate was around 20 percent, the vacancy rate for two-bedroom apartments was about 35 to 40 percent. Finally, the demand for public housing increased among the poor families. In 1955, the median net income of families admitted to public housing was 46.5 percent of the median income of all families in the United States; in 1961, it was less than 40 percent, and this gap presumably widened in subsequent years (Schorr, 1968).

In summary:

- While successful projects appear to require a mix among tenant characteristics such as race, income, and family size, the management of tenant composition can entail discriminatory practices that are not politically (or legally) acceptable.

There is a continual tradeoff between judicious public housing management, acting in the interest of a project as a whole, and social equity, involving discrimination against individual families (whether according to race, income, or family characteristics).

Conclusions

The preceding sections have attempted to highlight research findings on the secondary effects of homeownership and public housing. In addition to the individual points made in these sections, several broader and more tentative conclusions may be reached regarding low income homeownership and public housing programs.

First, the research indicates that, for those families able to participate in either the Section 235 or the public housing programs, the new housing has been associated with generally positive effects on health, safety, and residential satisfaction. These secondary effects appear primarily beneficial in relation to the social conditions associated with the alternative housing available to low income families. This does not mean, however, that the social conditions associated with federally subsidized housing cannot be improved. Also, it should be made clear that the programs only serve a minority portion of the total number of low income families. In particular, the potential demand for homeownership among low income families appears to exceed by a considerable margin the combined volume of ownership being supplied through public programs and the private market.

Second, the research indicates that certain managerial procedures can probably enhance social conditions in a given homeownership or public housing project. These procedures, however, often conflict with broader social or program goals. For instance, allowance for greater maintenance or construction expenditures will probably improve a project; yet such expenditures are usually held to a minimum due to the combined desire to minimize Federal costs and maximize the number of beneficiaries. Other managerial procedures produce similar conflicts. Any attempts, for instance, to control tenant composition for income level, income stability, or family size are likely to improve the social condition of a project; but such practices are discriminatory and thus may not be deemed acceptable for a publicly financed program.

In other words, although more research is needed, it appears that the existing experience in managing homeownership and public housing programs is already sufficient to suggest those site, design, supporting services, and tenant characteristics that are important for maintaining well-managed projects. The problem is that these practices cannot serve the variety of goals that the Federal programs are supposed to serve: Improved housing, minimization of expenditures, and equitable treatment for families of different size, income, and race. One suggestion that derives from this observation is that future low income housing programs may need to be tailored to a much smaller set of goals. In fact, a variety of smaller and less-publicized programs, rather than a large and single public housing effort, for instance, may coincide better with the variety of goals and social expectations.

Third, in terms of reducing vandalism, crime, unhealthy sanitary conditions, and residential dissatisfaction, one factor appears to be consistently important to both homeownership and public housing programs: The limitation of opportunities for participation by families with the lowest incomes. Existing housing projects appear to be more easily managed when the number of families in the lowest income brackets are kept in small proportion to the total number of families. This suggests that, while the existing low income housing programs can provide improvements in

housing and other social conditions, they still may not have dealt successfully in providing housing alternatives for very poor families.

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Appendix. Summaries of Selected Research Studies

"The Impact of Race on Housing Markets: A Critical Review"

John Boston, Leo C. Rigsby and Mayer N. Zald *Social Problems,* Winter 1972, Vol. 19, pp. 382–393

A review of the research on the relationship of race to property values with exclusive attention to problems of conceptualization, measurement, and analysis.

Research has refuted the most simplistic form of the traditional belief: That blacks' presence in a neighborhood inevitably depresses property values. The most common finding is that in integrated neighborhoods, prices equal or exceed prices in similar all-white neighborhoods. However, it is hardly compelling in terms of understanding the operation of segregated housing markets.

Research on the relationship of race to property values involves several methodological, substantive, and conceptual problems which previous writers have not always resolved, or even recognized. These problems include: Measurement of actual selling price; standardization of prices for "real value" in order to provide a benchmark against which to assess price changes; statistical control of the influences of other market forces; conceptualization of the processes involved in creating putative effects of neighborhood racial integration on housing prices.

"Housing and Human Resource Development"

Leland S. Burns and B. Khing Tjioe, *Journal of the American Institute of Planners,* Vol. 34, No. 4, November 1968, pp. 396–401

Objectives: The study sought to value the social and economic returns to housing investment in monetary units and to compare these with returns on alternative investments.

Context and Method: Housing, education and health share the presumption that an improvement in their quality leads to an improvement in the quality of labor, thereby increasing the efficiency of the directly productive sector. These contributions are called "external economies."

The outputs for housing are transmitted via two channels, labeled, "physiological biological" and "psychosocial," The former is measured in terms of reduction in absenteeism due to accident or illness as they derive from housing quality. Investments made in safer and more sanitary housing translates into increased availability for work, hence increased payments to workers and increased output. The quality of housing induces output changes when housing ranks high on the consumers preference scale. If a worker is happier as well as healthier as a result of improved housing, his motivation, or psychological/attitudinal posture toward work will be reflected in his productivity on the job. Benefits accruing to the member of the worker's household include possibly: Increased exposure to education for the school-age children due to better health and lower medical costs.

To isolate the impact of better housing the study sought to approximate "laboratory conditions." It selected a site in Hambaek, Korea, which was a one-industry town. Coal mining was in operation before and after a sudden qualitative improvement in housing. To trace the effect

of a change in housing quality to a change in income the study compared labor productivity of a sample of 50 rehoused coal miners with a control group sample of 50 nonrehoused miners. The environment external to housing was "held constant" by correcting total productivity change after rehousing by the productivity of, or rate of return on, non-housing investment. The production process was labor intensive, and incentive wages were paid.

Findings: The findings of this study are as follows.

- Labor productivity was found to have increased by 28 percent. The increase in productivity stabilized after approximately 10 months.
- Health benefit to housing was measured as a saving of 50 clinical visits per hundred of the rehoused population. Also the expected number of days hospitalized per hundred of the test group—rehoused—exceeded the actual by 12.
- The net rate of return to the mining Corporation—that made the housing investment and was able to capture or internalize the external economics—on its housing investment yielded 16.3 percent. The rate compared favorably with returns on alternative investments in Korea. The authors conclude that housing investment is productive both in the absolute and in relation to alternative investments. In the context of development, housing is correctly regarded as an investment that generates outputs comparable to investments in alternative human resources such as health and education.

"Homeownership for the Poor: Running the Washington Gauntlet"

Christa L. Carnegie, *Journal of the American Institute of Planners,* May 1970, pp. 160–167

An analysis of the political and legislative processes that led to the enactment of Section 235—Homeownership for the Poor. The resulting bill was a compromise from the original concept of Homeownership for the Poor as advocated by Senator Charles Percy. In particular, the differences are (1) the program is in the hands of the FHA, not a private foundation; (2) the program emphasis appears to be on product (production of units) rather than process (neighborhood support, effort and social services); (3) because it relies on new construction the program seems to apply better to the suburbs, not the grey, blighted areas of the core city. Some of the major Percy survivors include: (1) subsidization of the buyer; (2) H-P insurance; (3) sweat equity; and (4) private enterprise involvement in housing.

"Activities and Attitudes of Public Housing Residents, Rockford, Illinois"

Committee On Housing Research and Development, University of Illinois at Urbana—Champaign, 1971

Objectives: The objective of this study of Orton Keyes Court, a public housing complex, was to determine: (a) The designer's expectations of how residents would use the site; (b) the residents' attitudes and expectations regarding their housing; (c) the actual activity and behavior of the residents; and (d) the physical qualities of the environments.

Context and Methodology: Orton Keyes Court is a public housing complex of 175 dwelling units; 70 percent of which are two and three bedrooms. Dwelling units are clustered-two story houses. The project was completed in February 1970 and the study was carried out in the summer of the same year. The resulting short term perspective of the life of this project is to be kept in mind in interpreting the findings of the study.

Residents' priorities and attitudes were sought by sending a questionnaire to residents. 36 households out of 175 responded. A similar questionnaire was sent to residents of a Turnkey III Scattered Site program as control. The analysis did not, however, systematically compare the results obtained from the two groups. This weakness is partially remedied in the following (see Table 1 and findings).

The approximate average family income was $3117.6 for Orton Keyes respondents and $5266.6 for Scattered Sites respondents. The average household size was 4.1 in both projects.

The actual activity and behavior of the residents and the physical qualities of the environment were assessed by observation of outdoor activities and of the physical environment.

Findings: The following is a selective summary of the findings pertaining to residents' attitudes and satisfaction with regard to (a) house design, maintenance, and servicing; (b) outdoor design; (c) provision of services; (d) project location; (e) project neighborhood; and (f) project administration and targeting.

Dwelling Units Design, Maintenance and Servicing: Residents of Orton Keyes and of Turnkey III Scattered Sites generally were satisfied with the design and servicing of their homes (1, 4, 6, 15, 16, 17, 27).* However, the short life of the project at the time the study was under-

* Numbers in brackets refer to items in Table 1.

taken makes difficult an adequate assessment of the reliability of home services (fan, heater, etc. . .). Greatest dissatisfactions expressed deal with (a) quality of materials, i.e. initial low costing materials were preferred leading to maintenance problems and higher costs; (b) the lack of showers in the bathrooms; (c) windows whose shapes made installation of air conditioners difficult; (d) lack of covered storage space for large items such as bicycles, lawn furniture, tools; (e) functioning of interior doors (26).

Analysis suggests greater attention be paid to design detailing and to tradeoffs between initial construction costs and long run maintenance costs.

Site and Outdoor Design: Satisfaction with yard size was general (31), but a desire was expressed for a clear boundary between private and public open space (32).

The incursion of noise from neighbors through open windows—especially at night—was a general complaint of Orton Keyes residents. Less so for Scattered Sites residents (39, 40).

Design of pedestrian paths within projects did not match with shortest path principles resulting in pedestrians making their own paths through grassed areas. No consideration was given to carriage, wheelchair and bicycle paths.

Provision of Services: Residents of Orton Keyes generally were satisfied with night lighting (58) and with parking provisions (54). Regarding the latter, initial development costs might have been lowered by providing less parking spaces; One off-street parking space per DU would have been sufficient. But the local zoning ordinance required 1.5 PS/DU be provided.

Garbage pickup was regular at both Orton Keyes and the Scattered Sites (37), but disatisfaction with collection was high (52) as pickup caused litter around the project.

Finally, a majority of residents at Orton Keyes and the Scattered Sites desired more police patrolling of their neighborhood (44).

Project Location: Location with respect to bus stops, shopping and work places of the Orton Keyes project and the Scattered Sites were generally satisfactory to the residents (41, 42, 43).

Project Neighborhood: Residents of Orton Keyes and Scattered Sites were generally satisfied with their neighborhoods (3). A significant minority indicated racial conflicts were a problem (45). However, because the study did not indicate the ethnic composition of either the project or the neighborhood, this is difficult to interpret.

Project Administration and Targeting: A clear majority of residents at Orton Keyes and Scattered Sites indicated that a handbook explaining their responsibilities and the policies of the Rockford Housing Authority (R.H.A.) would be most useful. Also, Orton Keyes residents indicated that a simple manual for the maintenance of the house should be provided by R.H.A.

The Orton Keyes project study provides two insights on the relationship between project design and maintenance and population targeting: (a) There was inadequate provision of playgrounds for younger children, given the family composition that eventually occupied the project; (b) the inclusion of elderly and older family families among the project families had a positive impact on project maintenance.

Table 1. Percentage of Respondents That Agree With Statement

	Orton Keyes Courts N=36	Scattered Sites N=50
1. Generally your house is OK	91.2	96
3. Generally your neighborhood is OK	55.4	76
4. Sizes and layout of rooms are OK	77.3	84
6. The kitchen is large enough	80.4	90
15. The fan in bathroom works OK	88.5	92
16. The bathroom heater works OK	77.3	58
17. There is enough closet space	77.3	88
21. Generally the quality of materials used in your home is good	63.5	52
26. Some interior doors do not work right	49.6	62
27. The locations of windows are OK	63.5	76
38. Garages could be provided	35.8	74
31. The size of your yard is OK	80.4	92
32. The yard should be fenced	44.2	42
39. Generally your neighborhood is quiet	33.1	70
37. Your garbage pickup is regular	85.8	90
44. More police patrolling is needed	66.5	36
52. The way garbage is picked up causes litter around project	83.1	—
54. There are enough parking spaces	83.1	—
58. The project is well lighted at night	69.2	—
41. Your home is close enough to shopping	55.4	74
42. Your home is close enough to bus stop	80.4	64
43. Your home is close enough to work place	44.3	55
45. There is little racial conflict in neighborhood	52.7	60
47. You should get a handbook explaining your responsibilities and RHA policies	92.8	74
57. More places for small children to play are needed	83.1	—

"A Study of Some Housing Preferences in East Chicago Heights, Illinois"

Committee On Housing Research and Development, University of Illinois at Urbana—Champaign, 1972

Objectives: The study was to determine the housing features that people moving into single family houses for sale under the FHA 235 program would be most likely to need and want. HOME, an independent arm of the Cook County Office of Economic Opportunity estimated that approximately $2,000 per unit could be allocated to optional items not required by minimum FHA standards.

Method: Interviews of 72 households randomly selected in five neighborhoods of East Chicago Heights were conducted in December 1971. The neighborhoods chosen for study were three single family dwellings—and two low-rise public housing projects in the community. Their characteristics are summarized below:

The public housing sample was randomly drawn from a listing of addresses where occupants met FHA 235 income and family size criteria. All interviewed were black.

The technique used to probe housing features preferences was to ask the respondent to imagine that her family was buying a new house in East Chicago Heights—meeting minimum FHA standards. It was made clear that for a certain extra cost she could get additional features with the house, supplied through the developer and financed as part of the total mortgage contract. She was to assume that her monthly housing expenses for the new house would be the same as current expenses.

Findings: Housing Units: Residents of all housing types were satisfied with the size of their houses generally, with more people in public housing reporting that the units were too small. Many respondents needed more closet-type storage.

Dissatisfactions were mainly indicated with regard to plumbing difficulties, heating system problems, poor sonic insulation between rooms —especially in public housing—and maintenance difficulties with vinyl or linoleum floors in kitchens.

Neighborhoods: Most respondents chose the one-family house neighborhood of Golden Meadows as the neighborhood they would most like to move to. Golden Meadows residents have fewer problems with noise from neighbors than the other locations, and along with Lincolnway, are satisfied with the amount of privacy they have, although Sunnyfield and public housing occupants would like more privacy.

A higher percentage in public housing expressed intentions to move than in the other neighborhoods.

Preferences For Housing Features: Respondents made an unequivocal choice for functional features over status features in a house. (See table). There were no important differences among neighborhoods. Each housing item was perceived similarly too high.

List of Items by Rank of Importance and Their Costs

1.	Storm windows, doors	$ 485
2.	Backyard fencing	360
3.	Stove/refrigerator (T)	600
4.	Washer/dryer (T)	515
5.	Water conditioner	475
6.	Landscaping	550
7.	Bathroom ceramic tile	200
8.	Basement	1,700
9.	Kitchen fan	145
10.	Carport/driveway	1,200
11.	Bathroom fan	50
12.	Kitchen ceramic tile	75
13.	Postlight	95
14.	Garbage disposal (T)	175
15.	Brick facing (T)	1,350
16.	Vanity	75
17.	Picture window	150
18.	Oak flooring	565
19.	Carpeting	825
20.	Patio	80
		$9,670

The above costs represent the amount the item would add to the price of house above the standard specification required by FHA.

Expectations that relative preferences for the housing features would be somewhat systematically related to socioeconomic characteristics of the household, features of the present dwelling unit and/or location of the neighborhood were not supported by the statistical analysis.

	LINCOLN-WAY	GOLDEN MEADOWS	SUNNY-FIELD	PUBLIC HOUSING
Average annual income	6000–7999	4000–5999	8000–9999	2000–3999
Average number of people in household	4.4	5.4	4.9	6.3
Average year in house	2.7	1.4	4.3	5.0

"Families in Public Housing: An Evaluation of Three Residential Environments in Rockford, Illinois"

Committee On Housing Research and Development, University of Illinois at Urbana—Champaign, 1972

Objectives: The objectives of this study of two public housing complexes and one scattered sites housing project in Rockford, Illinois, was to determine: (a) The designer's expectations of how residents would use the site; (b) the residents' attitudes towards the house, layout and locality; (c) the actual activity and behavior of the residents and (d) the physical characteristics of the environment. This study is a follow-up—but methodologically improved—of the study entitled "Activities and Attitudes of Public Housing Residents: Rockford, Illinois." (See summary)

Setting and Methodology: The general characteristics of the three public housing projects are summarized in the following table:

	ORTON KEYES COURT	FAIRGROUNDS VALLEY	SCATTERED SITES
Total number of units	175	210	226
Physical characteristics	two-story row-houses	two-story row-houses	two-story & duplex units
Length of residence in months (av.)	15.5	19.4	18.5
Average monthly rent ($)	67.6	58.7	81.2
Average family income ($)	3905.4	4025.2	6283.2
Percent black houses	64.9	84.9	26.5
Average family size	4.2	4.3	4.5
Distance from CBD (miles)	2.5	1	N.A.

Two additional factors are worth noting: (a) Black families in all three projects had higher incomes than whites (it is not known if this is because of administrative screening, negative attitudes of whites towards public housing or of greater low income housing opportunities for whites in the private housing market); and (b) the sample families in Scattered Sites had significantly higher incomes and predominantly white families.

Residents' attitudes were obtained from interviews conducted in May 1971. Sample sizes were: Orton Keyes Court: 37 families; Fairgrounds Valley: 38 families; Scattered Sites: 35 families.

The actual activity and behavior of the residents and the physical qualities of the environment were assessed by observation of outdoor activities and of the physical environment.

Findings: The following is a selective summary of the findings pertaining to attitudes and satisfactions with regard to (a) house design, layout, maintenance and servicing; (b) outdoor design and maintenance; (c) provision of services; (d) project locations; (e) project neighborhood; and (f) project administration and targeting.

Dwelling Units Design, Layout Maintenance and Servicing: Residents of all three housing projects were generally satisfied with the size and layout of the dwelling units. Greatest dissatisfactions expressed dealt with (a) size of children's bedroom—used for play in winter—size of kitchen—used by more than 90 percent of all families to eat morning and evening meals—and size of bathrooms; (b) the lack of windows and the inefficiency of the fan in the bathrooms at Orton Keyes and the lack of showers at Orton Keyes and Fairgrounds; (c) the low quality of materials—vinyl floor, nonwashable paint, etc.—making cleaning and maintenance difficult at Orton Keyes and Fairgrounds; (d) lack of covered space for bulky objects—bicycles, chairs, lawn furniture—at Orton Keyes. Residents of Fairgrounds and Scattered Sites used their basements for storage and for childrens' playground.

Satisfaction with Scattered Sites residents was generally greater—unfortunately data on differentials in unit cost of construction were not indicated. Analysis suggests greater attention be paid to design detailing and to trade-offs between initial construction cost and long run maintenance costs in public housing complexes.

Site Design and Maintenance: Fences were not provided to separate private backyards from public spaces; yet most residents thought a fence important for yard maintenance; gardening efforts and younger children play.

In Orton Keyes landscaping and site work was not completed before occupancy; it resulted in impossibility of bringing out-spaces up to shape.

Provision of Services: The parking space provided at Orton Keyes and Fairgrounds Valley was more than needed. Where City ordinances

do not allow a better match of parking spaces to parking needs, surplus parking space could be used for some other function.

The garbage storage and frequency of collection were acceptable to residents of all three types of housing. However, pickup was criticized at Orton Keyes because of carelessness of the collectors.

Project Location: Location of all three projects with respect to bus stops, shopping, work places and schools were generally satisfactory to residents. Satisfaction was highest among Scattered Sites residents, second among Fairgrounds residents—located one mile from CBD—and third among Orton Keyes residents—located 2½ miles from CBD.

Project Neighborhood: All sampled were generally satisfied with their neighborhoods; Scattered Sites residents more so than residents of the two public housing complexes. The latter's main complaints were with behavior of neighbors and too many children. Less than 5 percent in all three projects indicated racial tensions; Orton Keyes and Fairgrounds are 65 and 85 percent black, respectively, and Scattered Sites 74 percent white.

Project Administration and Targeting: Residents rated the management of the two housing complexes generally well and thought the rules and regulations were fair. Most respondents indicated that a handbook explaining the rules and regulations of the Rockford Housing Authority would be useful.

A black/white racial mix of 2 to 1 and 3 to 1 in Orton Keyes and Fairgrounds, respectively did not appear to cause racial conflicts. The family income of whites in those projects were lower than for blacks. Yet, a much higher proportion of white families in the projects expected to move from their present houses sometime in the future.

Attitudes Towards Home Ownership: Residents of the scattered site units were either buying or had the intention of buying their houses. Favorable comments towards ownerships outnumbered unfavorable comments 3 to 1: Residents mentioned increased freedom of action, personal satisfaction, financial benefits and privacy. Major complaints focused on maintenance costs and taxes. Low-middle income homeowner residents of scattered sites had a much lower expected mobility than the low income renter residents of the two housing projects: 28 percent expected to move versus 60 and 75 percent for Orton Keyes and Fairgrounds respectively. Scattered Sites residents also described their neighborhoods as good places to raise children much more frequently than project respondents.

Regarding the type of public housing, approximately 90 percent of all respondents in the three projects indicated preference for single family houses as opposed to apartments, duplexes or others.

"The Changing Distribution of Negroes within Metropolitan Areas: The Emergence of Black Suburbs"

Reynolds, Farley, *The American Journal of Sociology,* Vol. 75, 1970, pp. 512–529

Objectives: A test of the hypothesis that cities and suburbs are coming to have racially dissimilar populations. It:

1. reviews the historical trends in racial composition;
2. examines the rapidity of black population growth in suburbia in recent years;
3. analyzes the socioeconomic characteristics of blacks in suburbia and of those moving into suburbia; and
4. describes the types of suburbs which have experienced black population growth.

Findings: The study reveals that suburban rings do not have an exclusively white population. There are now, and always have been, suburban communities of blacks. In recent years, the growth of the Negro suburban population has accelerated. This growth appears concentrated in three types of areas: Older suburbs which are experiencing population succession, new developments designed for black occupancy, and some impoverished suburban enclaves. Despite this growth, city-suburban differences in the proportion of black population are increasing, and patterns of residential segregation by race within suburbs are emerging which are similar to those found within central cities. In the past, city-suburban differences in socioeconomic status were different among whites and blacks. Unlike whites, the blacks who lived in the suburbs were typically lower in socioeconomic status than the blacks who lived in central cities. The recent migration to the suburbs, however, is apparently selective of higher status blacks, and it is likely the census of 1970 will reveal that the socioeconomic status of suburban blacks exceeds that of central city blacks.

"Home Ownership for the Poor"

Bernard Frieden and JoAnn Newman, *Trans-Action,* October 1970, pp. 47–53

Objectives: To evaluate four private pilot projects designed to facilitate homeownership by low income families. The main questions probed were:

1. What methods are used to bring the cost of homeownership within the reach of low income families?
2. Do low income families want to buy their own homes?
3. Are poor families able to meet the financial commitments of ownership?
4. What have been the benefits of ownership?
5. How effective and important are the various managerial techniques worked out by the pilot projects?

Context and Method: The four pilot projects are: Better Rochester Living (BRL) in Rochester, New York; the Bicentennial Civil Improvement Corporation (BCIC) in St. Louis; Flanner House Homes (FHH) in Indianapolis and the Interfaith Interracial Council of the Clergy (IICC) in Philadelphia. All four agencies are private profit or nonprofit organizations. The BCIC and IICC focused on buying and rehabilitating brick single family, semidetached and row houses in the central slum areas of their respective city, one (BRL) let families shop for the house of their own choosing—price of which was not to exceed 2½ times annual income of the main wage earner—and one (FHH) was basically a self-help operation for building new houses.

Means to help poor families to afford ownership included (1) reduction or elimination of down payments—using sweat equity instead of cash, special federal mortgage programs or bank deposits as security for the mortgages; (2) keeping costs as low as possible—using cheap deteriorated housing or new housing built according to plans for low cost construction. Total housing costs in all four projects varied from $8,000 to $14,000; and (3) ownership training and advice —including budget counseling, employment assistance, classes in maintenance skills.

Interviews were conducted with project directors and participating homeowners.

Findings: The findings of this study are as follows:

- Many low income families do want to buy their own homes: two of the projects reported they had as many as five applicants for each of their houses.
- The pilot programs had surprisingly low rates of default on payments. Conceivably, the four projects were "skimming the cream."
- Benefits from ownership included independence from landlord for services and continued tenure; their mortgage payments were a form of regular forced savings, which can be particularly valuable to people not accustomed to saving at all; building up of equity providing a resource for emergencies and increasing the family's ability to borrow money; the costs were in many cases lower than the rents the families had been paying; homes were in better condition and more spacious than previous ones.
- The study found that even families who had formerly lived in squalid apartments, which they not only failed to maintain, but often damaged further took excellent care of the homes they owned.
- Claims that home ownership will produce motivational benefits were not supported by the study. The main benefits of the projects or of similar programs are (1) the widening of housing choices for the poor, (2) provision of the financial advantages of an equity position; (3) the supply of better housing at the same or lower cost; and (4) the improvement of the condition of the housing stock.

Administrative Criteria for the Projects: The criteria used by the four projects in selecting families included steadiness of income and employment credit history (which differed from the usual credit "rating"), marital stability and motivation.

Some of the programs allowed families to rent their houses for a trial period before buying.

Comparison with Federal Program: The projects were concerned primarily with helping individual low-income families, whereas the Federal program is designed primarily to increase the country's housing stock.

Minimizing Foreclosures: The process of selection and guidance—pursued long after the family moved in—appears to have been crucial to the success of the pilot projects in holding down the number of foreclosures. Under the federal program, no one can be expected to do the subjective and personal kind of screening and counseling done by the pilot projects; the mortgages will be fully insured by FHA in any case and there is no specific provision in the law for a trial rental period. As a result, foreclosures are likely to be substantially higher under the new program.

Reaching the Poor: Families with incomes ranging from $2,500 to $8,000 were able to buy homes under the pilot projects. The intention of the federal program is to reach families with an income range from $3,000 to $7,000. Two factors

in the federal program (in 1970) were thought to lead to a disproportionate selection of families at the highest income levels permitted by the law: The subsidy formula that fails to include certain major housing expenses—particularly utilities and maintenance—and the emphasis on construction of new housing.

Because of the latter—and of land costs in inner cities—the federal program will probably operate primarily in the suburbs. This is a mixed blessing. Because the new ownership program does not require the involvement of local governments at all—in contrast to public housing and rent supplements—low income housing in suburbs may be more difficult to obstruct—except by setting up restrictive zoning and subdivision regulations. But it may help mainly the lower middle-income whites rather than blacks unless Federal fair housing regulations are enforced aggressively. The surest way to serve the black families would be to offer low-cost ownership housing in or near areas where black families are already established.

"Neighborhood Deterioration as a Factor in Intraurban Migration: A Case Study in New York City"

Michael Greenberg and Thomas D. Boswell, *The Professional Geographer,* Vol. 24, No. 1, February 1972, pp. 11–16.

Objective: The main purpose of the study was to assess neighborhood deterioration as a force in intraurban migration, relative to such commonly identified factors as changing family status, and the knowledge of housing opportunity.

Context and Method: The study is based on two separate analyses: (1) of the universe of applications to and (2) of a sample of residents in Co-op City in Bronx County, New York City. The cooperative will ultimately house over 15,000 middle-income families, 6,000 of which were living in the project at the time of the study, June 1970.

The first analysis analyzed the relationship between the spatial pattern of applications and a set of the neighborhoods characteristics—seven—in which the applicants resided. The second analysis explored the factors which prompted the decision to move of those families living in the Co-op project in 1970.

Findings: The findings of this study are as follows:

- Over 98 percent of the applications came from six counties in New York State and 74 percent from Bronx County. Furthermore, 80 percent of the applications came from 36 zip zones within a 10-mile radius of the site suggesting a strong distance decay in intrametropolitan movements.

- The spatial pattern of applications was found most strongly associated with perception of neighborhood deterioration. The latter was operationally measured as the ratio of the sum of the changing distance (1950 to 1960) between the zip code centroid and the two nearest census tracts containing at least 25 percent blacks and Puerto-Ricans and having a median family income less than $4,500. The authors conclude that neighborhood deterioration—in most of the neighborhoods crime rates were increasing rapidly—was an important factor in encouraging migration and could be recognized through the movement of the lower income, minority group ghetto.

Analysis of the decision to move of families living in Co-op City yielded similar results: The most significant factor focused on the perception of neighborhood deterioration. In addition, they believed that most of their friends living in the vicinity wished to move.

A test of the minority encroachment hypothesis—a variance of the tipping-off theory—provided no support for it: The relative growth of minority group members in the neighborhoods was not significantly associated to the spatial pattern of applications. But, the rapid turnover of the origin areas was filled with middle class blacks and Puerto Ricans and Co-op City contains approximately 20 percent minority group residents. It is concluded that the flight was away from selected minority group socioeconomic classes identified with deterioration, but that the mere presence of blacks and Puerto Ricans was not a sufficient condition to cause substantial out-migration.

- The only other neighborhood characteristic significantly associated with the spatial pattern of applications was the proportion of Jews. Both applicants to and residents of Co-op City were in largely Jewish population that had not moved in ten or more years. An examination of the questionnaires revealed that Jews were more active receivers and transmitters of information than other groups.

- Finally, a third component proved significant in the decision to move of Co-op residents: A change in family status. They were either young, large families whose head of household was engaged in professional or managerial work and older, smaller families whose members were

usually retired. The first group was seeking larger quarters, the second, smaller living spaces.

"Neighborhood Setting and the Isolation of Public Housing Tenants"

Louis Kriesberg, *Journal of the American Institute of Planners,* Vol. 34, No. 1, January 1968, pp. 43–49

Objectives: To assess the consequences of placing low-income families in middle-income neighborhoods.

Context and Method: The study is based upon a survey of families in four low-income housing projects and the neighborhoods surrounding each, in Syracuse, New York. All of the projects in Syracuse are small and have low density. Some characteristics of the residents in the public housing projects and in the surrounding neighborhoods are summarized in the following table:

	Households including a married couple with minor child (percent)	Households with some or all income from welfare (percent)	Mean household income ($)	Racial composition of neighborhood
Project 1 (Evans)	67.3	16.4	4195	
Neighborhood 1	59.0	1.1	7562	Predominantly white
Project 2 (Grant)	34.5	26.7	3072	
Neighborhood 2	32.7	18.7	4887	Predominantly white
Project 3 (Park)	41.5	51.3	3023	
Neighborhood 3	37.6	23.0	5369	Predominantly black
Project 4 (Stern)	57.6	24.8	3791	
Neighborhood 4	44.2	3.0	9492	Predominantly white

The hypotheses tested included:

- The greater the differences in socio-economic status between project and neighborhood the less likely interaction to occur.
- The more physical barriers separating the project from the neighborhood the less likely interaction to occur.
- The higher the level of interaction within the project relative to the level outside, the greater the tenants' isolation.

Findings: The findings of this study are as follows:

- The study revealed that simply living in public housing constitutes a barrier. This seems to be the case unless the project tenants are largely drawn from the surrounding neighborhood and no marked physical impediments to interaction exist, no major social differences occur, and the project tenants do not develop a strong community.
- Considerable difference in socioeconomic status between project tenants and residents in the surrounding area may not necessarily be an important impediment to social interaction. For example, in the case of Stern, where socioeconomic differences were most marked, the social isolation of project tenants was no higher than it was in Evans or even Grant. Apparently the reservoir of possible associations in the neighborhood outside Stern was sufficiently large that interaction could occur at the same low level as for the Evans and Grant tenants.
- The overall evidence of the study, the author concludes, indicates that socioeconomic status differences are not a particularly important barrier to social interaction between project tenants and neighborhood residents.

Note: Another study indicated that Stern—a 33 percent black housing project in a high-middle white neighborhood—was unpopular among both black and white applicants. Among white applicants Park—75 percent blacks in a predominantly black neighborhood—has the lowest ranking; among black applicants Evans—2 percent black in a predominantly white neighborhood—ranks lowest. See Ronald Ley, "An Analysis of Project Preferences of Applicants for Public Housing," Syracuse University Youth Development Center, 1961.

"Homeownership for the Poor: Economic Implications for the Owner/Occupant"

Peter Marcuse, Working Paper 112–26, The Urban Institute, March 10, 1971

The paper presents a conceptual discussion of the economic consequences of homeownership for low-income families.

The general conclusion is that the economic savings from homeownership for the low-income family are neither clear nor unequivocal.

Context: It is suggested that what discussion there is on the economic costs and benefits of homeownership to a low income family confuse three entirely different questions:

1. Is it better for a low-income family to live in a dwelling unit it owns, rather than in one owned by someone else?

2. Is it better for a low income family to own a dwelling unit than to own nothing?, i.e., a relevant alternative to homeownership may be ownership of some other asset.

3. Is it better for a low-income family to live in the type of dwelling unit generally owned by its occupant—a single family detached structure —than to live in the type of unit generally rented —an apartment?

Findings: The findings of this study are as follows:

- Investment Advantages. The author argues that a particular house is likely to be a high uncertainty and high risk purchase for a low income family. This is because the low income family is confined to a restricted, unfavorable section of the housing market and because it is less equipped with the information or experience to bargain well. Also, homeownership for low-income families is argued to be unattractive because investment in housing are (1) typically inflexible—i.e., they imply a continuing obligation that low-income families can ill afford and that is absent from almost all other type of investment —and (2) typically for long term gain—here it is assumed the low-income family has typically a high discount rate, i.e. it is present rather than future oriented. [Note: these arguments were developed on the basis that the quality of housing investment—i.e. homeownership—for lower-income families must be assessed comparatively with alternative investments available to them. In other words, that the low-income family as owner and as occupant, even though of the same dwelling unit can be conceptually separated. We believe this assumption is incorrect for the low-income family must spend for housing whether it owns or rents the dwelling unit it occupies. In particular, if it rents and pays an equal amount or more than it would if owning, it may well have nothing left for considering alternative investments].
- The major advantage of investing in a house, for most low-income families lies in the possibilities it opens for them to use their own time and effort in maintaining or improving an investment—time and effort they could not otherwise put to as productive a use—and such efficiencies in management as they may be able to achieve.
- Better Maintenance. The arguments for better maintenance of owner-occupied houses include that the owners have pride, status, personal enjoyment, community respect in a well maintained dwelling unit. They also get an economic benefit in the form of increased value of the dwelling unit. But, even if maintenance is done by the homeowner, it is not free. Its cost to the economy should be assessed in terms of opportunity costs. There is, however, no reason similar results would not be obtained in rental units, were good maintenance reflected in savings in the occupancy costs the tenant have to pay.
- Tax Savings. The tax advantages of homeownership are indisputable. Nevertheless, the tax advantages of homeownership are the result of a public policy favoring homeownership. It is not an indicator that homeownership has independent merit.
- Higher Transaction Costs. An educated guess might be that homeownership's direct transaction costs are, on the average, slightly higher than rental's. But, these will be affected by the occupant's own mobility.

"Residential Mobility of Blacks and Whites: A National Longitudinal Survey"

Ronald J. McAllister, Edward J. Kaiser, Edgar W. Butler, AS *American Journal of Sociology,* vol. 77, no. 3, Nov. 1971, pp. 445–456.

Objectives: A test of the following double hypothesis:

1. blacks are more likely than whites to make a change of residence (regardless of distance or type); and

2. black moves are more likely to be of short distances than are white moves.

An ancillary purpose of the research was to shed new light about race differentials in both migration and intrametropolitan residential mobility—which previous aggregated studies had neglected—and to relate these to current explanations of mobility.

Method: Based on a two-wave national survey in 43 U.S. metropolitan areas: base interviews conducted in Fall 1966 with 1476 households and

followup interviews conducted in Fall 1969 with 1561 original households—movers and nonmovers—and new households that had moved into dwelling units vacated by 1966 respondent residents.

Sample design assured a representative proportion of respondents by age, employment, status, race and by head/spouse relationship to household and correct proportional representation for each of four major census regions, each of 3 Standard Metropolitan Statistical Area (SMSA) size classes and equal numbers of interviews in central cities and in the remainder of each SMSA.

Examined were (1) retrospective moves (i.e., last moves reported by respondent); (2) subsequent moves (i.e., 1966–1969 moves); and (3) prospective moves (i.e., moving plans for the future).

Findings: The findings of this study are as follows:

- Black households move more often than white households; also they move more locally than white households.

The study indicated that approximately 10 percent more black than white households moved during the period between the surveys—subsequent moves. Over one-half of the black households changed their places of residence between 1966 and 1969. All but 4.4 percent of blacks remained within the same city or town, as compared with 17.3 percent of whites.

The greater incidence of *intra*city moves among blacks than among whites was confirmed by examination of retrospective moves—over 90 percent of the blacks previous places of residence were within the city or town, as compared with less than 60 percent of those of whites. But of these local moves, the same proportion of black and white moves—approximately 41 percent and 36 percent, respectively—were *intra*neighborhood.

Finally, examination of short run prospective moves—within a one year period—confirmed above findings that black are more likely to move than white households. But in terms of long-run prospective moves—i.e. plans to move eventually—the study revealed blacks to be equally prospective movers as whites. Though, of those planning to move eventually, twice as many blacks than whites planned intracity rather than intercity moves.

The study examined the association between race and mobility/stability and a set of twelve variables which other studies have shown to have some effect on moving behavior: age, education, family size, SES (Duncan Socio-economic index), duration of residence, tenure ownership/rentership), dwelling unit and neighborhood satisfaction, family income, location (city, suburbs), family type and social mobility commitment.

- Tenure—whether or not the dwelling unit was owned or rented—was the *only* variable to have a statistically significant effect on the black/white mobility differences. The authors conclude that the slightly greater mobility of blacks is a result of their tenure status rather than of racial, demographic, socioeconomic, or attitudinal differences. Indeed, blacks are fully 30 percent more likely than whites to be renters (69 percent to 39 percent). It is not unreasonable to suggest that whites who rent are more likely to do so by choice because they anticipate a future move, while blacks who rent are likely to do so more as a result of the biased housing market than by choice.

Reasons given by movers for their last moves between 1966 and 1969 proved to vary significantly between black and white households.

- "Forced" moves—resulting from dwelling unit destruction, eviction, land taken by eminent domain—was the reason most frequently cited by blacks (21 percent of moves), but least cited by whites (5.9 percent). Economic moves—i.e. "seeking a better place," cost related or space related—accounted for 38.2 percent of all moves by black households, and for 33.4 percent of those made by white. Dissatisfaction with one's home is a prime reason for moving behavior of both blacks and whites. Yet general dissatisfaction is more frequent among blacks (28 percent were dissatisfied with their neighborhoods and/or houses), whereas only 10 percent of the whites were dissatisfied. Finally *job-related moves* were more frequent among white households (12 percent) than among blacks (0.7 percent).

"Public Housing—Urban Slums Under Public Management"

Lisa Redfield Peattie, in Orleans and Ellis, *Race, Change and Urban Society,* Sage Publications, 1971, pp. 285–310

A general review article based on the author's observations and analysis of two "bad" public housing projects in the Boston area. Project deterioration—including physical deterioration, conflicts between tenants and management, racial conflicts, rent arrearages, high vacancy rate, crime and vandalism—is viewed as due to var-

ious intervening and accumulative factors centering mainly around the process of tenant selection. The alternative strategies for remediation reviewed revolve around ideas of the social composition of the tenant body.

General Characteristics of the Two Projects Reviewed: The two projects studied had 980 families, 712 of which were black. Two thirds of the apartments were occupied by families with no working member, and supported by some sort of public assistance. (Family income figures were not available). There were also twice as many children under sixteen as adults twenty-one to fifty-nine.

Projects' Problems: The projects are undergoing conspicuous physical deterioration: broken windows, leaking roofs, mailboxes broken, drain stoppage, project grounds covered with broken glass and trash. The maintenance system is continually backlogged.

The projects had a high vacancy rate at time of study there were approximately two hundred vacant apartments that had been largely vandalized. Over forty percent of the tenants are behind in rent payments. Vandalism overloads the maintenance system and the tenants alike. Muggings and purse-snatching are rampant. Yet, although people—both staff and residents—refer continually to "problem families," there seems to be no firm evidence to prove that problematic behaviors are generated by a limited number of problem families.

The project staff who began working on the project when it housed mainly white working-class and lower-middle class families appear to clash with the second generation of black, low-income and welfare dependent tenants. Its resulting lack of committment to the new social set-up makes for little incentive for project maintenance.

Some Causes of the Problem: "Bad" vs. "Good" Public Housing Projects: The main cause of the problem is identified in the process of tenant selection:

> ". . . publicly managed housing systems succeed in developing the sorts of social stratification between better and worse which are characteristic of urban neighborhoods in the private markets" and "one is definitely aware of the sense on the part of management and tenants that social segregation is natural and desirable."

The possibilities for social stratification within one city's public housing system may be represented by the situation in St. Louis; in the nine projects of that city vacancy rates recently ranged from .03 to over 60%.

HUD-promulgated regulations, operative in early 1969 and intended to work against this process of segregation by "good" and "bad" families, did not work. A new applicant was to be offered first a place in the project with the highest number of vacancies, then on with the second highest, and so on; if he declined all high-vacancy projects, he would go to the bottom of the list again. In Boston, a review of the first year's experience with these regulations showed that approximately two-thirds of all applicants offered the three high vacancy (or "bad" project) locations rejected the housing. Vacancies in the project continued to increase.

The rent structure of the projects contributes to maintaining a largely dependent tenant population. Families are supposed to move when their income gets over a certain level. The policy insures that families who are economically mobile leave, and are lost to the projects as potential leaders. It also encourages cheating both by tenants who fail to report their income in order to stay, and project staff who let some families remain even though over-income. In that process the first generation of working class and lower-middle class are replaced by the "welfare mothers" and by predominantly low income, black families. Racial conflicts come to play an important role in the projects, both among tenants and between tenant and management.

What determines that public projects become public slums? The author suggests that, in general, high rise projects more easily become slums; also, physically isolated projects.

It is further noted that the problems identified in the projects studies are those of the concentration of poor, not those of public housing: "high vandalism, rent arrearages, high transiency, delinquency, personal insecurity, a tendency for tenant and manager to develop an adversary relationship, and for maintenance to be inadequate, are just as characteristic of the housing situation of the poor in the private market."

Strategies for Remediation: All alternative or complementary strategies proposed revolve around the ideas of the social composition of the tenant body. They range from (a) imposing rigorous screening of "problem families"; (b) encouraging tenants to remain in the projects as their income rises; (c) dispersing the public housing stock in small "scattered" sites and through the leased housing programs; (d) facilitating tenant ownership—although this would do nothing to salvage actual "bad" projects as no one would be willing to buy there; (e) organizing the tenants—but this may generate conflicts

as members will be torn between their desire to improve the project and their need for solidarity with all tenants; (f) decentralizing or achieving community control of the public housing system —but this may lead to a similar social stratification: "Public housing cannot function effectively as both the housing of last resort for the people rejected by the rest of the city and as a system controlled by, and in the interest of, the majority of its residents."

"Housing and Its Effects"

Alvin L. Schorr, in Gutman and Popenoe, *Neighborhood, City and Metropolis,* Random House 1970, pp. 709–729

A review of the evidence of empirical studies—up to 1963—of the effects of housing and of neighborhood types on people's attitudes and behavior, health and social relationships. The author generally concludes that the type of housing occupied influences health, behavior and attitude, particularly if the housing is desperately inadequate—meaning dilapidated or lacking major facilities such as running water. Housing appears also to influence family and social relationships. Other influences of adequate housing are uncertain. He suggests that " . . . the impact of physical housing on human behavior is generally understated" because a conception has yet to be developed that sees man in relation to his physical environment.

Weaknesses of Studies on the Social Impact of Housing: Three types of studies contribute to the evidence of the effects of housing on attitudes and behavior: (a) the personal or case observations studies; they focus on indicating the interference of extreme housing conditions with activities necessary to normal personal care and family life. However convincing the evidence, generalizations from these studies are difficult. (b) Statistical analysis of the simple relationship between housing and behavior; while significant correlations are often found they do not indicate a causal relationship. Other possible "determinants" are not explored in these studies. (c) Comparative studies of residents' behavior and attitudes in different types of housing—either in "before" and "after" studies or relatively to a control group. Interpretation of these studies is subject to difficulties due to the problem of hidden factors.

In brief, all three types of studies are subject to the problem of variable specification that makes a distinction between cause and effect difficult.

Findings: The findings of this study are as follows:

Effect on Self-Perception and Satisfaction: It appears clear that families who have improved their housing feel they have improved their situation and status. There are indications of higher "general morale," but of no change in aspirations. Apparently improvement has to go beyond the simplest physical facilities before a change in attitude shows. It is suggested that opportunities for further educational and economic attainment must be genuinely present for changes in attitudes.

Satisfaction—absence of complaint when opportunity for complaint is provided—has at one time or another been shown to be positively related to: the market value of the house; ownership as opposed to rental; one's neighbors or one's view of them; close friendship or kinship ties in the neighborhood; space per person; the number of rooms per family; the availability of space for separate uses; the possession of a kitchen or bathrooms of one's own, and the absence of certain deficiencies (vermin, etc. . .). There are however qualifications. Satisfaction may depend on (a) the circumstances under which the move was made; such as between forced or voluntary move; and (b) the discrepency between where a person has lived and his current housing. Finally, it must be noted that satisfaction with housing is multi-dimensional: there are trade-offs and any specific factor under consideration may disappear in or be canceled out by the effect of another factor.

Effect on Health: The connecting links between poor housing and poor health are perhaps the best understood. Diseases that may be caused by poor housing include: (a) acute respiratory infections (colds, bronchitis, grippe); (b) certain infectious diseases of childhood (measles, chicken pox); (c) minor digestive diseases and enteritis (typhoid, dysentery, diarrhea); (d) injuries resulting from home accidents; (e) infectious and noninfectious diseases of the skin; (f) lead poisoning in children from eating scaling paint; (g) pneumonia and tuberculosis.

Effect of Crowding and Physical Housing: Crowding and other housing qualities—dilapidation and cockroaches, or a high level of noise, or service unreliability—are found to be related to some forms of stress—for instance the relation of filth or maintenance problems to migraine headaches—to behavior—for instance relation of crowding to sexual stimulation—to ill health—as the effect of crowding on increased fatigue—and

to family relationships—as the effect of crowding on intra-family friction or on parental ability and will to control children.

It should be clear that the arrangement of space, as well as the amount of space, may be influencing behavior. Where space is grossly inadequate, it is difficult to see the effects of another variable. Where the basic amount of space is inadequate, however, such questions arise as the effect of devoting increased proportions of the cost of a dwelling unit to appliances rather than space and the effect of one-story compared with two-story houses.

"The Housing Environment and Family Life"

Daniel M. Wilner, Rosabelle Price Walkley, Thomas C. Pinkerton and Matthew Tayback, The John Hopkins Press, 1962

Objectives: The main purpose of the study was to evaluate the effects of improvement in housing conditions on their recipients' (a) health; (b) behavior, attitudes and psychological characteristics; and (c) children's school performance.

Method: The study involved two samples, each surveyed 11 times during a three year period —1955–1958: a *test* group originally living in the slum but subsequently moving to a new public housing project and a *control* group matched to the test families on many characteristics and slated to remain in the slum. This longitudinal, controlled experiment adjusted carefully the original samples to take losses and moves into account. The effective samples—300 families (1341 persons) for the test group and 300 families (1349 persons) for the control group—were well-matched on a number of demographic, initial health and initial adjustment characteristics. Both samples consisted of low-income black families. The test group would vary substantially over time in the independent variable, quality of housing; the control group would remain constant in this respect.

The public housing project in which the test group eventually moved was Lafayette Courts in Baltimore, Maryland, located in the center of the deteriorated slum areas of Baltimore. It included 816 dwelling units of one to four bedrooms. The main housing physical and quality differences between Lafayette Courts and the slum housing in which the control group lived are summarized below:

Findings: It was generally found that improved housing conditions, i.e. moves into public housing projects, lead to:

- Improved individuals' health, especially for children; the effect varies however depending on the morbidity conditions examined and was often weak. Yet, among children the findings indicated that test group rates were regularly lower than control rates in three illness categories: infective and parasitic conditions, digestive condition, and accidents. Accidents were one-third lower in the housing project as contrasted with the slum;
- Greater satisfaction with specific aspects of the housing conditions, improved and more frequent relations with neighbors, increased participation in community and neighborhood activities;
- No significant differences in personal and family relations;
- No significant differences in aspirations for children's education, or for jobs and profession for boys and girls;
- No significant differences in aspirations for homeownership and husbands' job aspirations; and

Characteristic	Lafayette Courts	Slum
Space in apartment	Rooms scaled to family size	Overcrowding
Facilities—(bathrooms, kitchen appliances, central heating, closet space)	All provided	Lacking in one or more
Special facilities	Playground and community center	None
Physical	Four/fifths of residents in six 11-story buildings; one/fifth in 3-story buildings	Row 2-, 3-, 4-story buildings
Population	Homogeneous; preference given to veterans, families with children, low income families	Less homogeneous population

• No significant differences in school performance of children as measured by intelligence and reading and arithmetic achievement test scores. Test children, however, were considerably more likely to be promoted at a normal pace and mean daily attendance of test children was considerably higher than that of control children.

The study also revealed that 90 percent of the women in both groups expressed a preference for owning a home, could they really have the choice.

Some further details of this study are presented in table form:

Difference between test vs. control group in:		Comments
Health		
(1) Freedom of illness	Greater**	
(2) Number of hospitalizations	None	
(3) Mortality	Lower	5 deaths occurred among persons of 60 years and older in control group, none in test group. However size of group too small for definite conclusion.
(4) Total episodes of illness	Lower*	There are exceptions depending on age and sex groups. Especially true for persons under 35 years of age and especially children.
(5) Degree of severity of illness	Lower*	
(6) Days of disability	Lower	Significant only for all males under 60 and for males under 20.
(7) Child bearing experience	None	
Reactions to Housing and Space		
(8) Satisfaction with apartments	Greater*	
(9) Satisfaction with building, maintenance and value received	Greater*	
(10) Satisfaction with play facilities for children	Greater*	
(11) Individual privacy	Greater**	
(12) Inviting friends and neighbors	Greater*	
(13) Satisfaction with personal space	Greater*	
Personal and Family Relations		
(14) Common family activities	More often**	
(15) Parental interest in children's activities	Lower**	
(16) Relationships among family members	None	
(17) Quarrels, arguments and hard feelings	None	
(18) Reaction to and discipline of children	None	
Relations with Neighbors		
(19) Daytime interaction with neighbors	More*	
(20) Helping one another out	More often*	
(21) Infringement on privacy	None	
(22) Satisfaction with neighbors	Greater**	

(23) New friend(s) living in neighborhood	More often *	
Social Self Concept and Aspirations		Reasons most frequently given included psychological or social aspect of housing, economic aspects of housing.
(24) Feel better off than three years ago	More often *	
(25) Aspirations for children's education	None	
(26) Aspirations for jobs and professions for boys and girls	Greater **	
(27) Chances for owning own house	None	
Attitudes and Behavior Toward Neighborhood and Community		
(28) Satisfaction with location in respect to shopping	Greater *	
transportation	None	
(29) Satisfaction with distance from facilities and relatives	Lower *	
(30) Interest in keeping up neighborhood	Greater *	
(31) Satisfaction with neighborhood	Greater *	
Style of Life		
(32) Participation in self-promotive and other activities: woman	More often **	
husband	None	
School Performance		
(33) Intelligence test	None	
(34) Arithmetic achievement test	None	
(35) Reading achievement test	None	
(36) Normal progress through school grades	More often *	
(37) School attendance days	Greater *	

* Test-control difference significant at .01 or .05 level.
** Test-control difference not significant.

7 Tax Law

Analysis of Existing and Proposed Tax Regulations Related to Real Estate Development and Investment

By Robert H. Kuehn, Jr.
Housing Economics

General Description

Real estate development and investment are dependent in part on the tax incentives granted this activity. Developers and investors look to the "tax shelter" aspects of real estate as a source of profit as well as to the strictly economic returns of a project. Under existing tax regulations, which allow for the current deduction of certain construction expenses and for the application of accelerated depreciation methods, substantial tax benefits have been created which can be used to shelter other taxable income. Under proposed tax regulations,[1] these benefits would be curtailed through the imposition of new accounting requirements. In effect, construction deductions and excess depreciation would not be allowed as offsets against unrelated taxable income. Rather, losses created in this manner would be caused to be deferred until applicable against related income.

In order to assess the impact of existing versus proposed tax regulations, Housing Economics has prepared an analysis of 10 representative real estate projects. For each of these projects, the following schedules have been prepared based on standard real estate and accounting assumptions:

- Pro forma development, operating, and syndication statements.
- Summary tax projections under both existing and proposed tax regulations.
- Alternative syndication analyses given variations in investment terms under both existing and proposed tax regulations.
- Summary analysis of government cost and developer profit under both existing and proposed tax regulations.
- Miscellaneous supplementary analyses.

[1] "Proposals for Tax Change," Department of the Treasury, Apr. 30, 1973.

This systematic evaluation of tax incentives provides a useful cross-comparison of the magnitude of benefits available to developers and investors for alternative project types. The analysis also demonstrates the impact of the proposed tax regulations as compared to existing tax regulations. In sum, the analysis provides the answer to the questions:

- What is the yield to the developer and investor given alternative real estate investments?
- How does the yield compare under existing versus proposed tax regulations for each of the project types?
- What is the government's cost of providing such tax incentives?

It must be realized, however, that the figures presented in the various schedules included in this analysis are not absolutes. The assumptions are by definition averages and estimates, not hard and fast facts. Consequently, the results may be understated for some sections of the country and overstated for others. However, there is no question that the analysis presents a consistent set of assumptions for the various project types and hence a consistent set of results which may be internally compared. This systematic analysis should prove an invaluable aid in assessing the incentives for real estate development and investment under the existing and proposed tax regulations.

Assumptions and Methodology

The following details the primary assumptions and methodology used in the analysis. The assumptions and methodology are derived from the consultants' experience working with developers and investors on matters related to tax syndication over the past 5 years. The analysis is based in part on Housing Economics' computer model,[2] which has been designed in accordance with standard accounting principles and which has been applied to actual tax syndications for projects of an aggregate value in excess of $500 million.

In addition to these narrative descriptions of assumptions and methodology, it should be noted that the computer reports have been designed to be as self-explanatory as possible. The headings for all schedules use common terminology and the schedules otherwise follow standard formats. As far as practical, assumptions are included in the reports themselves (e.g., the debt

[2] Projection Model, Copyright 1970.

service rate and basis for calculation is reported as well as the annual debt service amount). Finally, footnotes to the schedules provide additional information where required.

Project Types: In order to provide a representative cross-section of real estate investment alternatives, and hence a thorough analysis of the differential tax consequences, 10 "typical" project types were structured. These project types and their respective financing assumptions are as follows:

Project Type	Financing Assumptions
FHA S.236	90% mortgage @ 1%, 40 yrs. 10% equity @ 6%
1. Walkup	
2. Elevator	
3. Rehab—accelerated depreciation	
4. Rehab—167(K) depreciation	
5. FHA S.221(d)4	90% mortgage @ 7%, 40 yrs. + ½% MHFA 10% equity @ 7.957%
6. State (MHFA) (i.e., 25% of the units under S.236 subsidy)	67½% market mortgage @ 7%, 40 yrs. 22½% S. 236 mortgage @ 1%, 40 yrs. 10% equity @ 6%
Conventional	75% 1st mortgage @ 8½%, 25 yrs. 15% 2nd mortgage @ 10%
7. New—residential	10% equity @ 12%
8. New—commercial	
9. Old—residential	
10. Old—commercial	

Development Pro Forma: The starting point for the pro forma development schedule for each project type is, of course, construction costs. Assuming 100 units for each of the residential projects, the following typical construction costs were established:

Walkup:	$15,000/unit =	$1,500,000
Elevator:	$17,500/unit =	$1,750,000
Rehab.:	$12,500/unit =	$1,250,000

The equivalent commercial project construction costs, assuming a 100,000 square foot building, is $15 per square foot.

The walkup cost assumption was based on a review of actual projects processed by the FHA for each of the HUD regional areas. The average cost for the projects reviewed was approximately $13,100 per unit; this figure was then increased by 15 percent based on an assumed cost inflation since the date the projects were processed (1970–71). The elevator cost assumption was derived by applying the factor for FHA elevator versus walkup mortgage limits (17%±). The rehab costs were derived from a smaller sample of FHA processed projects.

The land acquisition value for all cases was assumed to be $1,150 per unit or $115,000 for the project. Again, this figure was arrived at based on the review of FHA processed projects from the 10 HUD regions. This average cost was not updated. As regards the rehab projects, it was assumed that the properties to be rehabed were acquired for the land value of $115,000 only; i.e., the building shell had no value. This simplifying assumption has a negligible effect on the analysis of the rehab projects.

All other development-related costs are standard estimates based on FHA fee schedules or normal practice. In most instances, the assumption and basis for calculation is noted in the schedule itself.

A special note regarding the new conventional projects (residential and commercial): A profit allowance (equivalent to the FHA BSPRA) would not normally be indicated. Rather, a conventional developer's profit would be included in the construction cost or other fees. It should also be noted that conventional projects are more typically financed on an "income" rather than "cost" basis, so that the development schedule as such is not totally relevant. However, the approach taken in the analysis is consistent in that the assumptions establish comparable replacement costs under conventional versus government financing.

As regards old conventional projects (residential and commercial), it was assumed that the replacement cost for these existing properties was equivalent to replacement cost for the similar newly constructed properties. This assumption is not to be interpreted as meaning the existing property is equivalent in type and value to the new property. Rather, the approach is again to compare the tax consequences of similar dollar investment alternatives.

Operating Pro Forma: The operating pro forma statement represents the annual income and expense of operating the project. The gross effective income (rental income less vacancy allowance) less the operating expenses and real estate taxes, equals net income. The net income, of course, must be sufficient to cover the debt service and cash flow requirements which are based on the project's development costs and financing terms.

The operating expense and real estate tax assumptions were based on a review of FHA-processed projects. The average expenses and taxes (rounded) for a typical 100 unit S.236 project were found to be within the following range:

Management	$ 9,000	(5% GEI)
Operating	40,000	
Maintenance	15,000	
Reserves	9,000	
Subtotal Expenses	$ 73,000	
Real Estate Taxes	27,000	(15% GEI)
Total Expenses and Taxes	$100,000	

In other words, operating expenses and taxes average $1,000 per unit per annum. These estimates are inclusive of all normal housing related costs such as heat, utilities, parking, etc.

It was then necessary to translate these expense and tax estimates from the FHA S.236 context to other residential project types. It was assumed that the operating and maintenance estimates would remain constant for all housing types; the reserves estimates would vary only with the construction amount (calculated at .6 percent of construction cost). However, the management and tax estimates were allowed to float at the given percentage of gross effective income (GEI). Hence, as rents change based on differential development costs and/or financing terms, management expenses and real estate taxes will increase accordingly.

A similar approach was taken for the commercial projects. The major difference was that operating expenses were assumed to be $70,000 and maintenance to be $30,000, for a total of $100,000 or $1 per square foot. These estimates are consistent with current practice for commercial building providing full tenant services in the rent.

It could be argued that these operating assumptions are distorted for one project type versus another. For example, it might be argued that the conventional projects would not carry as high an operating expense figure since utilities often would not be included in rent as required for FHA projects; conventional projects often do not schedule a reserve, either. On the other hand, the real estate taxes as a percentage of rents may be too low for the conventional project since FHA projects often receive more favorable tax treatment. Thus, in balance, the operating assumptions appear reasonable. Also, it should be noted that the operating estimates (except for reserves) have no effect on tax implications of the project since such expenses are a direct deduction from rental income.

Syndication Pro Forma: The syndication pro forma statement presents an allocation of development costs for tax purposes. Costs are allocated in three categories based on current accounting principles and IRS guidelines. These categories are as follows:

- Nondepreciable costs
- Depreciable costs
- Expensed costs

The nondepreciable cost category, consisting of land cost, is self-explanatory. The depreciable cost items should also be self-explanatory, with the possible exception of the developer's profit. The profit allowance is included as a depreciable cost in this analysis as an approximation of net syndication proceeds. Normally, of course, this assumption would not be made. Rather, the profit allowance would be applied as an offset against equity; then the actual syndication proceeds less the adjusted equity requirements would be added to the depreciable base. However, in this analysis, the normal procedure would have resulted in slight variations in the depreciable base for each alternative syndication assumption. Thus, in order to simplify the reports, the profit allowance was used as an approximation. To the extent that the calculated syndication amount less net cash requirements for a given variation exceeds the profit allowance, the depreciable base has been understated, and vice versa. This simplifying assumption has a negligible effect in most instances; the effect is clearly more pronounced for the analysis of the proposed tax regulations.

The expensed costs category includes those development expenses which are not capitalized but written off during the construction period. It should be noted that until recently additional items (such as the FHA examination and inspection fees) were expensed rather than capitalized. However, expensed costs have increasingly been scrutinized by the IRS, with the result that fewer items are written off. The expense assumptions in this analysis reflect current practice. It should also be noted that these expensed items are deducted only when paid or accrued during con-

struction. However, since this analysis assumes a one year construction period in a single calendar year, no further breakdown is required to allocate the expensed costs properly.

Projection Schedules: Based on the pro forma development, operating, and syndication schedules, two tax projections are made for each project type for the term of the mortgage. Note that Year 0 is the construction period and Years 1–25 or 1–40 are the years of occupancy.

The first tax projection reflects the existing tax regulations which allow for losses based on accelerated depreciation and construction period deductions. The second tax projection is based on the proposed tax regulations which disallow the current deduction against unrelated income of depreciation in excess of straight line and all construction period deductions. The proposed regulations cause such excess depreciation and construction expenses to be deferred until applicable against related income. Included as part of the second tax projection is a " 'LAL' Reconciliation" schedule which presents the accumulation and application of such deferred losses under the proposed tax regulations. Note that the assumption has been made that all deferred losses are applied against income generated from the projection itself and not related income from other sources.

The basic tax projection schedules follow standard accounting assumptions and should be self-explanatory. The calculations for tax purposes of "Income (Loss)" and "Cash Distributions" can be summarized as follows:

Income (Loss)	Cash Distributions
Income (including subsidy)	Income
—Expenses and Taxes (excl. reserves)	—Expenses and Taxes
—Interest	—Interest
—Depreciation	—Amortization
	—Reserves
Income (Loss)	
	Cash Distributions

The depreciation assumptions applied in the analysis, however, require further explanation as follows:

Project	Components	Life	Method	Recapture Phaseout
FHA S.236	85%	40	200%	120
(except rehab)	10%	20	200%	120
	5%	10	200%	120
FHA S.236	85%	25	200%	120
(rehab-accelerated)	10%	20	200%	120
	5%	10	200%	120
FHA S.236	85%*	25*	5 yr. S.L.	200
(rehab-167(K))	10%	20	200%	120
	5%	10	200%	120
FHA S.221(d)4	85%	40	200%	200
	10%	20	200%	200
	5%	10	200%	200
State (MHFA)	85%	40	200%	120
	10%	20	200%	120
	5%	10	200%	120
Conventional	85%	40	200%	200
(new-residential)	10%	20	200%	200
	5%	10	200%	200
Conventional	85%	40	150%	None
(new-commercial)	10%	20	150%	None
	5%	10	150%	None
Conventional	85%	25	125%	200
(old-residential)	10%	20	125%	200
	5%	10	125%	200
Conventional	85%	25	S.L.	None
(old-commercial)	10%	20	S.L.	None
	5%	10	S.L.	None

(* maximum of $15,000 per unit for the 5-year writeoff; the life indicated is the normal life used for calculating excess depreciation irrespective of actual depreciation.)

The component breakdown is based on standard practice, with 85 percent of the base representing the shell, 10 percent representing major mechanicals, roofs, etc., and 5 percent representing appliances, finish work, etc. The useful lives, depreciation methods, and recapture phaseout assumptions are dictated by IRS regulations. The one possible exception is the lack of differentiation between the useful life of the shell for the walkup versus elevator S.236 project. (Walkup projects often carry a shorter life and elevator projects a longer life.) The composite life for all new construction as defined above is approximately 37 years.

In addition, provision is made for replacements in Years 10, 20 and 30. The amount of the replacement is 10 years accumulation of reserve (without interest); the replacement is depreciated over 10 years using straight line. It is the effect of these replacements which cause the income (loss) column to vary in the projection schedules in the year a replacement is made.

Syndication Analysis: Based on the projections of income (loss) and cash distributions, a discounted rate of return analysis is performed for each project type under both existing and proposed tax regulations. This syndication analysis follows a twofold approach:

- Given a specified rate of return (15 percent and 20 percent), what is the dollar value of the investment?
- Given a specified dollar value ($250,000), what is the rate of return for the investment?

The additional variables applied in this analysis are:

- 50 percent and 60 percent investor ordinary tax brackets (with 30 percent and 35 percent capital gains rates, respectively).
- One investor payment as of initial close and three equal investor payments as of initial close and one-year intervals thereafter.
- Sale of the property for the mortgage balance, the original replacement cost, and the original cost appreciated 2 percent annually.
- Sale in Year 20 (see also special analyses for sale in Years 0, 5, 10, 15, 25, 30, 35, and 40 for FHA projects).

The discounted rate of return should be further defined. The discounted return (or internal rate of return) is the after-tax yield, taking into consideration investor payments, tax benefits, cash distributions, and the consequences of sale. It is the maximum return which can be paid on the outstanding balance of the investment each year and still allow recovery of the original capital contributions at the end of the holding period. Included in the discount calculations is a provision of a sinking fund to offset any tax resulting from sale of the project in excess of sales proceeds. This sinking fund compounds at the annual rate of 5 percent, commencing at the latest date sufficient to accumulate an amount equal to the capital gains and/or ordinary recapture taxes on sale. In the event a sinking fund is required, the discount calculation runs only to the point the sinking fund commences. In effect, the sinking fund provides a more conservative discount for any tax liability on sale.

Cost/Benefit Analysis: Given the tax projections and syndication analysis for each project type, a summary cost/benefit analysis is prepared. Specifically, this analysis reflects the cost/benefit results for Government and the developer under both existing and proposed tax regulations. More accurately, it is the Government's cost and the developer's benefit that are evaluated.

The Government cost is related to the tax incentives allowed the investor for a particular project. In this analysis, only the construction period expenses and the depreciation in excess of straight line are treated as the tax incentive. In effect, this assumes that straight line depreciation, interest deductions, etc., are a normal cost of doing business and should not be considered a special tax incentive.

The cost of the Government under existing tax regulations is then equal to the tax savings afforded a 50 percent taxpayer given such construction deductions and excess depreciation; i.e., these tax savings represent the taxes lost to the Treasury which would otherwise be collected. Under proposed tax regulations, of course, such construction deductions and excess depreciation are deferred until applicable against related income. Thus, the cost to the Government under proposed regulations equals only those deferred losses which are applied during the holding period of the investment.

A partial offset against tax incentives allowed the investor is the tax realized by the Government upon sale of the property. To calculate this tax, it is assumed that the original investment basis is the syndication value at a 15 percent rate of return given a 50 percent investor who invests in three installments. This basis, however, is then prorated for the tax incentives identified (construction deductions and excess depreciation) versus the total tax benefits

(straight line depreciation, etc.). Finally, it is assumed that the property is sold for the mortgage balance in the 20th year. The capital gains tax is then calculated at 30 percent of the prorated adjusted basis.

Given these assumptions and calculations, the Government cost analysis is reported for the period, plus the partial cost recovery through the tax on sale. This schedule includes the results under both existing and proposed tax regulations; the results are presented as absolute costs and as discounted costs (assuming a Government borrowing rate of 6 percent).

The developer's benefit analysis summarizes the net profit position for the real estate project. This reflects both existing and proposed tax regulations, and one and three payment syndication alternatives. The syndication proceeds assume a 15 percent discounted rate of return to a 50 percent investor given a sale in the 20th year for the mortgage balance. In the case of a three installment investment, the proceeds are discounted by 10 percent to account for the developer's deferral of profit. A 12 percent syndication cost is then deducted from the proceeds. This estimated cost represents brokerage commissions, legal and accounting expenses, etc. Finally, the net cash required for development of the project is deducted to arrive at the net profit. It should be noted, however, that this profit figure does not include any allowance for a builder's profit (if required) or for any development contingencies.

Special Analysis: A series of special syndication analyses was also prepared for selected cases. These special analyses are as follows:

- The return on a syndication of $250,000 given a sale in Years 0, 5, 10, 20, 25, 30, 35, and 40 for FHA projects; the return is calculated under both existing and proposed tax regulations for a variety of investment and sale assumptions.
- The syndication value or return assuming no cash flow for FHA projects; the return is calculated under both existing and proposed tax regulations for a sale in Year 20 for a variety of other investment and sale assumptions.
- The comparative returns given an investment of $250,000 in two consecutive FHA S.236 walkup projects on a normal basis, and the investment of the same amount in two projects assuming a "1039 rollover" at the time the first project is sold. The normal basis assumes a 50 percent, 3 pay investment with a sale after 20 years for $1 over the mortgage balance for each project. The rollover assumes the same investment and sale conditions except that no capital gains tax is calculated upon sale of the first project after 20 years. Rather, the adjusted basis is carried into the second project and reflected in the tax on the second sale which occurs at that time when the aggregate adjusted basis exceeds the mortgage (in this example, also Year 20).

The first two special analyses are presented as a separate appendix to this report. The last analysis is summarized below:

Return	Normal Sale	Rollover Sale
1st project:	20%	22%
2nd project:	20%	13.3%

Conclusions: The following table summarizes the analysis of the 10 alternative project types under both existing and proposed tax regulations ($000's omitted):

Project Type	Syndication Proceeds (1)		Developer's Net Profit (2)		Government Cost (3)	
	Existing	Proposed	Existing	Proposed	Existing	Proposed
1	$281	$129	$195	$73	$168	$ 4
2	325	150	227	87	194	4
3	299	155	212	97	153	0
4	475	128	353	76	467	68
5	294	143	128	8	169	7
6	244	127	166	72	135	3
7	253	146	173	88	168	78
8	213	141	141	84	108	60
9	348	321	72	51	23	10
10	323	323	52	52	0	0

Notes: (See also assumptions and schedules for more detailed description.)
(1) Syndication proceeds are based on a 15 percent discounted yield assuming a 50 percent investor, 3 payments, and a sale in Year 20 for the mortgage balance.
(2) Developer's net profit equals the above syndication proceeds less syndication costs and cash equity requirements.
(3) Government cost equals the discounted value of the tax savings for an investor in the 50 percent tax bracket based on the stated syndication terms; tax benefits are assumed to be construction deductions and excess depreciation only under existing tax regulations and deferred losses under proposed tax regulations.

It is, of course, very difficult to summarize the results of such a complicated analysis without running the risk of gross oversimplification. Caution must also be exercised in extrapolating these conclusions beyond the context of the assumptions applied in the analysis. Such disclaimers notwithstanding, however, a number of general conclusions can be drawn from the analysis which form a partial answer to the questions stated in the introduction to this report.

1. The syndication proceeds (assuming standard syndication terms) are a function of the tax benefits and cash flow related to a specific project type. The tax and cash benefits in turn are a function of the following combination of factors under existing tax regulations:

a. Total replacement cost as related to depreciable base; for example, note the differential in syndication proceeds for the FHA S. 236 walkup versus elevator project (projects #1 and #2 respectively) which results from the differential in replacement cost, all else being equal.

b. Depreciable lives and depreciable methods allowable; compare, for example, projects #7 and #9 which are similar except for the useful lives used (40 years and 25 years for the shells, respectively); compare also projects #7 and #8 which are similar except for the depreciable method applied (200 percent and 150 percent, respectively); note also the dramatic differential under the 167(K) 5-year writeoff.

c. Financing terms, especially as regards annual interest payments (deductible) versus principal payments (nondeductible) to the extent that a project carries a shorter mortgage period, the earlier nondeductible amortization must be offset by other benefits; assuming depreciable base, lives, and methods are equal, the only benefit that can be increased is cash flow; for example, projects #1 and #7 are similar except that project #1 carries a 40-year mortgage and a 6 percent cash flow, and project #7 has a 25-year mortgage and a 12 percent cash flow (the latter also has a slightly reduced depreciable base).

d. Cash distribution irrespective of other factors; for similar projects, a greater cash flow will result in a higher yield; compare project #1 (6 percent cash flow) and project #2 (approximately 8 percent cash flow).

e. Sale or residual assumptions (not shown in summary table); the sale conditions affect the syndication yield in that proceeds from sale in excess of the mortgage balance produce a gain which represents additional benefits or at least an offset against the tax liability on sale; however, since the sale occurs at the end of the holding period (say 20 years), the present value of this gain may be negligible even though the absolute gain is substantial.

Under the proposed tax regulations, the above basic considerations still apply. However, the tax and cash benefits generated are subsequently treated quite differently. Namely, all construction deductions and excess depreciation are deferred until applicable against related taxable income rather than resulting in an immediate tax benefit. The effect on syndication proceeds of the proposed tax regulations are a function of the following factors:

a. Depreciable lives and depreciable methods allowable; for a longer depreciable life, the application of deferred losses is delayed since straight line coverage exists for a greater period of time; in addition, the more accelerated the depreciation method, the greater is the excess depreciation that must be deferred; compare, for example, projects #7 and #9 for the net effect of these conditions; see also projects #3 and #4 for a more dramatic comparison based only on the depreciation method used.

b. Construction period deductions; often tax benefits are thought of only in terms of depreciation; in fact, construction period deductions of interest and other expenses are equally, if not more, important to the syndication yield; the reason for this importance is that such deductions occur in the first year; under proposed tax regulations, of course, these deductions must be deferred, resulting in no return to the investor until occupancy.

c. Financing terms, especially the amortization period; the longer the amortization period, the greater the delay before deferred losses can be applied against the nondeductible principal payments; for example, note this effect in comparing projects #1 and #7, which are similar except for financing terms (the latter also carries an increased cash flow, the effect of which is discussed below).

d. Cash flow considerations; a project with a greater cash flow, all else being equal, will be able to absorb deferred losses at an earlier date; cash flow, of course, is the most direct way of generating additional related income; compare projects #1 and #5 or projects #1 and #7 as an example of these effects; unfortunately, the implication of this point is that rents will have to increase under the proposed regula-

tions in order to take advantage of deferred losses.

2. The developer's net profit is, in turn, a function of syndication proceeds. It is self-evident that the net profit will be substantially reduced in most instances under the proposed tax regulations versus the existing tax regulations.

The net profit is equal to the proceeds less syndication costs less cash equity requirements. In the analysis, it was assumed that syndication costs were a constant percentage. Hence, the primary variable in addition to syndication proceeds is the cash requirement. In most instances, these requirements equal the total equity (replacement cost less mortgage amount) less the profit allowance as an offset against equity. The exceptions are the FHA S.221(d)4 project (#5) which carries a 4 percent mortgage discount which must also be covered out of syndication proceeds, and projects #9 and #10 (existing properties) which did not include a developer's profit as an offset. Note, however, that the net profit stated for each of the 10 projects does not include any allowance for development or operating contingencies which could in fact erode the profit position.

3. The Government cost analysis is based not on total tax benefits and cash flow. Rather, only certain construction deductions and excess depreciation are treated as the tax cost. All other benefits are assumed to be a normal cost of doing business; they do not constitute special tax incentives. The Government cost is therefore equal to the savings realized by an investor in the 50 percent tax bracket based on construction deductions and excess depreciation under existing tax regulations, and deferred losses when applied under proposed tax regulations. Both the absolute value of these costs and the discounted value (at the government's assumed borrowing rate of 6 percent) are reported. The cost calculation also takes into account the partial recovery of tax benefits through the tax consequences upon sale of the project.

The cost to the Government under existing tax regulations is affected by the same factors that affected the syndication proceeds. In brief, it is a combination of depreciable base, depreciable life, and depreciable method that influences the Government's cost. The greater the depreciable base, the shorter the depreciable life, and the more accelerated the depreciation method, the more pronounced the Government's cost. Of these factors, the depreciable method is by far the most important; clearly, even a large depreciable base and short depreciable life will produce no excess depreciation at straight line or negligible excess at the 125 percent method.

The cost to the Government under the proposed tax regulations results from a different set of conditions. The cost is affected not so much by the magnitude of the excess depreciation created by a large base, short life, or accelerated method, since such losses must be deferred until applicable against project income. The cost of the Government, therefore, becomes a function of how soon and to what extent such losses can be applied. Projects such as the FHA examples, with an extended amortization period and/or limited cash flow, do not provide the opportunity for such deferrals early in the holding period. Projects such as the conventional examples present a more favorable circumstance for deferral of these losses.

The foregoing summarizes the major conclusions and cross-comparisons that can be drawn from the analysis. This summary is inherently simplified and should not be used out of context from the assumption applied in the analysis.[3]

Additional comments regarding the impact of the existing versus proposed tax regulations are given in the following section.

Is the Housing Production Baby Being Thrown Out with the Tax Shelter Bathwater?

In its "Proposals for Tax Change" introduced April 30, 1973, the Treasury Department proposed a Limitation on Artificial Accounting Losses (LAL). The purpose of the proposed regulations is to eliminate tax shelters by disallowing artificial tax losses which can be used to offset current unrelated income. However, these artificial losses will neither be permanently disallowed nor caused to be capitalized; rather, such losses will be carried forward to be deducted against future related income.

In the case of real estate development, the artificial losses in question are those losses generated by certain construction period deductions and by accelerated depreciation in excess of straight line. To the extent that such losses are not matched by taxable income from other real

[3] The tabular data produced in the analysis are available from National Technical Information Service (No. 233 755).

estate investments, the losses must be carried forward to a future year in which such taxable income is present. According to the Treasury Department, these changes in the tax regulations will not affect ". . . the ordinary real estate developer, but rather the outsider who buys into (the real estate industry) in search of tax 'losses.' "

Certainly, these proposals will affect the outside investor. However, contrary to the Treasury's opinion, the proposals will just as certainly have a profound impact on the ordinary developer who depends on the sale of such losses for his profits. And inevitably, the final burden must be passed on to the tenant of housing or other real estate produced under these proposals to the population. A simple example should suffice to demonstrate these contentions.

Appendix A presents a typical FHA S.221(d)4 project of 100 units; the development and operating budgets for the project are detailed as well as the allocation of costs for syndication purposes. Based on standard accounting principles and syndication terms, a tax projection is then prepared under both existing and proposed tax regulations. Appendix B presents the resulting project under existing tax conditions; a typical syndication of these benefits would result in a gross profit of $380,000 to the developer, assuming a 15 percent after-tax discounted rate of return. Appendix C presents the tax results under the proposed tax regulations, including the 'LAL' reconciliation of carryforward losses. Given the proposed regulations, a syndication of benefits has resulted in a gross profit to the developer of only $160,000. Note in particular that deferred losses cannot usefully be applied for at least 17 years under the proposed regulations. In fact, additional analysis shows that it is more advantageous to capitalize construction deductions and use straight line depreciation for a project of this type rather than elect the 'LAL' carry forward methods.

Hence, the gross profit to the developer has been cut from $380,000 to $160,000 under the proposed tax regulations as compared to existing regulations. It should be noted that this reduced profit is substantially less than the developer's profit (BSPRA) allowed as an offset against equity. After cash requirements (including equity, mortgage discounts, and syndication fees), the developer will net only about $20,000 under the proposed regulations. This net amount hardly represents a sufficient incentive for housing or other real estate development.

What will be the response to this impact of the proposed regulations, short of despair? Three possible responses, none of which is very desirable, are as follows:

1. The loss of profit curtailed through the tax system will be made up through increased costs to the consumer. This could take the form of increased direct development profits allowed the developer for producing the housing; e.g., a 15 percent BSPRA and/or 95 percent mortgage could be allowed, resulting in a direct cash profit for development after all equity requirements. This, of course, would effectively increase rents through higher debt service to the project. Alternatively, a 10–15 percent management fee could be allowed, again increasing rents, but generating a sufficient profit incentive to the developer. Finally, and most likely, cash return will simply be increased resulting in increased rents. For example, the net yield to the developer in the (d)4 example used in this analysis could be equalized if cash flow increased from the assumed 8 percent under existing regulations to approximately 25 percent under proposed regulations. However, this increase represents an average of about $35 per month increase in rents. Such upwards pressures on economic rents could quickly eliminate markets for new production.

2. Rental real estate will be replaced increasingly by condominium forms of ownership. In effect, developers will take their profits out on the front end at the time of sale; the purchasers will individually enjoy the personal tax deductions available to owners which are unaffected by the proposed tax regulations. While ownership versus rental tenancy is by no means a negative condition per se, a strong real estate market does depend in part on a balance between the two. In particular, rental housing is required for a young mobile market and for those families who do not possess sufficient credit or equity to purchase a home. Similarly, office and commercial real estate cannot be held exclusively on an ownership basis. It should also be noted that the Treasury forgoes far more tax dollars from ownership forms to real estate than it does through rental forms.

3. More complicated syndications will be created to take advantage of accelerated losses without LAL deferrals. For example, a heavy loss project could be "pooled" with a heavy cash project, resulting in a high yield loss plus tax-free cash return to investors. Alternatively, the

heavy loss project could be combined with a condominium project, effectively sheltering sales profits by the losses generated. (Such syndications would apply only to residential real estate since the proposed regulations do not allow such crossovers in nonresidential projects, limiting losses to income from a particular project only.) However, such "deals" will be largely counterproductive to the avowed purposes of the proposed regulations. They will serve no economic purpose other than to salvage those tax benefits otherwise rendered inoperative by the proposed tax regulations. Moreover, the inherent complications of pooling projects will tend to limit these possibilities to those sophisticated developers and investors who can afford the technical, legal, and accounting counsel required. In particular, from the developer's point of view, more of the tax incentive value will be lost to the middlemen who structure such deals, reducing the net profit for the producer. Thus, the proposed tax changes in practice may in fact promote more abuses than the current system.

One final note: There should be no question that our existing tax regulations related to real estate development contain certain problems and inequities. Indeed, if for no other reason, the current system should be changed because it is an unnecessarily complicated and inefficient way to provide a fair measure of profit to the developer. However, that said, it also has to be realized that the profit incentive has to come from somewhere if not through the tax system. Whether we like it or not, real estate development and housing development in particular is not strictly an economic, self-supporting activity, but depends in part on external forms of assistance. The Treasury Department's action to circumscribe effective tax subsidies for production cannot be unilateral, but must be balanced by compensating direct subsidies through HUD or other mechanisms. Therefore, one must cautiously look beneath the surface of that murky tax shelter bathwater before pouring it down the drain along with our national production goals, which are still in their infant stages.

Appendix A

Report:
1) Proformas
2) Tax Analysis
3) Both

Choice: ?3

Financing: FHA S.221(d)4
Location: Boston, Mass.

Note: Totals may not add due to rounding.

Development:			
Construction Cost			1,750,000
Professional Fees			
General Overhead	2.00% Cost	35,000	
Builder's Profit	.00% Cost	0	
Architect's Fees	6.00% Cost+	107,100	
Bond Premium	.50% Cost	8,750	
Other		0	
Total			150,850
Carrying and Financing			
Interest	7.00%	76,703	
Taxes		10,000	
Insurance		8,000	
FHA MIP	.50% Mtge.	10,958	
FHA Exam. Fee	.30% Mtge.	6,575	
FHA Insp. Fee	.50% Mtge.	10,958	
FNMA/GNMA Fee	1.50% Mtge.	32,873	
Financing Fee	2.00% Mtge.	43,830	
Title Expense		10,000	
Legal Expense		12,000	
Total			221,896
Developer's Profit	10.00% Above		212,275
Land Acquisition			100,000
Replacement Cost			2,435,021
Mortgage Amount	90.00% Total		(2,191,518)
Equity Required			243,502
Mortgage Discount	4.00% Mtge.	87,661	

(Continued on p. 905.)

(Continued from p. 904.)

Operating:			
Average Monthly Rent			310.63
Gross Rental Income			372,755
Other Income			0
Vacancy Allowance			(26,093)
Gross Effective Income			346,662
Operating Expenses			
Management	5.00% GEI	17,333	
Operating		45,700	
Maintenance		19,600	
Reserves		9,504	
Total			(92,137)
Real Estate Taxes	17.50% GEI		(60,666)
Net Income			
Debt Service	7.957% Mtge.	174,379	
Cash Return	8.000% Equity	19,480	
Total			193,859
* Syndication:			
Nondepreciable Costs			
Land Acquisition		100,000	
Total			100,000
Depreciable Costs			
Construction Costs		1,750,000	
Professional Fees		150,850	
Insurance		8,000	
FHA Exam. Fee		6,575	
FHA Insp. Fee		10,958	
Title Expense		10,000	
Legal Expense		12,000	
Developer's Fee		212,275	
Total			2,160,657
Expended Costs			
Interest		76,703	
Taxes		10,000	
FHA MIP		10,958	
FNMA/GNMA Fee		32,873	
Financing Fee		43,830	
Total			174,364

* Note: Syndication proceeds in excess of the net equity requirements are also added to the depreciable base.

Appendix B. Summary Tax Projection: Existing Tax Regulations

	Year	Income (Loss)	Tax Savings (Cost) @ 50%	Cash Distribution	Total Benefits	Cumulative Benefits
0	1973	(174,364)	87,182	0	87,182	87,182
1	1974	(90,236)	45,118	19,480	64,598	151,780
2	1975	(83,705)	41,853	19,480	61,333	213,113
3	1976	(77,093)	38,547	19,480	58,027	271,139
4	1977	(70,390)	35,195	19,480	54,675	325,814
5	1978	(63,590)	31,795	19,480	51,275	377,089
6	1979	(56,693)	28,347	19,480	47,827	424,916
7	1980	(49,686)	24,843	19,480	44,323	469,239
8	1981	(42,562)	21,281	19,480	40,761	510,000
9	1982	(35,323)	17,662	19,480	37,142	547,141
10	1983	(41,900)	20,950	19,480	40,430	587,571
11	1984	(35,029)	17,515	19,480	36,995	624,566
12	1985	(29,592)	14,796	19,480	34,276	658,842
13	1986	(24,010)	12,005	19,480	31,485	690,327
14	1987	(18,273)	9,137	19,480	28,617	718,943
15	1988	(12,373)	6,187	19,480	25,667	744,610
16	1989	(6,296)	3,148	19,480	22,628	767,238
17	1990	(27)	14	19,480	19,494	786,731
18	1991	6,441	(3,221)	19,480	16,260	802,991
19	1992	13,126	(6,563)	19,480	12,917	815,908
20	1993	15,592	(7,796)	19,480	11,684	827,592

Appendix C. Summary Tax Projection: Proposed Tax Regulations

	Year	Income (Loss)	Tax Savings (Cost) @ 50%	Cash Distribution	Total Benefits	Cumulative Benefits
0	1973	0	0	0	0	0
1	1974	(27,948)	13,974	19,480	33,454	33,454
2	1975	(26,650)	13,325	19,480	32,805	66,259
3	1976	(25,270)	12,635	19,480	32,115	98,374
4	1977	(23,800)	11,900	19,480	31,380	129,754
5	1978	(22,234)	11,117	19,480	30,597	160,351
6	1979	(19,597)	9,794	19,480	29,274	189,625
7	1980	(15,849)	7,925	19,480	27,405	217,029
8	1981	(11,994)	5,997	19,480	25,477	242,506
9	1982	(8,022)	4,011	19,480	23,491	265,997
10	1983	(17,868)	8,934	19,480	28,414	294,411
11	1984	(13,752)	6,876	19,480	26,356	320,767
12	1985	(10,555)	5,278	19,480	24,758	345,525
13	1986	(7,212)	3,606	19,480	23,086	368,611
14	1987	(3,715)	1,858	19,480	21,338	389,948
15	1988	(55)	28	19,480	19,508	409,456
16	1989	0	0	19,480	19,480	428,936
17	1990	0	0	19,480	19,480	448,416
18	1991	0	0	19,480	19,480	467,896
19	1992	0	0	19,480	19,480	487,376
20	1993	0	0	19,480	19,480	506,856

'LAL' Reconciliation:

	Year	Total Income (Loss)	'LAL' Income (Loss)	Net Income (Loss)	Net Loss Deferral (Credit)	Carry-Forward Balance
0	1973	(174,364)	0	0	174,364	174,364
1	1974	(90,236)	(27,948)	(27,948)	62,288	236,652
2	1975	(83,705)	(26,650)	(26,650)	57,055	293,707
3	1976	(77,093)	(25,270)	(25,270)	51,823	345,530
4	1977	(70,390)	(23,800)	(23,800)	46,590	392,120
5	1978	(63,590)	(22,234)	(22,234)	41,356	433,476
6	1979	(56,693)	(19,587)	(19,587)	37,106	470,582
7	1980	(49,686)	(15,849)	(15,849)	33,837	504,419
8	1981	(42,562)	(11,994)	(11,994)	30,568	534,987
9	1982	(35,323)	(8,022)	(8,022)	27,301	562,288
10	1983	(41,900)	(17,868)	(17,868)	24,032	586,320
11	1984	(35,029)	(13,752)	(13,752)	21,277	607,597
12	1985	(29,592)	(10,555)	(10,555)	19,037	626,634
13	1986	(24,010)	(7,212)	(7,212)	16,798	643,432
14	1987	(18,273)	(3,715)	(3,715)	14,558	657,990
15	1988	(12,373)	(55)	(55)	12,318	670,308
16	1989	(6,296)	3,783	0	2,513	672,821
17	1990	(27)	7,812	0	(7,785)	665,036
18	1991	6,441	12,040	0	(12,040)	652,996
19	1992	13,126	16,486	0	(16,486)	636,510
20	1993	15,592	16,712	0	(16,712)	619,798

Rationale of the Present Tax Benefits for Homeowners

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Introduction

This research paper examines the rationale for the present Federal income tax benefits for homeowners, against a background of current tax reform literature which is preoccupied quite narrowly with the equity aspects of the present longstanding rules. This treatment involves the exclusion of the imputed rental value of an owner-occupied residence from gross income coupled with homeowners' deductions for mortgage interest and local property taxes. After reviewing the case for and against the present tax treatment, the study proceeds to examine quantitatively the impact of the homeowner exclusions and deductions; the role of property taxes in the housing consumer's choice between homeownership and tenancy; the economic equity and administrative considerations relevant to policy decisions affecting the inclusion or exclusion of imputed rental value of owner-occupied homes in the income tax base; the effects of tax incentives for investors in rental housing on housing supply and its distribution among different classifications of units; and the probable effects of housing-related aspects of the current tax reform proposals presented by the Treasury Department before the House Ways and Means Committee April 30, 1973.

Rationale and Beneficial Externalities of Tax Benefits for Homeowners

The Federal income tax (and the typical State income tax structure, which follows the Federal pattern; provides important tax benefits for both rental and owner-occupied housing. In the case of homeowners, who receive the greatest direct benefits, the tax advantages comprise the exemption from income tax of the net imputed rental value, together with the deductibility of mortgage interest and property tax payments. Smaller benefits accrue to renters in the form of more abundant rental housing supplies and therefore lower rents reflecting the accelerated tax depreciation allowances available to rental housing investors. On net balance, however, the direct tax benefits for homeowners outweigh the indirect benefits to tenants, creating the issue—which has agitated tax reform literature particularly in the past decade—known as the discrimination in favor of the homeowner and against the tenant.

It is now almost standard procedure for experts and scholars in the field of tax reform to characterize the homeowner's tax benefits as "massive tax subsidies," which (1) violate principles of tax equity and economic neutrality; (2) cost taxpayers generally substantial annual erosion of the public revenues; (3) favor taxpayers in positions to own their homes, particularly if they are in the affluent tax brackets where the incremental tax saving per dollar of exclusions or deductions may range as high as 70 percent under the existing structure of Federal individual income tax rates; (4) affect resource allocation by stimulating overexpansion of the housing stock and additional housing consumption as against other forms of consumption, including luxury features such as swimming pools, tennis courts, barbecue patios, etc.; and (5) contribute to serious national problems at least partially associated with overexpansive housing outlays, such as urban sprawl.

The tax reform school goes to great lengths to demonstrate the obvious and intended thrust of the tax laws in encouraging and rendering financial assistance to homeownership. In contrast with this penchant for detailed exposition of the nature and distribution of homeowner tax benefits, this school shows a curious obtuseness in understanding or articulating fairly the social objectives and externalities that tend to justify the prohomeownership features of the income tax law.

One of the most recent and otherwise professionally competent studies of the income tax benefits for housing concludes on this note:

> With respect to any conceivable policy objective, the pattern of tax benefits seems to be capricious and without rationale. Apart from the alleged, but unsubstantiated, benefits accruing to the community when households come to own their own homes, there appears to be no reason for subsidizing homeownership rather than other investments or the consumption of owned rather than rented housing services or of other commodities.[1]

[1] Henry Aaron, "Income Taxes and Housing," *The American Economic Review*, Vol. LX, No. 5 (December 1970), p. 803.

The argument is then carried further, almost in legal brief fashion, to say that even if it were acknowledged that "homeownership benefits society by making homeowners more stable or less antisocial than they otherwise would have been, the pattern of tax benefits is ill suited to the objective."

The "ill-suitedness" is attributed to the fact that large benefits go to above-average income families and negligible aid to low income households who generally have not received any of the "salutary discipline of property management."[2]

In a footnote addendum to these observations, the same author states that in his opinion "no study has shown both of the following: (a) that the beneficial effects of housing are due to housing itself rather than adequate income, i.e., that the composition, rather than the level, of consumption matters; (b) that correlations between homeownership and socially or personally desirable characteristics (or the absence of antisocial characteristics) are not the joint results of other psychological, sociological or economic characteristics. The issue of which way causation runs also is frequently troublesome."[3]

There is, nevertheless, an important and not usually very systematically stated rationale for the present income tax treatment in its encouragement to homeowners. This rationale goes beyond ameliorating slum conditions and combating social environments which are detrimental to human health and development and which foster crime, delinquency, and vandalism. It also goes beyond the notion that homeownership is a good thing because (1) it helps to foster a sense of stability and identity with a community, and (2) owing to the reliance of municipalities on property taxes, direct payments of property taxes (undisguised as part of rental payments) are likely to make them more responsible citizens and better judges of the proper scale of local expenditures.[4]

The most persuasive rationale for encouraging homeownership through the income tax system and indeed other aspects of national policy consists of both (1) the elemental considerations of building family economic security in a troubled and insecure world which have always prompted prudent individuals to strive to own their own homes, and (2) a variety of more sophisticated points based on the favorable externalities of homeownership which are important to national policy and may not be reflected in the interplay of supply and demand for different types of housing and tenure arrangements in the marketplace.

The tax reform school, along with their high motives and purist standards with respect to comprehensiveness, uniformity, and neutrality of the income tax base seem to have a basic hostility towards homeownership. In this regard they seem to be advocates of a viewpoint which probably has less merit than that of those social observers and environmentalists who are hostile to the automobile as a feature of middle class suburban living and commuting.

The most relevant and persuasive externalities favoring homeownership relate quite directly to the cost and conditions of housing consumption.

Tenancy is perhaps the most expensive form of housing consumption because it affords very little if any incentive to careful use and day-to-day maintenance. It opens the door to hard, indifferent use bordering on vandalism by tenants in many situations. By contrast, owner-occupancy encourages better maintenance, both through reduction of unnecessarily hard use and saving of damage and repair costs and through creation of effective incentives for the occupier to support efficient long-range upkeep of the property. If all American automobile consumption were converted to a rental basis, one can be confident that the social costs of this important part of our standard of living would rise enormously unless an elaborate and administratively costly system of rewards and penalties were introduced to motivate owner-like utilization. This merely illustrates how housing consumption costs, representing a still larger share of family budgets, would rise if everyone went on a tenancy basis and how they are reduced by increasing the proportion of owner-occupancy.

Homeownership helps reduce the cost of housing in another important way. The expense of rented quarters includes a substantial rate of return on risk capital in an inherently capital-intensive activity. The homeowner can in effect earn this return on his own commitment rather than have to pay it to a landlord investor. Since the risks of landlord investment are greater than those of an owner-occupier, and the inevitable overhead of rental management adds to costs in the case of tenant occupancy, there is a further saving on this score in owner-occupancy. It seems doubtful that even large landlord opera-

[2] Ibid.
[3] Ibid., n. 33.
[4] Dan Throop Smith, *Federal Tax Reform*, McGraw-Hill, New York, 1961, pp. 91–92.

tions could secure lower mortgage interest or related financing costs which would compensate for the higher equity return and management costs involved in landlord ownership.

The whole problem of landlord-tenant relations is one which is handled with great difficulty in the prevailing judicial system. In general, the growing permissiveness of the courts with respect to tenant obligations tends to increase rental costs. At best, the additional social costs of adjudication between landlord and tenant are an appreciable factor in the social economies of homeownership.

Homeownership provides various opportunities for do-it-yourself projects which permit use of the spare time of the owner and his family in creating wealth and income. While this may be taken into account by potential homebuyers weighing the tenure decision and while some "home workshop" and gardening activities are possible for tenants, there remains a substantial balance of superiority in favor of homeownership in this regard. This is true particularly with respect to possible home improvements as well as repair and maintenance, which the tenant would not undertake in order to benefit the landlord. Moreover, the social benefits from eliciting this kind of spare time activity, which add to wealth and reduce the burden on social resources available for home repair and improvement, outweigh those received by the homebuyer. He may tend to think only of the net gain over and above the cost of his effort, while the gain from the social viewpoint is substantially the gross contribution of do-it-yourself efforts.

Inflation hedging through homeownership is an important consideration motivating the prudent householder weighing a housing tenure decision. However, in an economy which has not yet mastered the technical and political arts of reasonable price stabilization in the various situations that confront it, it is also probably desirable for society to have a substantial part of the population partially inflation-hedged. Hardship and social instability due to expropriation by inflation are reduced, pressure for compensating escalation is moderated, and the area of surveillance under possible rent control is narrowed. This area of homeowner externalities is controversial and not fully explored. Nevertheless, it should be considered as one of the desirable society-stabilizing aspects of homeownership which helps justify favorable income tax treatment.

Homeownership—at least with a substantial equity—also provides an important form of basic economic security to workers. The individual who owns his own home is better able to ride out periods of unemployment and reduced earnings.[5] It is true that loss of equity in a mortgaged home may constitute a hazard of unemployment. But this hazard is reduced as a sizable equity is established, particularly in view of the various forms of social insurance which, along with even mortgaged homeownership, exist to help tide over periods of economic stress.

Home purchase under the modern level payment mortgage plan involves a form of systematic, mandatory current saving once the initial commitment is made. Homeownership encourages saving in this way as well as providing the inducement to accumulate the original downpayment. The form of saving involved is in effect invested in a highly secure asset which provides a basic element of economic security for the homeowner and his family. Is this a desirable social result which can be counted as a favorable externality of the home purchase decision? Does not the tenant help support saving via mortgage repayment at the landlord level? Does the curtailment of mortgage principal really represent net saving in view of the fact that housing is a form of consumption represented by the depreciation of the housing asset? In general, the answers to this series of questions suggest that home purchase savings (1) help secure a broader distribution of wealth and (2) augment investment in an asset (even though like other physical assets it is subject to depreciation) essential to the well-being and economic security of homeowning families. This overall result is one which most people would regard as a favorable externality.

The question of work force mobility is sometimes raised by those who see an unfavorable social externality in widespread homeownership. They argue that tenancy is conducive to mobility while homeownership ties the worker to his property, creating additional economic impediments to geographical movement in response to economic changes. Since homes may be bought and sold, and the tax laws permit tax-free turnover of residential investments where the owner has to move in order to accept employment at a new location, the barriers to employee movement on account of homeownership are moderate indeed. Some employers, of course, pay the employee's costs of moving, including possible losses on disposition of a home; under these cir-

[5] From the social viewpoint, the capital invested in owner-occupied homes is less likely to become "unemployed," in contrast with the vacancy potential of rental housing. This helps stabilize an element in the GNP.

cumstances, homeownership can hardly be termed a mobility barrier. On the whole, the mobility consideration can hardly be regarded as a substantial offset to the various favorable externalities of owning rather than renting one's residence.

Homeowner Tax Benefits and the Tax Expenditure Doctrine

The income tax benefits for homeowners have inevitably become enmeshed in the whole discussion of so-called "tax expenditures" and the "tax expenditure budget." The continuing examination of Federal subsidy programs has included subsidy-like programs that do not involve direct cash disbursements but provide comparable benefits such as those which take the form of tax reduction.

The tax expenditure budget concept was originally explained in the Annual Report of the Secretary of the Treasury for fiscal year 1968.[6] Its basic thrust is that a fully revealing picture of the national budget with respect to expenditures and receipts would include the revenue cost of the various tax incentive concessions as budget expenditure items, presumably balanced on the receipts side by corresponding tax collections which would materialize if the tax concessions in question were abolished. Exponents of the tax expenditure budget stress the weaknesses of the backdoor or hidden budget approach to national policy objectives: (1) Its tendency to erode the tax base and confuse tax equity standards and the standards guiding public expenditures to secure desired actions or economic responses, (2) its failure to proceed through normal legislative channels whereby specialized committees can pass on the merit of expenditures in their field of jurisdiction, and (3) its tendency to permit tax expenditures to evade the annual budget review process and become imbedded in the tax laws, persisting after the needs which called them into being have been met or after the favorable benefit-cost ratio which initially supported them has deteriorated.[7]

The tax benefits for homeowners, or more specifically the deductions for mortgage interest and property taxes on owner-occupied homes, have been the subject of periodic estimates of revenue cost along with other items deemed to merit inclusion in the Federal income tax expenditures (or subsidies) periodically prepared for the Joint Economic Committee or for the House Ways and Means Committee by the Congressional Committee and Treasury Staffs.

Excerpts from the most recent set of estimates show the homeowner tax benefit items in recent years (and their distribution by income level in 1972) in Table 1.

Tax expenditure analyses are primarily statistical quantification of the money involved in tax concessions for various types of income, spending, or economic activity, designed to provide systematic information on the hidden or indirect expenditures. As such, they provide information useful in appraising the cost of such

Table 1. Estimated Federal Income Tax Expenditures, Calendar Years 1967–72 (in millions of dollars)

	Housing and Community Development					
	1967	1968	1969	1970	1971	1972
Deductibility of interest on mortgage on owner-occupied homes	$1,900	$2,200	$2,600	$2,800	$2,400	$3,500
Deductibility of property taxes on owner-occupied homes	1,800	2,350	2,800	2,900	2,700	3,250
Total	3,700	4,550	5,400	5,700	5,100	6,750

Source: "Estimates of Federal Tax Expenditures," House Committee on Ways and Means, prepared by the Staffs of the Treasury Department and Joint Committee on Internal Revenue Taxation, June 1, 1972, U.S. Government Printing Office, Washington, D.C., 1973, Table 1, pp. 4–5.

[6] For a brief review of the literature on the subject, see *The Economics of Federal Subsidy Programs*, Joint Economic Committee, Congress of the United States, Jan. 11, 1972, U.S. Government Printing Office, Washington, D.C., 1972, p. 30, n. 1.

[7] For a review of the merits of the tax incentive, backdoor spending or tax expenditure approach to policy objectives versus the direct expenditure method, with particular reference to housing programs, see Richard E. Slitor, *The Federal Income Tax in Relation to Housing*, National Commission on Urban Problems, Research Report No. 5, U.S. Government Printing Office, Washington, D.C., 1968, Chapter V, pp. 86–100; and Richard E. Slitor, "Tax Incentives and Urban Blight," in *Tax Incentives, Tax Institute of America Symposiums*. Heath Lexington Books.

Table 2. Estimated Distribution of Homeowner Tax Preferences of Individuals by Adjusted Gross Income Class, Calendar Year 1972 (in millions of dollars except adjusted gross income class)

Adjusted gross income class	Deductibility of interest on mortgages on owner-occupied homes	Deductibility of property taxes on owner-occupied homes	Total
$0– 3,000	[1]	$ 5	5
3,000– 5,000	$ 15	25	40
5,000– 7,000	85	95	180
7,000– 10,000	310	240	550
10,000– 15,000	845	590	1,435
15,000– 20,000	835	640	1,475
20,000– 50,000	1,160	1,135	2,295
50,000–100,000	195	340	535
100,000 and over	55	180	235
Total	3,500	3,250	6,750

[1] Less than $.5 million.

Source: "Estimates of Federal Tax Expenditures," previously cited, Table 2, 8–9.

concessions in relation to their benefits to the economy. Like related analyses of the erosion of the tax base relative to a comprehensive measure of taxable income capacity, the tax expenditure studies tend to support attacks on the equity and economic efficiency of the various tax incentives or subsidies embedded in the income tax structure. Thus, the $6,750 million estimated tax benefits for homeowners in 1972 tend to be cast in the image of a bonanza of shocking magnitude, two-thirds of which goes to homeowners of adjusted gross income classes above $15,000. To see this amount in perspective, it represents about 7 percent of total individual income taxes, 3 percent of total Federal receipts, and .6 percent of gross national product. Moreover, the estimates do not adequately make clear how effectively they take account of the fact that part of the itemized homeowner deductions merely overlaps the standard deduction which taxpayers could take anyway, regardless of homeownership, and which have been compensated by a general increase in tax rates to recoup the revenue.

While tax expenditure data developed from official sources in recent years have not included the amount attributable to the exclusion of net imputed rent over and above the two deduction items, Goode's estimates of about a decade ago show that in 1960 the "net vent" item (over and above mortgage interest and property taxes) would have been slightly greater than the mortgage interest item.[8]

The significance and interrelationships of the three major income tax advantages of homeowners will be analyzed qualitatively and quantitatively in a subsequent section of this report.

Interplay of Property Tax and Income Tax

This study will examine the burden of the local property tax, the interplay of the property tax and income tax provisions, and the net combined impact on housing costs in the aggregate and by income level.

Until recently very few analysts in the field of housing economics have been prepared to recognize the obvious fact that the property tax, which accounts for the great bulk of local government tax revenue and about 40 percent of combined State-local government tax revenue, is tantamount to an excise tax on basic housing consumption of some 25 to 35 percent in most populous areas of the country.

The income tax advantages of homeownership compensate to a considerable extent for the burden of local property taxes, but the offset is uneven and there remains a heavy net additional load on low income housing consumers, including homeowners and renters.

The deductibility of property tax for Federal income tax purposes is not unique; most other State and local taxes are deductible by the Federal income taxpayer. It is difficult therefore to attribute the sharp increases in property tax levels in recent years, chiefly to the fact that local tax authorities count on the deductibility feature to ease the impact of the levies they impose to provide local governmental services. It is not plausible, however, to assert that there is no interconnection, particularly in areas where the taxing authorities are aware that many of their homeowners are in affluent Federal (and State) income tax brackets.

[8] As of 1960, Goode estimated that the combined revenue loss from exclusion of net rent and deduction of mortgage interest and property taxes on nonfarm owner-occupied dwellings was $3.8 billion, of which $1.2 billion was due to the net rent and $2.6 billion to the two deductions. Richard Goode, *The Individual Income Tax,* Studies of Government Finance, The Brookings Institution, Washington, D.C., 1964, pp. 120–124. Goode's discussion specifically recognizes that his estimates do not allow for the use of the standard deduction by some homeowners. However, it does not mention the significance of the fact that even for taxpayers claiming the itemized deductions, the itemized amount is not a clear gain to the taxpayer since he could have taken the standard deduction anyway. He observes, however, that the standard deduction presumably would be reduced if itemized.

This general topic, including the economic and locational impacts of the property tax-income tax complex on housing stocks and consumption, will receive specialized attention in a subsequent section.

Scope of this Paper

It is apparent that taxes constitute a substantial part of the cost of housing. It will also be evident from the discussion which follows that the formulation of tax requirements by the various levels of government not only affects the distribution of that cost among housing consumers but also has major impacts on housing tenure, supply and quality, locational development, land use patterns, and the phenomenon of urban sprawl, as well as the processes of central city blight and deterioration. These impacts will be examined in the following sections.

A major concern of the paper will be the role of the present exclusion of imputed rental income along with the homeowner income tax deductions in the evolving dialogue and legislation on tax reform. This concern necessarily focuses on the economic, equity, and administrative aspects of present treatment and proposals for revision—particularly those directed at the inclusion of imputed rental income in the personal income tax base.

Impact of the Homeowner Deductions

This section examines a range of major economic impacts of the existing homeowner tax benefits on housing markets, including related capital market effects and locational effects.

In general, the existing tax benefits for homeowners tend to:

- Increase the demand for owner-occupied relative to rental housing units, thus raising the proportion of total housing units which are owner-occupied.
- Raise the value of owner-occupied units and decrease the rentals of rental units which are at least partially competitive with owner-occupied housing.
- Stimulate housing, consumption, the upgrading of the housing stock, and the more expansive use of land, contributing to decentralization and urban sprawl trends.
- Exert upward pressure on the interest rate structure due to the stimulus to a capital-intensive form of consumption.
- Expand the homebuilding industry and the factors of production it utilizes in constructing owner-occupied units.
- Develop larger and more specialized home mortgage markets and the financial institutions—such as the building and loan associations—which supply housing finance.

These points are developed in more detail under the following headings.

Homeownership v. Tenancy

There is clear evidence that the income tax has affected the choice between homeownership and renting so as to increase the proportion of owner-occupied housing units. At least one expert observer is of the opinion that the homeowner tax benefits have had more influence on the tenure decision (owning as against renting) than on the total amount of housing consumption—based on the assumed principle that the "price differential that will induce a shift from renting to owning is doubtless much smaller than that required to divert expenditure from other goods and services to housing." [9]

The impact of the income tax-related reduction in housing costs (estimated at 12 to 30 percent in a substantial range of incomes covering most moderate and affluent income brackets) on homeownership trends is clearly suggested by the data in Table 3.

Table 3. Percentage of Owner Occupancy, Total, and by Race and Residence, by Decennial Years 1900–70 (in percent)

Year	Total	White	Negro and other	Non-farm	Farm
1900	46.7%	49.8%	23.6%	36.9%	64.4%
1910	45.9	NA	NA	38.6	62.8
1920	45.6	48.2	29.9	40.8	58.1
1930	47.8	50.2	25.2	46.0	53.9
1940	43.6	45.7	23.6	41.1	53.2
1950	55.0	57.0	34.9	53.4	65.7
1960	61.9	64.4	38.4	61.0	73.8
1970	62.9	65.4	42.0	62.0	80.5

Source: Compiled from *Statistical Abstract of the United States 1972*, U.S. Department of Commerce, Bureau of the Census, U.S. Government Printing Office, Washington, D.C., 1973, Table 1155, p. 687.

[9] Richard Goode, *The Individual Income Tax*, Studies of Government Finance, The Brookings Institution, Washington, D.C., 1964, pp. 125–126.

As the data show, the rise in owner occupancy developed as a clear trend only after 1940, the approximate beginning of the substantial mass income tax introduced in the World War II period. In the 3 decades since 1940, total owner occupancy has risen roughly 20 percentage points to nearly 63 percent. In the 4 preceding decades, the percentage of owner occupancy actually declined by about 4 percentage points. Comparable trends are shown for white and Negro housing, and for nonfarm and farm. While various nontax factors may have encouraged homeownership in the period since 1940—such as greater affluence, the automobile and the suburban trend, and modernized and government-assisted mortgage financing—it seems unmistakable that the important tax savings under the higher and more pervasive individual income tax of the World War II and postwar periods have been a major factor.

A distribution of housing unit tenure percentages by income class would probably show a higher percentage of owner occupancy the higher the income, and a greater post-1940 rise in owner occupancy in those income brackets impacted most heavily by the expansion and steepening of the income tax.

The rise in the percentages of owner-occupied housing units since 1940 has been matched, of course, by an opposite trend in their complements, the percentages of rental occupancy. Thus while both owner-occupied and renter-occupied housing units have increased in absolute numbers, the percentage decline in tenancy has moderated the absolute increase in the number of rental units. The trend towards homeownership and away from rental occupancy is all the more impressive because it has occurred during a period of increasing urbanization of population, and large metropolitan areas tend to have a lower percentage of owner occupancy than farm and smaller communities.

Demand for Owner-Occupied and Rental Housing Units

The tax benefits for homeowners have increased the demand for owner-occupied housing by amounts which have been roughly quantified. While these benefits have diverted demand from rental housing, the rental sector itself has enjoyed the tax benefits of accelerated depreciation and the whole real estate tax shelter for rental housing investors, who have themselves tended to stimulate rental housing demand, although relatively less than has occurred in the owner-occupied sector.

The tax benefits of homeownership have been estimated on the average to be equivalent to a reduction in the basic cost of housing consumption of about 13.75 percent. With a price elasticity of demand for owner-occupied housing of about −1.5, this results in an increase in housing demand and consumption in the owner-occupied sector (roughly two-thirds of the existing stock and a higher proportion of the current demand) of about 20.625 percent.[10] The benefits are greater the higher the individual's applicable tax bracket. For middle income taxpayers with applicable bracket rates in the 32 to 45 percent range (taxable income in the range of $20,000 to $40,000, married persons filing joint returns), the tax benefits—even assuming homeowner deductions of 62.5 percent of basic housing consumption—would be 20 to 28 percent of basic housing costs. Again, with a price elasticity of −1.5, this would increase demand and consumption for owner-occupied housing by some 30 to 42 percent in the moderately affluent-middle bracket range just designated.

The elasticity of demand measure used in the above estimates is important. While the older literature on housing demand tended to place price elasticity of demand at near unity (−1), more recent estimates place it higher, near −1.5. (A corresponding estimate of income elasticity for owner-occupied housing demand is 1.427, with a slightly lower figure, apparently 1.338, for rental housing.) [11]

While demand for rental housing tends to be reduced by the cross-elasticity response to tax-related cost reductions for owned homes, this effect is partially offset by the pass-through to renters of the accelerated depreciation tax benefits for investors in rental housing. The tax benefits from the excess of accelerated (chiefly 150 percent and 200 percent declining balance formulas) over straight-line depreciation are estimated to range between 7 and 10 percent of the gross rental value of rental housing property. With a −1.5 price elasticity of demand, the resulting increase in demand and consumption in

[10] See Henry Aaron, "Income Taxes and Housing," *The American Economic Review*, Vol. LX, No. 5 (December 1970), pp. 602–603. This estimate assumes an overall mean marginal tax rate among homeowners of 22 percent and exclusion of imputed rent plus deductions of mortgage interest and property tax expenses equal to 62.5 percent of gross rental value.

[11] See David Laidler, "Income Tax Incentives for Owner-Occupied Housing," in *The Taxation of Income From Capital*, Arnold C. Harberger and Martin J. Bailey, Editors, Studies of Government Finance, The Brookings Institution, Washington, D.C., 1969, pp. 51–52, 58, and Table 4, p. 71.

the rental housing sector is estimated at roughly 10 to 15 percent.[12]

The rise in housing consumption as a percentage of total personal consumption expenditures in the post-World War II period tends to confirm the estimates of increased demand for housing based on tax benefit and elasticity of demand data.

Goode has indicated that although the influence of the favorable tax treatment cannot be isolated, it has probably been one of the factors responsible for the rapid increase in consumer expenditures for housing since World War II.[13]

Goode's data follow:

Housing Expenditures as Percentage of Total Private Consumption

Year	Current Prices	Constant (1954) prices
1909	19.3%	—
1919	13.3	—
1929	14.4	10.0%
1950	10.9	11.4
1960	12.8	12.7

On the basis of these 1919–1960 data, Goode observed that in current prices housing expenditures (space rental value of tenant-occupied and owner-occupied dwellings) were still a smaller fraction of total personal consumption in 1960 than in 1929 and prior years; but in constant prices housing consumption expenditures represented a much larger percentage of total consumption than in 1929. Goode regarded the constant price estimates as "suspect" in view of the surprisingly small increase shown by the implicit price deflator for housing expenditures from 1929 to 1960.[14] A larger increase would have resulted in a greater rise in constant-price housing expenditures relative to total private consumption.

More recent data on housing and other personal consumption expenditures in current dollars show housing at 14.9 percent of total private consumption in 1971, exactly equal to the 1929 percentage but 4 percentage points or 36.7 percent higher than in 1949 and 1.2 percentage points or 8.8 percent higher than in 1939. The data are summarized below.

Based on 1960 data, Laidler has estimated the "overinvestment" in owner-occupied housing stock as a result of the exclusion of imputed rental value (along with the homeowner deductions for mortgage interest and property taxes) at about $60.7 billion in relation to a total owner-occupied housing stock of $355.4 billion, or at an overall ratio of about 17 percent, including lower income brackets where no overinvestment occurred due to tax benefits. In the income classes affected, the overinvestment was estimated in a range of 20 to 35 percent.[15]

An opponent of homeowner tax benefits, Laidler estimated the "welfare loss" due to the calculated "overinvestment" in owner-occupied housing, which presumably flowed from the overallocation of capital resources (and related services supplied by the public and private sectors) to owner-occupied housing, at a surprisingly low $500 million per year, or roughly $2.50 per capita. This somewhat wan end product was made

	1929	1939	1949	1959	1969	1971
	(Dollar amounts in billions)					
Total personal consumption expenditures	$77.2	$66.8	$176.8	$311.2	$579.5	$664.9
Housing expenditures:						
Amount	$11.5	$ 9.1	$ 19.3	$ 43.7	$ 84.1	$ 99.2
Percentage of total	14.9%	13.7%	10.9%	14.0%	14.5%	14.9%

Note: Percentages calculated from unrounded figures.

Source: Compiled from *Facts and Figures on Government Finance,* 17th Biennial Edition, 1973, Tax Foundation, Inc., Table 37, p. 53.

[12] These figures are based on independent estimates by the author but are closely in line with the middle of the range of estimates developed by Aaron, "Income Taxes and Housing," previously cited, Table 10, p. 802. It should be noted that the applicable tax rate appropriately assumed in calculating investors' tax benefits in connection with rental housing is substantially higher than that appropriate for the typical homeowner, probably in the 40 to 70 percent range. Certain higher estimates by Sunley are discussed later.

[13] *The Individual Income Tax,* previously cited, p. 125.

[14] Source: Estimates for 1909 and 1919 from J. Frederick Dewhurst and Associates, *America's Needs and Resources,* New York: Twentieth Century Fund, 1955, p. 206. Figures for later years derived from estimates of the Office of Business Economics, U.S. Department of Commerce: *U.S. Income and Output*; 1958 and *Survey of Current Business*, July 1963. The constant-price estimate for 1929 *(U.S. Income and Output*, p. 5) in 1957 prices.

[15] "Income Tax Incentives for Owner-Occupied Housing," previously cited, Table 2, p. 60.

to look more impressive by the suggestion that it be interpreted as representing the "dollar value of extra resources the government could take away from the public if it were to abolish the subsidy and seek to leave consumers at the same level of economic welfare that they enjoy at present." [16]

For purposes of the present analysis, the most impressive fact would seem to be that the homeowner tax benefits are estimated to have increased the owner-occupied housing stock as of 1960 by about 20.6 percent relative to a tax-neutral position, 17.1 percent of the existing stock, or about $61 billion. At current 1973 levels, the net addition to the owner-occupied housing stock attributable to these income tax benefits would be in the order of $76 billion.[17]

Rental housing stocks may also be considered to have been increased by the reductions in rentals (7 to 10 percent of gross rental value) and accompanying 10 to 15 percent increase in demand. If rental housing stocks may be estimated at about one-half the owner-occupied stocks, and the increase due to accelerated depreciation tax benefits at about 12.5 percent (midpoint of the 10 to 15 percent range indicated above), the addition to rental housing stocks attributable to depreciation tax benefits may be estimated to be in the vicinity of $23 billion at 1973 levels. Rental housing effects are considered in more detail in a later section.

The econometric analyses on which the above estimates are based do not seem to take clearly into account the effects of cross-elasticity of demand between owner-occupied and rental housing. Since the two alternative forms of housing tenure are in a sense substitute or rival forms of housing services, a decline in the price of one tends to increase its use, thus decreasing the marginal utility and curtailing the demand for the other form of housing.

The two forms of tax benefit, one for owner-occupied and the other for rental housing, increase the overall housing demand and consumption. The increase between the two sectors is not proportional because owner-occupied housing derives a greater tax benefit, one which is extended to the consumer with greater certainty than the investor-oriented benefit in the rental field. Moreover, the increase in owner-occupied demand by itself is not likely to be as great as if there were not appreciable tax benefits for rental housing too.

Similarly, the depreciation benefits for rental housing do not increase the consumption for rental housing as much as they would in isolation, so to speak, or in the absence of the large, more direct and certain benefits for homeowners.

In short, the two types of tax benefit increase housing consumption, not by as much as if all housing received the homeowner-type benefits but by more than the amount of increase if all housing received benefits only at the level of the rental housing benefits. The reallocation of housing demand from rental to owner-occupied units is less than if only homeowner tax benefits were provided.

Locational Effects

The locational effects of homeowner tax benefits have been substantial. Generally speaking, the homeowner provisions have tended to (and still do):

- Contribute to the formation of the suburban areas of the large metropolitan complexes, typically the more affluent and rapidly growing sections of the country;
- Encourage expansive land use, thus furthering decentralization, urban sprawl, and low-density as against high-density residential development;
- Facilitate the middle class exodus from the central city to suburban and exurban residential developments;
- Stimulate the condominium form of tenure which combines the tax benefits of homeownership and the convenience and economy of high-rise multiple unit housing in urban, suburban-fringe, retirement, and resort areas;
- Afford relatively little tax savings to the rural areas, particularly the less affluent parts of rural and small-community America, where—even though homeownership percentages are high—housing is likely to be older, rental values very moderate, money incomes low, and applicable tax rates determining the benefit from homeowner deductions and exclusions also low;
- Pour relatively small tax benefits into the central cities where, unlike the suburbs, rented units still constitute the predominant (over half) form of tenure and the income tax brackets of the owner-occupants tend to be lower.

[16] "Income Tax Incentives for Housing," previously cited, p. 64.
[17] Estimate based on extrapolation of the additional housing in proportion to the growth of the total housing stock at the average annual rate prevailing in the 1960-70 decade, shown in *Statistical Abstract of the United States*, 1972, previously cited, section 33, p. 846.

It is difficult to quantify the effects of the tax benefits for homeowners with regard to these various locational developments. The predominant locational influence is, of course, the decentralization of metropolitan areas, urban sprawl, and resulting agglomeration of megalopolitan areas in which the suburban or exurban fringe of the city merges into that of another. The homeowner tax treatment has contributed to this in certain interrelated ways:

- It has facilitated and encouraged middle class flight to the suburbs by helping finance the additional housing costs;
- It has stimulated additional housing consumption and this has included more spacious lots and acreage than would otherwise be desired or practicable, along with roomier, more rambling home construction, including the appurtenances of garages, parking areas, swimming pools, patios, etc.

It seems fair to say that the additional and more expansive housing construction in the suburbs stimulated by the homeowner tax benefits has contributed 20 to 30 percent to the area expansion of the communities embraced within the definition of standard metropolitan statistical areas.

The diversion of capital and managerial or promotional resources to suburban construction has probably contributed further to the neglect by the private sector of low and moderate income residential development in the central cities, already unattractive because of the lower incomes and greater risk and difficulties in the central city areas.

Prices and Values of Owner-Occupied and Rental Housing Units

The additional consumption of housing services due to homeowner tax benefits has probably raised housing construction costs, these higher factor costs generally affecting owner-occupied and rental housing alike. However, the additional pressure on land or site values has probably resulted in a relatively greater increase in the cost and price of the typical owner-occupied unit consisting of a separate single family house with an appropriate parcel of land. This increase in site values has been less important for the multiple unit high rise. Thus rental housing has been impacted to a lesser extent. In the owner-occupied field, techniques of land economization have thus developed, including the condominium apartment and cluster developments with suburban "townhouses."

The rise in value of owner-occupied homes, supported by the homeowner tax advantages along with the inflation-hedging and land speculation incidental to housing consumption, has been so substantial in recent years that realistic rental values now fall appreciably short of the 10 to 12 percent of fair market value of property that Aaron suggests is the real estate market rule of thumb for single family houses.[18] Laidler uses a figure of 11 percent in his estimates of homeowner tax subsidies.[19] It is almost a matter of common observation that in many suburban areas gross rentals of as much as 9 percent of market value of homes intended to be owner-occupied are out of the question. Only a moderate depression of the rental market in some areas may force rentals of single family houses intended for owner occupancy as low as 7.5 percent of market value of the property. The tax benefits of homeownership along with other factors have become capitalized in property values, presumably chiefly the site value, making it necessary to utilize these properties on an owner-occupied basis unless the owner is prepared to accept a temporary loss with some consolation in the form of favorable tax depreciation deductible from the rental income.

Anyone prepared to pay the costs of renting a substantial suburban home finds it necessary to be an owner or to negotiate a lower rent which in effect puts him in an economic position comparable to owner-occupancy.

One specific cost effect of the homeowner tax benefits is their impact on the price of capital—mortgage interest rates in the first instance but indirectly on the whole structure of interest rates in capital markets. The greater demand for housing—which is a capital-intensive form of consumer service—will thus raise capital costs for rental housing consumers and all consumers in proportion to the services of capital embodied in their consumption. Savers and capital investors will of course benefit from the higher interest rates generally engendered by the pressure of the capital-intensive demands of homeowners. This matter will be reviewed in the more specialized context of mortage and capital market effects later in this chapter.

Effects on Homebuilding Industry

The pressure of additional demand for housing spurred by the homeowner tax deductions

[18] See "Income Taxes and Housing," previously cited, p. 799.
[19] "Income Tax Incentives for Owner-Occupied Housing," previously cited, p. 61.

and exclusions has been reflected in homebuilding costs, construction methods, site values, and techniques for economization of scarce resources.

Between 1947 and 1959, the residential nonfarm structures component of gross private domestic investment increased from $10.4 billion to $24.8 billion, or by 138.5 percent; in the same period, total gross private domestic investments grew from $34 billion to $75.3 billion, or 121.5 percent. Gross national product rose from $231.3 billion to $483.7 billion, an increase of 109.1 percent in the 1947–59 period. Nonresidential structures increased from $23.4 billion to $45.1 billion or 92.7 percent over the same period.[20]

This brief recital of basic data on residential construction growth in a key period of postwar development suggests clearly the differentially higher rate of expansion of housing investment as compared with other forms of investment and the GNP as a whole. While various factors were at work producing this result, it seems difficult to escape the conclusion that homeowner tax benefits (along with depreciation tax stimulation for rental housing) accounted to a considerable extent for the higher growth rate for housing investment.

Costs: The inevitable result of this pressure has been rising costs, chiefly due to labor and land, although building materials have not lagged far behind.

Homeownership housing costs have risen more rapidly than other living costs and other types of housing costs (computed of course without regard to income tax benefits). Table 4 shows this effect in the past decade or so.

Union wage rates have risen more rapidly in the building trades than in comparable selected trades, but the differential increase has occurred only in the recent period. (See Table 5.)

Analysis of price and cost indexes for construction show the role of union wage scales on raising building costs. The fact that small residential building costs have risen less rapidly than the composite for apartments, hotels, office buildings or for commercial and industrial buildings may indicate the greater degree of unionization outside the small residential structure field. Nevertheless, the pressure of the homeowner tax deductions may communicate itself throughout the construction sector, contributing indirectly to the strength of the unionization movement in the apartment and commercial and industrial building sector.

Table 4. Consumer Price Indexes, by Commodity Groups, Selected Years 1960–71 (1967 = 100)

Items	1960	1964	1965	1966	1968	1969	1970	1971
Housing (shelter)	88.7	92.9	94.5	97.2	104.2	109.8	116.3	121.3
Rent	91.7	95.9	96.9	98.2	102.4	105.7	110.1	115.2
Homeownership cost*	86.3	90.8	92.7	16.3	105.7	116.0	128.5	133.7

* Includes home purchase, mortgage interest, taxes, insurance, and maintenance and repairs.
Source: *Statistical Abstract of the United States 1972*, Table 565, p. 348.

Table 5. Indexes of Union Wage Rates, Selected Trades, 1945–1971 (1967 = 100)

	1945	1950	1955	1960	1970	1971
Building trades	30.7	47.0	60.0	75.4	128.8	144.0
Printing trades	33.5	56.9	69.0	80.6	121.2	133.6
Motor truck drivers and helpers	28.6	44.8	59.4	75.4	122.5	137.8
Local transit operators	29.7	47.2	59.8	73.9	125.2	135.8

Source: Compiled from data in *Statistical Abstract of the United States 1972*, Table 375, p. 234.

As Table 6 shows, the price index for new one-family homes sold increased from 94 to 123 between 1965 and 1971, an increase of 29 index points or a price rise of about 30.9 percent. In the same period, consumer prices generally increased about 25.4 percent, wholesale prices, about 17.9 percent. Again, the differentially higher rise in single family homes as compared with the consumer and wholesale price indexes generally suggests the economic pressure of ad-

[20] *1971 Business Statistics*, Biennial Supplement to the Survey of Current Business, U.S. Department of Commerce, Office of Business Economics, pp. 191–192.

Table 6. Price and Cost Indexes for Construction and Selected Components: 1950 to 1971
(1957–59 = 100 except as otherwise indicated)

	1950	1955	1960	1965	1968	1969	1969	(1967 = 100) 1970	1971
Price index for new one-family homes sold (1967=100)	NA	NA	NA	94	106	115	115	118	123
Wholesale prices of construction materials (1967=100)	78.9	90.4	95.5	95.8	105.6	111.9	111.9	112.5	119.5
Union hourly wage scales in the building trades (1967=100)	47.0	60.0	75.4	90.9	106.6	115.4	115.4	128.8	144
Construction cost indexes, E. H. Boeckh and Associates:									
small residential structures	80.3	92.4	104.2	115.2	136.7	148.0	116.2	122.4	132.8
apartments, hotels, and office buildings (composite)	75.8	90.4	105.0	118.5	139.9	151.8	116.1	124.4	135
commercial and factory buildings (composite)	74.0	89.5	104.7	117.2	139.1	149.1	114.5	123.1	133.9

Source: Compiled from *Statistical Abstract of the United States 1972*, Table 1136, p. 677.

ditional housing demand based in part on income tax advantages.

The same type of differential appears from a comparison of indexes of shelter costs under rental as against owner-occupied tenure.

The comparison above may bring out the higher site value element which enters to a greater extent into homeownership costs (until such time as the high rise condominium dominates the market).

Rise of the Mobile Home Industry: One of the major responses of the homebuilding industry to the pressure of demand, partly attributable to tax factors, on housing resources—especially labor and land—is the expansion of the mobile home industry.

In 1965, shipments of mobile homes amounted to 216,000 units, or 14.7 percent of the 1,473,000 conventional private housing starts and 12.8 percent of the 1,689,000 combined total of housing starts and mobile home units. By 1971, mobile home shipments had risen to 497,000 units, 24.2 percent of the 2,052,000 private housing starts and 19.5 percent of the 2,549,000 combined total of housing starts and mobile home units.

Mobile home construction offers various advantages, primarily greater efficiency of construction on a mass production basis under factory conditions rather than onsite construction, affected by weather and utilizing traditional methods involving waste motion etc. The mobile home itself may be located on a very small plot of ground with relatively little cost for sewer, water, and utility connections. Nevertheless, a major influence stimulating this move toward production of more economical—if slightly inferior and less esthetic by traditional standards—housing is the increase in labor and site value costs, due in part to increased housing demand flowing from the homeowner tax deductions.

Land Development: In the first two decades of postwar housing experience under the mass income tax, expansive land use, assisted by tax savings to homeowners, led to suburban and exurban development with junior estates, equestrian pursuits, and living patterns modeled after the 19th century gentry of Britain and Eu-

Shelter:	1960	1971	Increase Index points	Increase Percent
Rent	91.7	115.2	23.5	25.6%
Homeownership costs	86.3	133.7	47.4	54.9

Source: Computed from *Statistical Abstract of the United States 1972*, previously cited, Table 565, p. 348.

rope. This phase now seems to be approaching a turning point.

Expansive use of land spurred in part by the homeowner tax advantages, along with population growth and concentration of population in large metropolitan aggregates, has had the expected results: Land scarcity and higher land prices. Sprawl, fringe development, leapfrog development, and other techniques to cope with rising land values, reached limits. (In some cases, presumably temporary, the shortage has been aggravated by limitations on new water and sewer connections; this enhances the value of existing lots in use or approved for utility services. The latter type of shortage is not due to land shortage per se, although less expansive use of land would reduce the cost of sewer and water networks.)

The scarcity of land for homebuilding purposes has elicited several discernible adaptations by the homebuilding industry:

1. Cluster or townhouse suburban housing development.

2. High-rise, garden-type, or similar land-economizing condominium development.

3. Reduction in the size of building lots.

Specific quantitative measures of these responses of the homebuilding industry to land scarcity and higher site values are not readily available. They are, however, noticeable. In the new equilibrium which is developing, the high land prices still tend to "capitalize" the tax savings for homeowners acquiring and using the land. The net land costs to homeowners, after their homeowner tax savings, are in line with their lower marginal utility, reflecting their more expansive use of land and with the higher marginal utility to renters who do not enjoy such tax benefits and rationally must use land more sparingly. In short, homeownership supports a more land-intensive form of housing than tenancy; this remains true even after the various forms of land economization that have developed in response to higher residential land prices.

Impact on the Mortgage Market and Capital Markets Generally

Although housing construction is a labor-intensive form of production, the provision of housing services by the completed residential property is in effect a highly capital-intensive form of production of consumer services.

The tax benefits for homeowners by stimulating additional housing have made extra, tax-related demands upon capital suppliers. Initially, the impact of these added demands is on the home mortgage money supply, but pressure on this market raises mortgage interest rates and draws in capital from other sectors of the capital market, realigning interest rates, albeit at a higher overall average level. In the process, interest rates became higher because capital supplies became tighter in the other interrelated capital market sectors from which the tax-pressurized home mortgage market draws its needed savings supplies.

The impact of the higher interest rates is felt particularly by consumers of products and services which, like housing, involve a capital-intensive production process. These consumers are not able to cushion the higher interest rates traceable to additional home mortgage financing by tax deductions.

Government may respond to the higher interest rates in home mortgage markets with various measures to increase the funds available for home mortgage purposes. To the extent the government's additional efforts merely provide additional funds for homebuyers via the budget or via budget-financed subsidies to mortgage finance institutions, the taxpaying population generally, including homeowners, shares the cost via the tax system or, in the absence of adequate taxation and related stabilization measures, via the inequitable form of burden-sharing provided by price inflation.[21]

Property Taxes and the Tenure Decision

This section focuses its attention on two specific questions: (1) What is the effect of local governments' decisions as to their degree of reliance on the real property tax on consumers decisions as to ownership versus tenancy? (2) Where is the actual impact of property taxes in light of the Federal (and State) income tax deductions by "itemizers" of their property tax payments?

There is substantial variation in the level of, and degree of reliance on, real property taxes by local governments. While State and local taxes are generally deductible by itemizers for Federal income tax purposes—including such major sources as income, sales, and consumer excises—the property tax, the major local revenue

[21] For a somewhat truncated version of this standard analysis, see Aaron, "Income Taxes and Housing," previously cited, p. 803.

source, is different. It is deductible only by homeowners. Tenants pay it only in the guise of rent, may not be fully aware of their indirect contribution to property tax, and in any event cannot deduct it for Federal or State personal income purposes. Cynics may say, therefore, that it is a tax which invites heavy utilization by the local governments. A part of the population, the tenants, who bear the burden of the tax, may not be aware of it (an excellent political characteristic). The remaining part, the homeowners (other than the nonitemizers), see it as a tax deduction item, the real burden of which is offset by Federal and State income tax savings (also an attractive political characteristic).

Property tax rates have understandably risen in the postwar period, generally constituting 2 to 3 percent of fair market value of the property in most of the populous areas of the North and Northeast, as well as parts of the Middle West and the Pacific Coast.

In its Federal and State income tax aspects, heavier reliance by local governments upon the property tax as a revenue source would seem to encourage ownership tenure of housing. Federal deductibility serves to reduce this portion of housing costs for the homeowner. Apart from its Federal and State income implications, however, heavier reliance on property tax revenues may tend to make economy in housing so important to the consumer that he will be induced if not compelled to rent because that is the best way to economize on basic housing expense.

The burden impact of the property tax is differentially reduced by deductibility for income tax purposes. The reduction is, of course, proportionately greater the higher the consumer's income and therefore his applicable tax bracket rate. Does this necessarily imply that the overall impact of an increment of property tax cum deductibility favors the homeowner? The answer is not fully affirmative, since property tax consists of two elements: A tax on land value, which is generally borne by the owner; and a tax on improvements, which is generally borne (apart from shortrun quasi-rent effects) by the user of the property, whether he owns or rents it. A tentative generalization seems to be that if the land element of an increment of property tax is a higher fraction of the total increment than the applicable marginal income tax rate of the housing consumer, rentals would be increased less than net after-tax housing costs of homeowners. The change would then tend to encourage renting.

On the other hand, if the land element is a smaller fraction of the tax increment than the applicable income tax bracket rate, the change would tend to favor homeownership. As a simple example, suppose $100 of additional property tax is imposed on a $20,000 unit, of which 25 percent or $5,000 is site value and 75 percent or $15,000 is depreciable improvement. If 25 percent of the $100 is absorbed by the landowner and the applicable income tax rate of the consumer is 20 percent, the net change will cost the homeowner $80 after tax effect and the renter $75 after taking account of the portion absorbed by the landowner. Result—marginal encouragement to renting. If the applicable income tax rate is 30 percent, the $100 property tax rise costs the homeowner only $70 after tax effect as against $75 for the renter. Result—marginal encouragement to owning.

These questions are explored further under the following headings:

Effect of Local Governments' Reliance on Property Taxes on the Housing Consumer's Decision to Own or Rent

It is difficult to establish empirically a direct relationship between levels of local property tax or degree of local government reliance thereon as a revenue source and the prevailing local or regional percentage of homeowner-occupancy. The reason for this is the operation of other factors that conceal or obscure the operation of the level of tax or degree of reliance on property tax alone.

As the simplest illustration, consider Table 7, a compact comparison of homeowner-occupancy rates by region and as between city and suburb.

Table 7. Homeowner-Occupancy Rates, Inside and Outside Standard Metropolitan Statistical Areas, and Regions, Selected Years 1960–71

Area	212 SMSA's			243 SMSA's	
	1965	1970	1971	1960	1970
			(percent)		
United States	63.3	54.2	64.2	61.9	62.9
Inside SMSA's	59.0	60.3	60.2	59.5	59.5
Outside SMSA's	66.8	71.6	71.8	66.9	70.4
Regions:					
Northeast	55.5	58.1	58.5	56.1	57.6
North Central	66.4	69.5	69.4	67.0	68.0
South	63.4	66.0	66.5	62.0	64.6
West	62.2	60.0	60.2	61.3	59.0

Source: Compiled from *Statistical Abstract of the United States 1972*, previously cited, Table 1161, p. 691.

This comparison shows noticeably higher homeowner-occupancy rates for residences outside SMSA's. The effect of the greater affluence and tax-saving potential of the metropolitan suburban population is apparently offset by the lower homeownership rates in the central cities so that the smaller communities and rural areas outside the SMSA's, with their strong bent toward homeownership, register higher rates than for the SMSA's as a whole.

The lowest regional rates of owner-occupancy shown are for the Northeast, although the Northeast is a high property tax region, perhaps the highest in the country, since it includes such high property tax States as Massachusetts, New Jersey, and New York. The South, on the other hand, shows owner-occupancy rates higher than the country as a whole and higher than any of the other regions except the North Central, although the South is recognized as having the lowest property tax rates of any part of the Nation. Since the money income levels in the South as a whole are lower than in the other regions, the explanation of the relatively high home-ownership rate must rest upon a lower degree of urbanization, consumer preferences, cultural patterns, and other nontax factors.

Table 8 is designed to show the extent to which high owner-occupancy percentages are associated with high property tax rates, or low owner-occupancy percentages with low property tax rates. The analysis is imperfect because the tax rates are for the cities named in 1966 while the owner-occupancy percentages are for standard metropolitan statistical areas of the same name for 1970. However, this modest random sample of 23 large cities shows that in over half the cases (13), tax rates and owner occupancy percentages were related in the manner one would expect if high property tax rates strongly encouraged ownership (high tax rate associated with high owner-occupancy percentage or low tax rate associated with low owner-occupancy percentage) while in less than half the cases (10) the property tax rate and owner-occupancy percentages were inversely related (high tax rate associated with low owner-occupancy percentage or low tax rate associated with high owner-occupancy percentage). Rough rank analysis and regression charts indicate there is no discernible correlation. Perhaps a multivariate analysis taking account of the various other factors besides property tax rates determining owner-occupancy percentages might isolate a relationship, but it has not been feasible to undertake the more elaborate multiple correlation analysis for this report.

Table 8. Median Property Tax Rates and Owner-Occupancy Percentages, Selected Cities

City	Median effective tax rate, fully taxable houses, 1966	Owner-occupancy percentage SMSA, 1970	Rate and percentage "correlated" (C) or "noncorrelated" (NC)
Akron, Ohio	1.73	71.5	NC
Birmingham, Ala.	0.92	66.3	NC
Boston, Mass.	3.06	52.6	NC
Cincinnati, Ohio	1.86	61.0	C
Cleveland, Ohio	1.75	62.4	C
Denver, Colo.	2.03	61.5	NC
Des Moines, Iowa	3.06	69.6	C
Honolulu, Hawaii	1.21	45.0	C
Houston, Tex.	1.79	60.0	C
Kansas City, Mo.	1.60	65.7	NC
Miami, Fla.	3.07	54.1	NC
Milwaukee, Wis.	3.31	59.8	NC
Newark, N.J.	4.06	53.3	NC
Norfolk, Va.	1.18	54.9	C
Philadelphia, Pa.	2.61	67.1	C
Phoenix, Ariz.	2.48	66.3	C
Richmond, Va.	1.51	61.4	C
Rochester, N.Y.	2.39	66.8	C
San Diego, Calif.	2.09	56.4	NC
San Francisco, Calif.	0.93	51.6	C
Tampa, Fla.	3.56	74.5	C
Toledo, Ohio	1.54	70.6	NC
Topeka, Kans.	2.58	64.7	C

Source: Compiled from *Statistical Abstract of the United States 1972*, previously cited, Table 672 and Section 33, pp. 429 and 846, 866 and 886.

Combined Impact of Property Taxes and the Federal and State Income Tax Deductions by "Itemizers" of Their Property Tax Payments

The combined net impact of property taxes and the application of Federal and State income tax deductions by "itemizers" of property tax payments has two major characteristics:

1. Offset of the property tax burden by Federal and State income tax savings arising from the property tax deduction.

2. Variation of this offset with the applicable income tax rates, the offset being greater the higher the "combined" income tax rate (taking account of the interplay of Federal and State income tax structures).

If F is the Federal income tax rate applicable to income erased by the deduction, and S is the corresponding State income tax rate, the combined net offset against property tax payments (expressed as a percentage thereof) is:

(1) $$F + S - FS$$

The net remaining property tax burden after offset (again expressed as a percentage of deductible property tax payments) is:

(2) $$1 - (F + S - FS)$$

The operation of the above formulation may be illustrated very simply. Suppose an "itemizing" taxpayer is subject to marginal tax rates of 22 percent under the Federal income tax and 7.5 percent under the State-local income tax.[22] For each $100 of deductible property tax he then saves $27.85 of Federal-State-local income tax, or 27.85 percent of the property tax payment:

(3) $$(.22 + .075 - [.22 \times .075] = .2785).$$

The step-by-step explanation of this result is as follows:

1. The taxpayer deducts $100 for Federal income tax, thus saving $22 of Federal tax liability "in the first instance."

2. Since he is allowed the same deduction for State and local income tax, he also deducts $100 on his State return, thus saving $7.50, again "in the first instance."

3. The saving of $7.50 on his State-local income tax also reduces his Federal income tax deduction by that amount, thus increasing his Federal income tax by $1.65 (.22 × 7.50). For purposes of simplification, the timing effects for the typical cash-basis individual taxpayer (which may make part of last year's State-local income tax liability deductible for Federal purposes this year and part of this year's State-local income tax liability deductible next year) are ignored.

4. The combined net burden of the $100 property tax payments after income tax savings for the related deductions may then be calculated as follows:

Property tax payment	$100.00
Less savings from Federal income tax deduction	− 22.00
Leaves	78.00
Less savings from State-local income tax deduction	− 7.50
	70.50
Add Federal income tax increase due to $7.50 decrease in State-local income tax deduction combined net burden	+ 1.65
	72.15

The combined net tax savings from the property tax deductions taking account of the interplay of Federal and State-local income taxes is thus:

Federal income tax savings from property tax deductions	$22.00
State-local income tax savings from property tax deductions	+ 7.50
Reduction in Federal income tax savings due to reduction in State-local income tax deduction for Federal tax purposes	− 1.65
Combined net income tax savings	27.85

For a higher bracket taxpayer, with a 42 percent marginal Federal rate and a 7.5 percent State-local rate, the $100 property tax payment would be reduced by $46.35, leaving a net burden of property tax after Federal and State-local offsets of $53.65.

Table 9 shows the Federal and State-local tax effects of a $100 deduction for the homeowner's property tax, for a range of illustrative Federal and State-local income tax brackets applicable in 1972 and 1973.

As these calculations show, the Federal and State-local income tax deductions reduce the net burden of the property tax of homeowners by substantial amounts, ranging from 17 to 18 percent in the lowest taxable income brackets to above 72 percent in the top bracket. The figures clearly show that homeowners in the low and moderate income brackets derive appreciable tax savings from the deduction sufficient to constitute a real inducement to homeownership. For housing consumers in the more affluent middle and upper income brackets, the incentive to homeownership on tax grounds alone is powerful; homeownership is virtually mandatory; tenancy is prohibitively expensive unless there are strong compensatory factors in the situation (such as a bargain rent situation or need for mobility and frequent transfers of principal abode). The taxpayer in the top bracket is in effect dealing with 28-cent dollars for a considerable part of his owner-occupancy housing expenses—dollars about as cheap as those which large corpo-

[22] The illustrative 7.5 percent State-local income tax happens to equal the generally applicable Maryland State income tax rate of 5 percent plus the 50 percent "piggyback" addition thereto for Montgomery County (and virtually all other Maryland counties).

Table 9. Illustrative Calculations of Tax Savings From $100 Property Tax Deductions and Net After Tax Property Tax Burden, Taking Account of Combined Federal and State Income Tax Effects

Taxable income for Federal income tax purposes after the deductions	Applicable Federal income tax rate [1]	Applicable State-local income tax rate [2]	Combined net savings from deduction and Federal and State-local income tax	Remaining net burden of property tax after income tax savings
$1,000	15%	3 %	$17.55	$82.45
4,000	19	7.5	25.075	74.925
8,000	22	7.5	27.85	72.15
12,000	25	7.5	30.625	69.375
20,000	32	7.5	37.10	62.90
32,000	42	7.5	46.35	53.65
44,000	50	7.5	53.75	46.25
76,000	58	7.5	61.15	38.85
100,000	62	7.5	64.85	35.15
140,000	66	7.5	68.55	31.45
200,000 or more	70	7.5	72.25	27.75

Note: Calculations assume State-local income tax is deductible for Federal income tax purposes but Federal tax is not deductible under State-local income tax.

[1] Married individuals filing joint returns.

[2] Assumed rates are Maryland State income tax including 50 percent county "piggyback" tax.

rations subject to excess profits tax are said to have lavished on corporate luxuries in some of our past wartime emergency periods.

Another way of looking at the income tax effects on property tax costs for itemizers is in terms of the pretax income needed to pay $100 of nondeductible property tax embodied in rent as against the $100 of pretax income with which the homeowner can discharge a $100 property tax obligation. This calculation is presented in Table 10.

Table 10. Pretax Income Required to Pay $100 of Nondeductible Property Tax Included in the Renter's Housing Cost *

Taxable income bracket before receipt of needed income [1]	Applicable combined Federal and State-local income tax rate on increment of income [2]	Pretax income needed to pay $100 nondeductible property tax included in rent
$1,000	17.55 %	$121.286
4,000	25.075	133.467
8,000	27.85	138.600
12,000	30.625	144.144
20,000	37.10	158.983
32,000	46.35	186.393
44,000	53.75	216.216
76,000	61.15	257.400
100,000	64.85	284.495
140,000	68.55	317.965
200,000 or more	72.25	360.360

* For explanatory footnotes, see Table 9.

As this interpretation brings out, it would take over $360 of pretax income subject to the top ordinary rates of income tax to yield enough after-tax income to meet a $100 property tax expense embodied in rent and therefore not deductible by the housing consumer. Even at the $20,000 taxable income level subject to a combined Federal and State-local tax rate of 37.1 percent at the margin, it would require about $159 to meet a $100 property tax expense in the form of nondeductible rent.

All these calculations are mathematical explorations of obvious relationships between the income tax laws and the net cost of deductible versus nondeductible outlays. At another level of abstraction, it would be appropriate to take account of the reaction of tax effects on housing markets. The tax deductibility of property taxes of homeowners may squeeze rentals down, home mortgage rates up, or raise site values for areas used for single family homes so that the balance between ownership and rental tenure may be partially restored through "market" changes that compensate in part for the tax advantages quantified in the preceding mathematical analysis.

Effects of Including or Excluding Imputed Rental Income

This section considers the equity and practical or administrative considerations relative to the recognition vs. nonrecognition of the imputed

rental income from owner-occupied housing, along with pertinent background drawn from foreign experience.

Equity Considerations

The basic equity case for the inclusion in the income tax base of imputed rental income on owner-occupied housing may be stated narrowly in terms of the comparative tax treatment of homeowner and tenant or more generally in terms of the comparative treatment of income derived from investment in a residence for owner-occupancy as against income derived from various other forms of property investment and, indeed, nonproperty sources. Both aspects are covered in this discussion.

The Reality of Rental Value: To look at the income to the owner-occupant equity features of the issue of whether imputed income from owner-occupied housing should or should not be taxed in simplest terms, it is noted that the individual who lives in his own house or apartment receives income in the form of consumer services. The income he enjoys is recognized as personal income in the social accounts, although the typical official statistics on gross national product, national income, personal income by source, personal consumption etc., are peculiarly silent or cryptic with respect to this component.

The individual or family gifted with only moderate economic acumen and analytic capacity is aware that homeownership yields clear income-type benefits in the form of freedom from rent obligations. While the owner-occupant still has to pay property taxes, repair and maintenance expenses, and fire and casualty insurance premiums, and incur depreciation on his building and improvements, and is generally obligated to include principal or debt repayment along with interest in his mortgage payment, he is generally aware that (1) he enjoys a form of reduction in his shelter costs due to his equity interest in his property, and (2) that the portion of his mortgage service payment representing curtailment of the principal is a form of saving which increases his equity interest. The homeowner who has a 100 percent equity interest in his home is generally in position to meet his shelter costs with payment of property taxes, repair and maintenance expense, and insurance and by sustaining gradual depreciation and obsolescence of his home which in the aggregate are substantially less than what he would have to pay as rental on comparable dwelling accommodations.

The term "imputed" that is usually associated with the designation of income from the occupancy of an owned residence is confusing and misleading because it merely refers to the attribution, ascribing, or charging of the income to the owner. Those in the British tradition have referred to it at times as notional income, which is also confusing because it implies that such income is whimsical, fanciful, visionary, etc. The income in question is merely a form of service income or income in kind, which may or may not be included in the tax base or imputed to the recipient depending upon the income concept deemed suitable under the tax system in question. More precisely, the rental value of the owner-occupied residence is a form of return on the housing investment which takes the form of housing services utilized by the owner.

The Federal income tax law does not include gross imputed rental value of an owner-occupied home in adjusted gross income for tax purposes. On the other hand, it allows the deduction of mortgage interest and property taxes which, along with certain other expenses, would be offset against the gross imputed rental value in arriving at the net imputed rental value that might logically be treated as a component of a net taxable income concept. The true net rental value of the owner-occupied residence would be the gross rental value minus mortgage interest, property taxes, repair and maintenance expenses, fire and casualty insurance, depreciation, and whatever utility or other charge may happen to be the responsibility of the owner and is therefore covered by ordinary fair market rentals in the housing market in question.[23]

Discrimination between Homeowner and Tenant: The equity issue may be viewed in terms of the alignment of tax treatment of homeowner and tenant. A person renting his house or apartment must pay the rent from his net income after taxes, with no deduction of any sort for his rent or any component thereof. As any tax conscious individual will recognize, if income is subject to a marginal tax rate of x percent, a rent of $100 will require pretax income of $\frac{\$100}{1-x}$ to cover his housing rental expense. The following table illustrates the variation of pretax income required to meet $100 of rental expense, depending upon the applicable marginal tax rate. The rates shown

[23] For a succinct review of the concept of imputed rent of owner-occupied dwellings, see Richard Goode, *The Individual Income Tax*, Studies of Government Finance, The Brookings Institution, Washington, D.C., 1964, pp. 120–122.

are selected to cover the entire range of the statutory Federal income tax rate schedules.

Applicable marginal tax rate	Pretax income required to cover $100 nondeductible rental living expense
14	$116.28
22	128.21
25	133.33
32	147.06
40	166.67
50	200.00
60	250.00
70	333.33

Now, to a considerable extent, rental payments go to pay (1) a return on capital invested by the landlord, including interest on mortgage indebtedness carried by the landlord to finance the construction or acquisition of the property, and (2) property taxes. However, none of this is deductible by the tenant. The deduction of these amounts as business expense by the landlord in computing his taxable net income do not provide a positive tax benefit to the tenant.

In the case of the owner, however, these components of housing costs become deductible items. Moreover, the income in kind representing the services from the capital in the house is not taxable. Homeowners thus enjoy a substantial tax advantage over tenants in that important elements of housing costs that are treated no differently from other items of personal expenditure for the renter constitute tax deductions for the homeowner. Owners of cooperative and condominium apartments or housing units are provided comparable treatment along with other homeowners. This, of course, helps explain the rise in popularity of the cooperative and condominium forms of ownership which permit the tax advantages of homeownership with the conveniences, economy, and locational advantages of high rise or other multiple-unit housing complexes.

Some Rough Magnitudes on Tax-Favored Elements of Cost of Owner-Occupied Housing: The total portion of basic housing costs that are either deductible (mortgage interest and property taxes) or excludible (net return on the owner's equity) may easily amount to 75 or 80 percent (or more) of the fair market rental value of the residence.

Take a house in a New England community, for example, valued at approximately $40,000 and rentable under moderately favorable conditions at $300 a month or $3,600 a year. The local property tax is likely to be about $1,200, and interest on a $25,000 remaining mortgage debt (62.5 percent of the value of the property, leaving a 37.5 percent equity interest) at the now-obsolete rate of 6.5 percent would be $1,625, making a total of $2,825 deductions or 78.5 percent of the total rental value. A return of even 6 percent on the 37.5 percent equity, which would amount to $900, would bring the total of tax-favored "cost" elements well above the $3,600 annual rental even without taking account of insurance, repair, and maintenance. (In this situation, the return on equity is modest or negative unless capital appreciation, inflation hedging, and tax savings on depreciation are taken into account.) [24]

Aaron suggests that the tax-favored elements of the gross rents on owner-occupied houses constitute, on the average, at least one-third and as much as five-sixths of gross rent.[25]

Laidler used figures showing the tax-favored elements in owner-occupied housing averaged 68 percent of gross rent.[26]

Goode has estimated the resulting tax savings for the typical income taxpayer at 12 percent of annual housing costs at income tax rates and housing rental values prevailing in the late 1960's. The tax saving was estimated at almost one-third of housing costs at the $50,000 income level.[27]

Aaron's more recent estimates put the tax benefits of homeownership on the average at the equivalent of a 13.75 percent reduction in the cost of basic housing construction. This estimate is based on deductions and exclusions for the homeowner equal to 62.5 percent of gross rental value and an average applicable tax rate of 22 percent ($.22 \times .625 = .1375$).[28]

These average figures do not tell the full story of tax advantage and tax discrimination between homeowner and tenant. Using the 62.5 percent estimate of tax-favored components of basic housing cost, it is evident that for a tax-

[24] These figures roughly approximate an actual and not untypical situation known to the author.

[25] Henry Aaron, "Income Taxes and Housing," *The American Economic Review*, Vol. LX, No. 5 (December 1970), p. 800.

[26] Laidler makes his calculations on the basis of an estimated value of housing services of 11 percent of housing value. Of this, all but an estimated 3.5 percentage points are either deductible or undeclared return on equity. The remaining tax-subsidy elements are thus 7.5 percentage points, or ($7.5 \div 11$) 6.8 percent of the total value of the housing services. David Laidler, "Income Tax Incentives for Owner-Occupied Housing," in *The Taxation of Income from Capital*, Arnold C. Harberger and Martin J. Bailey, Editors, *Studies of Government Finance*. The Brookings Institution, Washington, D.C., 1969.

[27] Goode, *The Individual Income Tax*, previously cited, p. 122.

[28] Aaron, "Income Taxes and Housing," previously cited, pp. 802–805.

payer even in the 40 percent bracket, the tax savings are equivalent to a reduction in basic housing costs of 25 percent. For a joint return taxpayer with an adjusted gross income of, say, $60,000 and a taxable income over $44,000, the tax-related reduction would be about 31.25 percent of basic housing costs.

Inequities and Anomalies of Transferring Housing in and out of the Exchange Economy: The difference in the treatment of homeowner and tenant and the implications of excluding housing rental value from the tax base when it is removed from the exchange economy and placed in owner-occupancy status are effectively illustrated by the following example.

Suppose two men each own a house valued at about $44,000, with a gross annual rental value of $4,800. This is about 11 percent of capital value, so that the example employs Laidler's assumption as to the ratio of gross rental value to house value (see footnote 25). If mortgage interest and property taxes are 62.5 percent of gross rental value, as estimated by Aaron, each owner occupant receives a net tax deduction of $3,000. If the two men temporarily move, each renting the other's house, the tax situation changes dramatically as shown in the accompanying illustration. As tenant-occupants of each other's houses and landlords of their own houses, each would lose the $3,000 personal deduction enjoyed as an owner-occupant. In addition, each would have taxable income of $700, assuming a low depreciation deduction of 2 percent (50 year straight-line) of an assumed $3,500 building cost. Only if the depreciation allowance were as high as 4 percent of the $35,000 building cost would the taxable income be erased. Thus the move of the two taxpayers with change in occupancy status of the two homes would add between $6,000 and $7,400 to the income tax base, depending on the assumption as to the tax depreciation allowances.

The illustration incidentally shows the importance of the tax depreciation assumption in arriving at an estimate of net imputed rental value attributable to the owner's equity.

An analysis of the added income tax base potential of the imputed rental income approach versus the simpler method of disallowing the mortgaged interest and property tax deductions is presented in Appendix A.

Review of the Equity Argument: The tax advantages of homeownership as against rental of housing just described and illustrated have been widely discussed and reviewed in the literature of tax theory and tax reform. The deductibility of mortgage interest and property taxes together with the exclusion of imputed rental value (or the net imputed income on the equity investment in owner-occupied homes) provide a substantial advantage to ownership as against tenancy. These advantages also make homeownership an attractive investment as against alternative capital commitments which produce taxable income.

Table 11. Illustration of Difference in Tax Effects as Between Owner-Occupany and Rental Status of Homes

	Owner-occupancy status	Rental status
Rental income	$ 0	$4,800
Tax deductions		
Mortgage interest	2,100	2,100
Property taxes	900	900
Total	3,000	3,000
Insurance		150
Repair and maintenance		250
Depreciation:		
(a) 2% of $35,000 building		700
(b) 4% of $35,000 building		1,400
Sub-total (a) Depreciation		1,100
(b) Depreciation		1,800
Grand total deductions:		
(a) Depreciation		4,100
(b) Depreciation		4,800
Net tax base effect		
Deductions	3,000	
Taxable income		
(a) Depreciation		700
(b) Depreciation		0

It is also important to note that the tax advantages to homeowners have doubtless had an impact on rental structures, particularly in those segments of the housing market in which homeownership is most clearly a competitive option to rental occupancy. While the pressure of this competition may reduce returns to landlords, it provides benefits in the form of lower rents to tenants that represent a sharing with them of the tax benefits of homeownership.

Proposals for change in the income tax to achieve greater equity and restore neutrality as between homeowners and renters involve several alternative approaches:

1. Disallowance of the homeowner deductions for mortgage interest and property taxes.

2. Inclusion in adjusted gross income of estimated gross rental value of the owner-occupied home. Against this gross figure would be offset both (1) the mortgage interest and property tax deductions (which would in effect then be wiped

out) and (2) additional expenses connected with homeownership for depreciation, repair and maintenance, and fire and casualty insurance. The net result would be to tax the homeowner on both the present mortgage interest and property tax deduction and net imputed rental value (positive or negative) representing the excess of gross imputed rental over the two deductions less the depreciation, repair and maintenance, and insurance expenses.

3. Allowance to renters of a deduction equivalent to the mortgage interest and property tax component of their rental payments.

Alternative 2 is conceptually more sound, and most tax reformers prefer it, particularly since they believe it would raise more revenue than alternative 1 involving merely the disallowance of the two homeowner deductions. Alternative 3 would, of course, involve further attrition of the income tax base as the cost of greater equality between homeowners and tenants. If a rate increase were simultaneously applied to maintain the revenue otherwise lost due to the renters' allowance, the net burden redistribution effects would be to reduce the net advantage of the homeowner as compared with present law and to extend a similarly reduced advantage to renters. The present tax advantages of homeowners would in effect be spread over the entire population of housing consumers in rough proportion to their housing costs.

When the British Royal Commission on the Taxation of Profits and Income examined the equity aspects of the then prevailing taxation of rental value of owner-occupied homes under the British income tax (Schedule A), it noted that witnesses before the Commission had made two objections to this provision:

1. "Notional income" (the term applied to constructive income attributed to the property owner) is not a fit subject for taxation.

2. It is inequitable to tax the beneficial enjoyment of a right of occupation of real property when the income which could, by parity of reasoning, be attributed to owners of other forms of property (e.g., motor cars) goes untaxed.

The Commission rejected argument 1, indicated that some £25 million revenue was involved at 1955 levels after allowing for the deduction of "maintenance relief" (i.e., deductions for repair and maintenance), and asserted that it was untrue that the retention of the charge of rental income to owner-occupier was uneconomical.[29]

Its riposte to argument 2 was, in brief, that it was logical, but that failure to tax income from other chattels rests on practical and administrative considerations. The task of valuing and revaluing other properties and collecting the tax on the imputed income thereon would be impossible, the Commission felt. It also pointed out that homes are generally more valuable than chattels. The conclusion was that the impossibility of advancing further did not invalidate the then-existing charge upon the value of residential occupation, and the Commission recommended its continuance.[30]

As we shall see later, however, the taxation of rental value of owner-occupied homes under Schedule A was abolished in 1963, in spite of the 1955 Commission recommendation for its retention with moderate revision in valuations. The 1963 legislation, as will be shown later, was carried through with broad popular support—one might almost say under popular pressure—under circumstances which confound the understandable but simplistic arguments of the American tax reform school.

Countervailing Arguments on the Equity Case for Terminating Homeowner Tax Benefits: A tax concession which is deliberately granted with the intention of encouraging certain behavior or expenditures cannot truly be called inequitable. It may be regarded as an unwise or inefficient use of the tax expenditure technique, but to term a concession such as that provided the homeowner under the income tax an inequity is essentially a form of expression of opposition to the provision and its objectives. To the extent the criticism is concerned with the fact that a given dollar deduction or exclusion save more taxes for a high bracket taxpayer than for a low bracket taxpayer—a phenomenon inherent in a graduated rate structure—it would apply almost equally to the personal exemptions and the whole range of other deductions for charity, taxes, losses, etc. The "vertical" burden effects of all these items are compensated for by the progressive rate schedule.

The truth is that there is a powerful sentiment and movement in homeownership in this country as in many other nations of the world. The benefits and social externalities of home-

[29] See Royal Commission on the Taxation of Profits and Income, *Final Report,* Cmd. 9474, H. M. Stationery Office, London, 1955, Ch. 28, pp. 245–276, especially pp. 249–251.

[30] Ibid., p. 250.

ownership which have been reviewed earlier in this report are fostered and enhanced through the encouragement of favorable tax treatment. They would suffer a substantial setback if the taxation of imputed rental value of owner-occupied homes were adopted.

The singling out of home rental value for taxation in a system which disregards various other forms of imputed income would constitute a more serious breach of uniformity than might appear. This consideration cannot be dismissed on grounds that the home is much more valuable than the personal property items which produce a flow of consumer services. Motor cars, yachts, speedboats, expensive furniture and home furnishings, camping and sport vehicles, personal libraries and collections of various kinds, luxury wardrobes, hi-fi sets, television receivers, and radio and electronic equipment are some of the important and expensive personal property that would cost large rentals if such property were leased rather than owned. There are doubtless a number of homeowners whose personal property yielding a flow of consumer services exceeds in value the taxpayer's residence. There are doubtless many tenants whose personal property of this type is more valuable than the homes of a considerable part of the homeowning population.

In an affluent society, it is not persuasive to reject the argument of unevenness by saying that we should take step 1 even though steps 2 and 3, which are conceptually equivalent, and introduce new, more glaring nonuniformities without the social justification of helping homeownership and with the danger that it may shift consumption patterns away from homes into the various remaining tax-favored forms.

The difficulties of valuation and revaluation, which will be discussed in more detail later, would by themselves raise grave doubts as to the equity of taxing imputed rental values of homes on a national basis. Even if valuations were accurate and efficiently obtained and kept up to date, the differences in value of basically comparable accommodations in different parts of the country—as among metropolis, metropolitan suburb, smaller community, and the farm—would create an additional equity problem not fully understood by most tax reformers. That is the differential impact of graduated tax rates on varying money incomes which represent essentially similar real incomes due to differences in local living costs, primarily due to housing and site values. A house which may rent for $5,000 a year in an affluent suburb may rent for hardly half that figure in a smaller, more remote community. It is true that metropolitan area renters who earn higher money wages, only to pay them out in higher rents and other expenses created by the congestion and economic pressures of the city, already suffer from the higher effective rate of tax due to this factor (which is comparable in its impact on tax burden with the effect of monetary inflation on money incomes under a progressive income tax structure). But the taxation of imputed rental value would greatly expand this little-understood inequity.

In a society in which a considerable part of housing is subsidized by government and areas of rent control persist and may expand in the current inflationary situation, many people receive housing at less than free market rents. Under these conditions, there is a special burden on those who would tax the homeowner on his imputed rental value without recognizing similar income to those enjoying bargain housing.

Transition problems, present in any equity reform approach, are especially troublesome in the case of imputed income on owner-occupied homes. Homebuyers have made long-range financial commitments on the strength of the present tax-favored treatment. An abrupt reversal of long-standing policies would be harsh and disruptive. Gradual application of new rules would call for a lengthy and probably complex transition.

British and Other Foreign Experience with Taxation of Imputed Income from Owner-Occupied Homes

The imputed rental value of homes is or has been included in the income tax base of a number of countries. Some of those with a considerable tradition of taxing such imputed income—such as Britain, Australia, and Austria—have abolished this treatment. The significance of this form of taxation has been substantially different in these countries from that envisioned in the proposals of the tax reform school in the United States.

Britain: The United Kingdom taxed imputed rent of residential owner-occupiers from the beginning of its income tax early in the 19th Century. The provision became somewhat ineffective after World War II, owing to the obsolescence of assessment valuations which were not updated after 1936. The provision was abolished by what appears to have been widespread political demand in the Finance Act of 1963, despite a recommendation of the Royal Commission on the Taxation of Profits and Income in 1955 that it be retained.

The following paragraphs provide additional detail on this whole episode in the history of the British income tax, including the considerations bearing upon the repeal actions as reflected in official statements and parliamentary debates.

The Pre-1963 Provisions: Under the British income tax, which operates under a schedular system in which separate schedules apply to different categories of income, both the rental value of homes of owner-occupiers and the rent on leased premises were taxed prior to 1963 under Schedule A, as described in the following excerpt from an official source: [31]

Income Chargeable

Income tax is a tax not only on the income of individuals but also on the income accruing to and retained by corporate bodies—e.g., the undistributed profits of companies. It is imposed for each year of assessment—running from 6th April in one calendar year to 5th April in the next—at a standard rate, which at present (1961–62) is 7s. 9d. in the £. The tax is graduated in the case of individuals by means of personal allowances, reduced rates of tax and the surtax (see p. 17). Incomes of husband and wife are aggregated and treated as one income, but a higher personal allowance is given than for a single person.

The tax is levied under five different schedules according to the nature and source of the income:

(1) *Schedule A*—income from the ownership of land, buildings and other hereditaments. Under this schedule, tax is charged on the net annual value of the property. Net annual value is arrived at by making a deduction for repairs from the gross annual value which is determined by reference to the rent at which the property is let or is worth to be let by the year; gross annual value is normally fixed once every five years but the last revaluation for this purpose was made in 1936, since when the same gross values have been carried forward for existing properties. Where property is let at a rent in excess of the assessment the 'excess rent' is charged under Schedule D. The general rule is that Schedule A tax is payable by the occupier of the property.

Expression of Intention to Repeal, 1962: In the Budget Statement of April 1962, the Chancellor of the Exchequer, Selwyn Lloyd, indicated that the taxation of rental value of owner-occupied homes would be eliminated in the 1963 Finance Bill, an intention which had previously been foreshadowed in his remarks during the Finance Bill debates of 1961.

The reference to this matter in the 1962 Budget Statement is set forth in the following excerpt: [32]

SCHEDULE A

There is one other item of direct taxation to which I want to refer, namely, Schedule A. In the Finance Bill debates last year, I said that the proper time for the Committee to decide on the future of Schedule A would be in connection with the 1963 Finance Bill, when the new valuations for rating purposes in England and Wales would take effect. That stands. It is, however, obvious that we could not charge owner-occupiers of residential property with Schedule A Income Tax on the new rating valuations. We should then be suddenly trebling or quadrupling the burden of the tax on many of those who pay it. That would be intolerable.

Indeed, the new situation, which the revised rating valuations will bring about, indicates the unsatisfactory character of this tax in its application to the owner-occupier of residential property. Unless it is charged on current values it is difficult to find a firm basis for the tax which is, in any event, a tax on what has been described as notional income. Many people have to make their plans ahead: there are decisions to be made whether or not to appeal against new assessments.

Therefore, although I intend that this matter shall be dealt with in the 1963 Finance Bill, as I have said before, it is right to say this now. We will not seek to use the new rating valuations for Schedule A purposes so far as these owner-occupiers of residential property are concerned. On the contrary, for the reasons which I have set out, we will make proposals for bringing this tax on them to an end.

I cannot say now whether this will be done in a single operation in one year. It will mean giving up about £50 million a year. Where (sic) we can manage to get to that position in one year will depend on revenue considerations. But Schedule A for owner-occupiers of residential property will go.

It will be noted that the Chancellor based the case for the forthcoming removal of the tax on the owner-occupier to a great extent on the pending revaluation of property for rating purposes (local property tax) and the shock effect of a sudden "trebling or quadrupling" of the owner-occupier tax. It is apparent that updating of valuations from 1936 levels would have caused severe repercussions, but the Chancellor's justification was confusing because there was apparently no automatic identification of valuations for rating purposes and for Schedule A income tax purposes.

The Chancellor's reference to "notional income," usually an accepted technical term for income constructed by valuation of services, was apparently intended to highlight the uncertain, fragile, and subjective nature of such valuation-based income.

In 1962–63, the revenue involved in repeal of Schedule A was estimated at about £50 million (over $125 million), double the £25 million estimate attached to this feature by the Royal Commission in 1955. However, even at £50 million, allowing for differences in the size of the U.S. and British economies, it is apparent that the British decision to repeal involved a much smaller revenue impact than the figures in the $7 billion to $11 billion income range attached to homeowner tax reform in the United States. The relative smallness of the British revenue factor

[31] *The British System of Taxation,* British Information Service, January 1962, p. 15.

[32] Chancellor of the Exchequer, *Budget Statement, 1962,* Hansard, April 9, 1962, pp. 977–978.

was apparently due to the obsoleteness of rental valuations and the interplay of current maintenance expense allowances with 1936 rental value levels.

Political Reaction to the Repeal as Expressed in Parliamentary Debates: The proposed forthcoming repeal seemed to receive general support in 1962 by both Conservative and Labour Members of Parliament. There were impatient criticisms concerned with the fact that the proposed relief would not be effectuated until 1963, a delay justified by the Chancellor on grounds of budgetary cost and need for current balance. There was also some debate over whether comparable relief should be extended to renters. One counterargument to renter relief was that the renter could get tax exemption on an investment in National Savings Certificates equal to the cost of a house of over £3000. Some Members suggested that additional financial aid should be extended to home purchasers to aid the home-ownership movement via lower mortgage interest rates.

In the minds of a number of Members of Parliament, the basic justifications for the abolition of the Schedule A tax on owner-occupiers were:

- The importance of aiding the movement towards a "property-owning democracy";
- The assumption of financial and community responsibilities by the homeowner.

It is also clear that the Schedule A tax was erratic in its application, irritating, and a source of complexity—a thoroughly unpopular feature of the British system. It also seems fair to say that the "double-tax" role of income tax on top of local rates in weakening homeownership as a basic and ultimate form of economic security was a factor in the obsolescence and eventual demise of Schedule A.

The flavor of the Parliamentary debates on the issue in April 1962 is conveyed by a number of excerpts presented in Appendix B to this chapter.

Abolition of Schedule A: The actual repeal of Schedule A tax on owner-occupiers was proposed and enacted in April 1963, as a kind of anticlimax to the advance proposal and debates of the year before.

The abolition of the charge on owner-occupier is contained in the Finance Act 1963, Chapter 25, Part II, Chapter II, section 14. Adaptive provisions placing regular rental payments on leased property, formerly taxed under Schedule A, under Schedule D are contained in section 15.

In brief summary, it may be said that after a long tradition of taxing the rental value of owner-occupied residences the British allowed assessments to become obsolete after 1936. The tax on imputed residential rents was a disagreeable one at best, a levy which was probably tolerable under the relatively low tax rates of the period prior to World War II. There was underlying practical pressure for repeal, and the government was unable to withstand the political heat it would have to sustain in modernizing valuations. The government of the day was understandably unwilling to face up to the task of trebling and quadrupling valuations in the face of the strong homeownership movement in Britain.

Contributing to the unpopularity of the tax in Britain was the fact that it was regarded as a tax on property already taxed under local rates. Moreover, it was an expensive tax to administer relative to the comparatively low yield in its later phases. It also seems likely that the widespread existence of hidden untaxed income in the form of bargain rents to housing consumers under the public housing programs and under controlled rent valuations may have strengthened the psychological and equity case for abolition of Schedule A.

The tendency to drop the tax on imputed rental value of owner-occupied homes has been quite general, similar actions having occurred earlier in Australia and more recently in Austria as will be indicated in following summaries.

Australia: The earlier Australian income tax provisions followed the British tradition, taxing "notional income" in the form of annual rental value of owner-occupied homes. However, Australian legislation abolished this feature of the tax system in the middle thirties. The taxation of imputed rental value is thus absent from the Australian Income Tax Assessment Act 1936–73, the codified structure governing their income tax. No specific explanation of the Australian departure from the British tradition is immediately available.[33]

Austria: Austria, which for some time had included imputed rental value of owner-occupied residences in its income tax base, recently abolished this feature effective beginning in 1973. This action was taken as a simplification measure. As part of the legislation the deduction of mortgage interest which had been limited to the imputed rental income was eliminated. The net

[33] Information obtained from Australian Embassy financial staff.

effect on the revenue base is reported to be relatively small.[34]

West Germany: West Germany taxes the imputed rental value of owner-occupied homes. The deduction of home mortgage interest is restricted to the imputed rental value.[35] The net revenue base due to this feature is reported to be relatively small.

Sweden: Sweden imposes income tax on the imputed income from owner-occupied residences. It is understood that until the 1950's, the deductions permitted against the gross imputed rental value were limited primarily to mortgage interest. Later, however, other deductions were allowed for other home-related expenses such as repairs and depreciation.

Deficits are reported to result frequently in the measurement of net imputed rental value on tax returns because the rental value assessments tend to be too low while expense deductions are more current and realistic.

Property tax is not levied in Sweden, which imposes a general wealth tax instead. Thus there is no property tax deduction against gross imputed rental value.[36]

Other Scandinavian Countries: It is understood that Denmark, Norway, and Finland all impose income tax on imputed rental value of owner-occupied homes, following the German and Swedish patterns.[37]

Colombia: The Colombian income tax law contains a complex combination of (1) tax on imputed rental value of owner-occupied homes valued above a specified amount, and (2) deductions for rent to specified amounts. This combination is designed both to assist homeownership for taxpayers of modest means and to provide equality of treatment between homeowners and tenants in the lower income range.

These provisions, termed the "special rental exemption" and the "limited exclusion of imputed rental income," do not have an ancient history in the Colombian income tax law. Both are reported to have been adopted in 1961, the rental deduction almost as an afterthought.[38]

Colombia has been characterized as "one of the few nations that attempts to tax the imputed net rent of owner-occupied dwellings under the individual income tax." [39]

Practical and Administrative Problems of Taxing Imputed Rent

The application of income tax to imputed rental income of owner-occupiers involves substantial practical compliance and administrative problems affecting taxpayer and government. Some of these problems present themselves in connection with the detailed formulation of the legislation and regulations thereunder.

Simplification and removal of irritating compliance problems were both objectives in the British action abolishing the Schedule A taxation of imputed rental income. Disallowances of the deductions for mortgage interest and property taxes would accomplish roughly comparable results without the complexities of recognition of gross imputed rental value and the determination of net imputed rental income.

Valuation and Determination of Gross Imputed Rental Income: The major practical administrative problem arises, of course, in connection with the determination of gross imputed rental value. This may be done directly by reference to prevailing market rental levels for comparable property or indirectly by reference to the capital value of the property and estimating annual rental value as an appropriate percentage (or graduated schedule of percentages) of appraised capital value. The administration of this tax feature involves not only initial determination of rental value but a continuous process of updating to reflect (1) changes in the local or regional rent structure or real estate values and (2) the impact, frequently uneven from community to community, of the continuing inflation process on money rents and real estate prices. If the rent determination is made by application of appropriate percentages of capital values, the percentage itself will need to be reviewed and updated in the light of changing economic conditions.

Property valuation for purposes of local property taxes has never achieved very acceptable equity or uniformity. The perfection of the valuation process to sustain the weight and pressure of a substantial personal income tax structure would involve greater difficulties, controversy, litigation, and, of course, opportunities for favoritism.

In a large country, the problem of achieving comparability and uniformity among regions—be-

[34] Information obtained from the fiscal staff of the International Monetary Fund.

[35] Information obtained from fiscal staff of the International Monetary Fund.

[36] Information obtained from fiscal staff of the International Monetary Fund.

[37] Information obtained from fiscal staff of the International Monetary Fund.

[38] *Fiscal Reform for Colombia.* Malcolm Gillis, Editor. Harvard Law School, International Tax Program, Cambridge, Mass.: 1971, p. 311. Contributed by Melvin White and Andrew C. Quale, Jr.

[39] Ibid.

tween city and suburb, and between metropolis and countryside—would be tremendous. While problems of uniformity in valuation and assessment have been encountered and dealt with in various ways in connection with the local property tax, they would be greater and more controversial where interregional equality was sought as a prerequisite to reasonable fairness.

Deductions from Gross in Arriving at Net Imputed Rental Value: In implementing a tax on net imputed rental value, deductions would be allowed from the gross rental figure for mortgage interest and property taxes, repair and maintenance, insurance, and depreciation. The recordkeeping for some of these items, such as repairs and maintenance (not now allowed as personal deductions), would be formidable for the taxpayer and the auditing administrator. Standard deduction or approximation techniques might be employed, but they would reduce the theoretical equity of the tax. On the other hand, allowance of actual dollar outlays on repair and maintenance would offer a temptation for middle and upper bracket taxpayers to engage in lavish repair practices in the nature of capital improvements, or otherwise to disguise capital improvements as current expense, thus using "cheap tax dollars" to improve their property. These problems now are met in business and investment property situations, but their extension to the vast area of homeownership would introduce a formidable addition to the task of effective income tax administration.

Combined Business and Personal Properties: One of the specific problems would be the apportionment of rental value of jointly used properties as between business or farm and personal residential use.

The tax on imputed rental value would, of course, introduce a problem of attempted tax avoidance by attributing excessive proportions of rental value to business or farm use.

Depreciation: Both practical and conceptual problems arise in connection with the allowance for depreciation in computing net imputed rental values. The variations in tax basis, depending on date of acquisition, prior business or investment use, etc., which now affect depreciation for purposes of computing the net income from income-producing property, would apparently be inappropriate in applying the imputed rental value concept, which is designed to measure annual income status for purposes of achieving interpersonal equity. The fact that A's property cost $10,000 because he acquired it 30 years ago, while B's similar residence cost $40,000 because he acquired it in recent years, should not differentiate their income position under the imputed rental value concept, unless it is designed to capture unrealized money value appreciation of houses due to inflation. The treatment of basis reduction due to prior tax depreciation while the property was in rental status is a similar source of equity complication.

Assuming that conceptual problems are resolved, so that acceptable depreciation methods are provided by the new statute, there would remain the fact that depreciation calculations would be necessary for a whole new area of property previously excluded. This might be dealt with by a standard depreciation allowance for net imputed rental valuation purposes, or the standard allowance might be incorporated in a standard semi-net rate to be applied to capital values to obtain rental value.

These matters would raise serious complications of initial specification of the plan and of its implementation, which can only be touched upon in this brief review. One of the disturbing possibilities of the plan would be two concepts of depreciation and depreciable basis operating side by side, one for regular income tax purposes if the property were used for income production and the other for the net imputed rental value calculation. Britian avoided depreciation problems under its imputed rental value tax. The British income tax generally does not allow depreciation of buildings (except in unusual factory or industrial situations).

Residences Abroad: The administration of a tax on imputed rental value would doubtless encounter difficulties where taxpayers owned primary or second residences abroad. The ascertainment of the existence of such property and the rental value thereof outside the United States would be a source of complication and potential tax escape.

Transition Problems: The equity problems calling for transition rules to avoid breach of faith with homeowners have been outlined earlier. The formulation and administration of appropriate transition rules to prevent hardship on owners who have made commitments on the basis of the present treatment would entail substantial effort and ingenuity. Since preexisting owners would presumably continue to enjoy at least part of their present favorable treatment for at least a period of years, sales of homes and acquisition of new ones not under the shelter of

the transition would be deterred by the tax effects. Transition provisions would seem to require surveillance over all transfers of houses, including transfers by gift and inheritance. Query: Would swaps of houses avoid disallowance of favorable transition treatment?

Recommendations of the Canadian Carter Commission: The Carter Commission, which studied tax reform possibilities in Canada (with background studies by staff experts), briefly examined the idea of taxing imputed rental income of owner-occupiers in Canada and dismissed it as impracticable.[40] While this position was criticized by U.S. tax reformers interested in achieving a fully comprehensive tax base, it should be noted that the Canadian income tax does not allow deductions for home mortgage interest or property taxes, so that the nonrecognition of gross imputed rental value is less important in their system.[41]

Tax Incentives for Investors in Rental Housing

The present Federal income tax law provides two major tax incentives for investors in rental housing:

- Accelerated depreciation in the form of the 200 percent declining balance and sum-of-the-years digits methods for new rental housing and a 125 percent declining balance formula for used rental housing which has a useful life of 20 years or more at acquisition. (These benefits have been denied nonresidential real estate since the Tax Reform Act of 1969, thus creating differential as well as absolute benefits for residential rental property.)

- Accelerated amortization over a 5-year writeoff period for expenditures on the rehabilitation of low and moderate income rental residential property, subject to certain maximum and minimum limits per housing unit.

The most recent official estimates indicate that the depreciation allowances on rental housing in excess of straight-line resulted in tax savings and revenue losses of about $600 million at 1972 levels. Of the $600 million tax benefits, an estimated $350 million were received by corporations and $250 million by individuals.[42]

The housing rehabilitation incentives were estimated to produce tax savings and revenue losses of $40 million in 1972, of which $15 million went to corporations and $25 million to individuals.

These income tax incentives (and their predecessors prior to 1969) have stimulated investment in residential rental property to a substantial degree, as will be indicated more specifically under the following headings. The relatively new amortization provisions for low income housing rehabilitation seem to have exerted a stimulative effect, increasing this type of contribution to rental housing supply, in both quantity and quality.

Impact on Housing Supply

The tax benefits to investors in rental residential property, which became substantial as early as 1946 with the introduction by administrative action of the 150 percent declining balance depreciation formula for multiple-unit rental housing projects, were (1) increased the return to equity investors in such housing in the first instance, (2) reduced the costs of providing rental housing services, thus shifting the cost or supply schedule "to the right," i.e., increasing supply, and (3) lowered the rentals charged tenants and increased housing consumption, through the interplay of the increased supply schedule and the elasticity of demand for housing, particularly rental housing.

The beginnings made in 1946 were expanded with the generally applicable introduction of 200 percent declining balance and sum-of-the-year digits depreciation for new depreciable property, including both personal property (machinery and equipment) and real property (buildings and structures) under the legislation adopting the Internal Revenue Code of 1954.

The situation was further complicated by the Tax Reform Act of 1969, which retained the full accelerated methods of the 1954 code for new rental housing (and for new machinery and equipment) but limited all other new buildings and depreciable real estate to the 150 percent declining balance method. Used housing with a

[40] Report of the Canadian Royal Commission on Taxation, 1966.

[41] See Lawrence M. Stone, "A Comprehensive Income Tax Base for the U.S.?: Implications of the Report of the Royal Commission on Taxation," *National Tax Journal*, Vol. XXII, No. 1 (March 1969), p. 35.

[42] Estimates on both rental housing depreciation and rehabilitation amortization are from *Estimates of Federal Tax Expenditures*, Committee on Ways and Means, prepared by the staffs of the Treasury Department and Joint Committee on Internal Revenue Taxation, June 1, 1973. U.S. Government Printing Office, Washington, D.C., 1973, Table 1, p. 5.

remaining useful life at acquisition of 20 or more years was allowed a 125 percent declining balance method, while nonresidential used real estate acquired thereafter was limited to straight-line depreciation. Only used housing with a remaining useful life of a less than 20 years was restricted to straight-line.

Since 1969, therefore, new rental housing enjoys both the absolute dollar advantages of the 200 percent DB (declining balance) and SYD (Sum-of-the-years digits) methods and a differential advantage vis-a-vis nonresidential construction, which tends to divert the allocation of capital funds and construction resources away from alternative uses and into rental residential construction.

Several distinguishable mechanisms are factors in the effect of the tax incentives on housing supply:

1. Increase in the rate of return to investors due to the faster timing of depreciation and the deferment of tax liability.

2. Increased cash flow, particularly in the early years, which permits transfer of equity capital from one completed project to another one, with limitations of longer-term risks on any one project.

3. Pass-through of lower capital costs (i.e., lower tax rate of return to produce a given net after-tax return) to tenants with resulting greater housing consumption due to price elasticity of demand for housing services.

Both the absolute and differential tax advantage effects on housing supply will be considered in the following discussion.

Supply Effects: The supply of housing will tend, other things being equal, to be greater the higher the price paid for it. The supply schedule for rental housing may be based on the relationship between quantity supplied and a market price in terms of rent or in terms of rate of return to the equity investor in rental housing.

Relatively little is known about the elasticity of supply of rental housing. The elasticity or responsiveness of supply to price changes will, of course, depend upon the time allowed for the supply response or adjustment (elasticity will be greater the longer the response period) and upon the particular set of conditions, particularly the available supplies of financing, land, and construction resources (abundant loan money and physical resources will insure a larger response to a given market price change than a tight, scarcity resource situation). The supply conditions may in turn depend upon the related changes of redirection of demand, which in the event of massive housing supply changes would release resources from alternative uses. However, the validity of elasticity measures which take account of such large economy-wide or macroeconomic developments is dubious. Many would say—indeed, it is probably fair to say that in standard economic doctrine—that the longrun supply schedule for rental housing—such as apartment house projects—is nearly perfectly elastic.

The elasticity of the supply of rental housing has recently been the subject of published discussion by de Leeuw and Ekanem and by Grieson.[43] In brief, de Leeuw and Ekanem found the shortrun elasticity of supply to be low, in the .3 to .7 range in a given market in a short run defined as a time period long enough for the total "quantity" of housing capital in a housing market to "respond fully to changes in underlying conditions," a period estimated to be in the order of magnitude of 6 years. A longer period, not covered by their measure, would be one sufficient to allow response not only of "quantity" but also of the "form" of existing housing capital (number of units per building, architectural style, location pattern within the housing market, etc.). Grieson estimated the supply elasticity of low income housing at 2.2. An earlier estimate by him placed supply elasticity at 2.36 to 5.00 when land is about one-fifth to one-tenth of the value of the structure plus land and certain other conditions are met. Despite disagreements with Grieson on the magnitude of shortrun elasticity, de Leeuw and Ekanem "expect" that longrun housing supply is very elastic; because construction of new housing is a replicable process, constant returns to scale would characterize, at least approximately, this long run—leaving aside pressures on import prices.[44] De Leeuw and Ekanem "suspect" that the explanation of their findings of low supply elasticity in the short run as defined lies in "diseconomies of scale in the maintenance, improvement, and conversion of existing capital"—a characterization that indicates the rather specialized and limited significance of their results for appraising the effect of a change

[43] Frank de Leeuw and Nkanta F. Ekanem, "The Supply of Rental Housing," *The American Economic Review*, Vol. LXI, No. 5 (December 1971) pp. 806–817; Ronald L. Grieson, "The Supply of Rental Housing: Comment," *The American Economic Review*, Vol. LXIII, No. 3 (June 1973) pp. 433–436; and Frank de Leeuw and Nkanta F. Ekanem, "The Supply of Rental Housing: Reply," *The American Economic Review*, Vol. LXIII, No. 3 (June 1973) pp. 437–438.

[44] See "Reply," cited above, p. 437.

such as accelerated depreciation tax benefits on the Nation's rental housing supply.

Perfect elasticity of the aggregate supply (not just local supply) of residential rental units implies that economic and financial resources can be transferred freely or diverted from other uses, brought into existence, or modified for rental housing construction, with very little hitch or restriction, in response to even miniscule price changes. Even if other resources were freely available at constant costs to increase housing supply along a vertical or perfectly elastic supply curve, the limitation of the supply suitable sites would seem to destroy the perfect elasticity situation. The bidding up of the price of land located in suitable places, particularly if the analysis is concerned with central city areas where land resources are limited, would increase housing supply costs as the supply was expanded, thus reducing the elasticity measure.[45]

Massive increases in housing supply on an economywide basis require reductions, of course, in consumer demand in other directions so as to release basic resources for the added housing effort. This process, if not due to voluntary switches of consumer demand, would require taxation or other macro-type policy steps to curtail income and money demand for goods and resources competitive with the larger housing effort.

In general, it can be said with confidence that, short of changes calling for very massive resource reallocations, the housing supply is quite elastic in markets in which orderly social conditions prevail and the market mechanism can operate without serious interference by social disorder, crime, vandalism, factors causing uncollectability of rents, or basic loss of confidence on the part of housing suppliers, or investors.

The extent to which housing production has actually increased in response to tax-related reductions in the cost or supply schedule has of course been determined by the interaction of the supply schedule and the demand schedule. If the rental housing supply schedule were perfectly elastic, the additional rental housing production and consumption due to a decrease in costs of x percent all along the supply schedule would increase rental housing demand by a percentage of x percent times the elasticity of demand for rental housing.

[45] This topic is discussed by Emil M. Sunley, Jr., in "Tax Advantages of Homeownership Versus Renting: A Cause of Suburban Migration," National Tax Association, Sixty-Third Annual Conference on Taxation, September 1970, Honolulu, Hawaii, *National Tax Journal.*

If the cost reduction is in the 7 to 10 percent range (the amount previously estimated in this report based on the tax effects of the excess of accelerated over straight-line depreciation on rental units) actual housing consumption would increase by about 10 to 15 percent. (Again, the reader is reminded that this assumes perfect elasticity of rental housing supply.)

If housing supply is not perfectly elastic—within the range of supply changes and in the particular housing submarkets primarily affected—the effect of the tax-caused cost cut interacting with demand elasticity would be reduced by the associated cost increase reflecting less-than-perfect elasticity of supply. This offset to the increase in volume of housing consumption and production which would occur with perfect (∞) elasticity may be approximated.

The elasticity coefficient of supply or E_s is equal to the percentage change in the quantity supplied divided by the related percentage change in price, i.e.,

$$E_s = \frac{dx}{x} \Big/ \frac{dy}{y} = \frac{dx}{dy} \cdot \frac{y}{x}.$$

It seems likely that the E_s coefficient for the supply of rental housing under the general conditions prevailing in recent years and over the range of time and price changes involved in the accelerated depreciation tax benefits, while not infinite, is in the vicinity of 5 to 10. That is, a 1 percent increase in price will elicit about a 5 to 10 percent increase in supply. In the illustrative calculations in the following section, elasticity assumptions of both 5 and 10 are used.

Consumption Effects: First, it is assumed that the supply elasticity is 10. Under these conditions, a 7 to 10 percent reduction in housing supply costs (and prices) due to accelerated tax depreciation benefits, which would otherwise increase housing consumption by about 10.5 to 15 percent with a demand elasticity of -1.5, would then encounter a supply price rise of approximately 1.05 to 1.5 percent. This would initiate further changes in demand and supply setting a new equilibrium within the new supply schedule. The actual new equilibrium of housing supply and consumption following a 10 percent cost reduction due to tax benefits would thus occur with an increase in housing supply and demand of about 13.0435 percent and a price reduction of 8.69565 percent. Thus, if supply and demand were formerly equated at 100 with a price of 1,

in the new equilibrium supply would equal demand at 113.0435 with a price of .9130435.[46]

If the supply elasticity is assumed to be 5, the price reduction would be 7.6923 percent and the new equilibrium would be at 111.5385 (supply = demand) with a price of 92.0769.

The preceding analyses relied on reckonings that the effect of accelerated depreciation tax benefits decreased housing costs about 7 to 10 percent.[47] These estimates assumed that the benefits of accelerated depreciation were appropriately measured by reference to the excess of accelerated over "true" depreciation of 2 to 2.25 percent of the depreciable property cost.

Higher estimates of the cost-cutting stimulus of accelerated depreciation would result if "true" depreciation on buildings were set, in line with some theoretical standards, at lower levels. These estimates would of course result in higher estimates of the impact on housing supply and consumption.[48]

The use of extremely low "economic" depreciation concepts as a benchmark for acceleration benefits is rejected in the present report. In the first place, they are by definition irrelevant to the examination of the impact of the accelerated methods introduced in 1954 and modified in 1969. In the second place, it is doubtful whether these concepts are realistic in a world of risk and uncertainty in which a prudent cost recovery in the early years to reduce risk is a kind of "requirement" in investors' thinking, denial of which would have a negative effect on investment relative to what would occur under traditional concepts of taxable net income measurement.[49]

[46] Calculated as follows: $100\ [\ 1-\ (-1.5x)] = 100\ \{1 + [10(.10 - x)]\}$ where x = the proportionate price reduction that would equate supply and demand following a 10 percent cost reduction (supply price reduction throughout the supply schedule) due to the application of accelerated tax depreciation benefits.

[47] In line with estimates by Aaron in "Income Taxes and Housing," previously cited, p. 802.

[48] For example, Sunley—relying on the Samuelsonian concept of true depreciation as the decline in the present discounted value of the expected income stream from a property and certain observations of his own—put true depreciation lower than straight-line, indeed near zero in the early years. This led to estimates that rental housing costs were reduced by some 17 to 39 percent in the 40-70 percent investor tax brackets. "Tax Advantages of Homeowning Versus Renting: A Cause of Suburban Migration?" previously cited.

[49] The relationship between net income measurement and the theory of present discounted value based on expected net cash flows without regard to capital recovery is a complex area beyond the scope of this paper.

Quantitative Analysis of Housing Output 1969-73 Assuming the Tax Reform Act of 1969 Had Not Been Enacted

The Tax Reform Act of 1969 reduced depreciation on used rental housing acquired thereafter, particularly property with a residual useful life of less than 20 years. However, it retained intact the "fully" accelerated depreciation formulas (200 percent DB and SYD) on new rental housing, while denying them to other types of building. Nonresidential buildings, such as offices, hotels and motels, and commercial and industrial structures, all were denied the accelerated method and limited to 150 percent declining balance. Used buildings other than rental housing were all limited to straight-line depreciation.

In addition, the 1969 Act made an exception for residential rental property under the provisions which provided a phaseout of the former percentage recapture schedule with respect to post-1969 excess depreciation on real estate. To provide incentive for the continued building and restoration of residential rental properties, the law as revised in 1969 sets forth a more beneficial recapture rule for post-1969 excess depreciation on residential rental property and rehabilitation expenditures on low and moderate income rental properties. The pre-1970 recapture percentages were retained for limited-return housing investments, including those under the so-called FHA 221(d(3) and 236 programs and certain other State and local assisted projects.[50]

The introduction of these favorable differentials to assist rental housing construction was designed to assist and afford special incentive for residential rental investment activity. How does the experience in the brief period since the 1969 legislation (PL 91–172 was approved by the President on December 30, 1969) bear out or justify the 1969 provisions retaining the accelerated depreciation formulas for new rental housing and embodying the various prohousing differentials, in terms of accomplishment of their indicated objectives?

Table 12 examines the data on private housing starts 1965–1973, with particular reference to the changing proportions between single family and multifamily units. The assumptions underlying this analysis are that (1) single family units are almost entirely for owner-occupancy, and (2)

[50] For further details on the various recapture rules (and related depreciation revisions) discussed in this and the preceding paragraph, see *Explanation of Tax Reform Act of 1969*, Commerce Clearing House, 1969, paragraphs 1328, 1329, pp. 158–166.

Table 12. Private Housing Starts: Single Family and Multifamily, 1969–1973

	1965	1966	1967	1968	1969	1970	1971	1972	1973 (seasonally adjusted annual rates) Jan.	1973 (seasonally adjusted annual rates) April prel.
U.S. total:										
Private housing starts	1473	1165	1292	1508	1467	1434	2052	2357	2497	2103
Single family	964	779	844	900	811	813	1151	1309	1450	1191
Multifamily;										
Number	509	387	448	608	656	621	901	1047	1047	912
Percent of total	34.6	33.2	34.7	40.3	44.7	43.3	43.9	44.4	41.	43.4

Note: Items may not add to totals due to rounding.

Source: Compiled and computed from data in *Statistical Abstract of the United States 1972*, previously cited, Table 1144, p. 682 and *Economic Indicators*, May 1973, prepared for the Joint Economic Committee by the Council of Economic Advisers, U.S. Government Printing Office, Washington, D.C., 1973, p. 20.

multifamily housing is very predominantly for rental use, although condominium developments have been increasing.

As this table shows, multifamily housing construction ranged between 41.9 and 44.7 percent of the total private housing starts in the 1969–73 period as compared with 33.2 to 40.3 percent in the 1965–68 period. The July 25, 1969, effective data of the new provisions were known to taxpayers, and the new rules therefore affected economic decisions long before the signing of the 1969 act into law by the President on December 30, 1969. It is simplistic to argue that the increase in the multifamily percentage of total private housing starts from 36.75 percent (midpoint of the 33.2 to 40.3 percent range for 1965–68) to 43.3 percent (midpoint of the 41.9–44.7 percent range for 1969–73), or by 6.55 percentage points, measures the impact of the new tax differentials introduced in the 1969 act. However, it is indicative of some substantial influences by the alteration of the income tax environment. Relaxation of the tight money market conditions of the late 1960's assisted in the recovery of housing construction which became manifest in 1971. However, the money market stringency and its relaxation affected the building of both single family homes for owner-occupancy and multiple housing unit rental projects.

Table 13. Gross Private Domestic Investment

(Dollar amounts in billions; quarterly data at seasonally adjusted annual rates)

	Total Gross Private Domestic Investment		Nonresidential Structures		Residential Structures	
1963	$ 87.1		$19.5		$27.0	
1964	94.0		21.2		27.1	
1965	108.1		25.5		27.2	
1966	121.4		28.5		25.0	
1967	116.6		28.0		25.1	
1968	126.0		30.3		30.1	
1969	139.0		34.2		32.6	
1970	137.1		36.0		31.2	
1971	152.0		38.4		42.6	
1972	180.4		42.2		54.0	
1973I	199.7		46.7		59.4	
Increase:	Dollar Amount	Percent	Dollar Amount	Percent	Dollar Amount	Percent
1968 over 1963	38.9	44.7	10.8	55.4	3.1	11.5
1972 over 1968	54.4	43.2	11.9	39.3	23.9	79.4
1973I over 1968	73.7	58.5	16.4	54.1	29.3	97.3
Addendum to test difference between 1968 and 1969 as the dividing-line year:						
1969 over 1963	51.9	59.6	14.7	75.4	5.6	20.7
1972 over 1969	41.4	29.8	8.0	23.4	21.4	65.6

Source: U.S. Department of Commerce data from *Economic Indicators*, May 1973, p. 8.

Another indication of the impact of the post-1968 tax differential favoring rental housing is the relative change in commercial and industrial (nonresidential) construction as against housing activity. Table 13, a résumé of developments in the residential versus nonresidential components of gross private domestic investment in the 5 years before and the 5 years after 1968, discloses remarkable changes.

As this table indicates, gross private domestic investment as a whole increased by about the same overall percentage from 1963 to 1968 and from 1968 to 1972. The nonresidential structure component, however, increased by 55.4 percent between 1963 and 1968, but by an appreciably reduced percentage, 39.3 percent between 1968 and 1972. By contrast, the residential structure component increased by only 11.5 percent between 1963 and 1968, but by 79.4 percent in 1972 over 1968. If the sharp burst of inflationary growth between 1972 as a whole and the first quarter of 1973 is added to the analysis so as to permit an intersectional comparison for the period 1968–1973, one finds again that the residential structures outpaced both nonresidential structures and gross private domestic investment as a whole.

The addendum to the above table using 1969 rather than 1968 as the dividing line for the periods before and after the 1969 act does not significantly modify the interpretation just outlined.

Again, it is hazardous to jump to simplistic conclusions, in view of the complexity of the cause of economic events and the various forces operating to influence the relative expansion of the different components of gross private domestic investment. However, this evidence seems to support the indications provided by the earlier examination of rental versus nonrental housing expansion rates before and after the 1969 act.

One of the imponderables in the situation is the role of the repeal of the investment credit by the Tax Reform Act of 1969, which tended to slow business investment in machinery and equipment. This action was reversed and the credit was restored with some modifications in 1971. There was virtual elimination of the credit for the durable equipment as a component of gross private domestic investment. The ratio of producers' durable equipment in 1972 to 1968 is 1.338 as compared with a ratio of 1.432 for gross private domestic investment as a whole.

On the basis of the above analysis it seems fair to say that the Tax Reform Act of 1969 had several basic effects on housing unit production:

1. It diverted substantial resources from nonresidential to residential structures. The diversion at 1972 rates probably amounted to $1.2 billion,[51] equivalent to 80,000 rental housing units—an average cost of $15,000 per unit, or 60,000 units at an average cost of $20,000 per unit.

2. It may also have diverted considerable capital expenditures from producers' durable equipment, which was made vulnerable by the repeal of the investment credit in the 1969 Act. Although this effect is presumably now wearing off, as of 1972 it seems likely that the result of this phase of the 1969 tax reform legislation was to release some $2.75 billion investment funds from the producers' durable sector, making it available directly or indirectly to the rental housing field. This would be equivalent to 183,333 rental housing units at $15,000 per unit or 137,500 units at $20,000 per unit.

3. The accelerated amortization provisions for rehabilitation of low income rental housing units probably increased eligible expenditures of this type by $80 million to $100 million at 1972 levels.[52] This would be equivalent to 26,667 to 33,333 rehabilitated units at $3,000 (the minimum required to meet tax eligibility rules) per unit.

These effects would not have materialized in the absence of the 1969 legislation.

Current Tax Reform Proposals

Preliminary Overview

The current Treasury proposals for tax changes contain three elements affecting housing investors and consumers. Two are designed to limit the avoidance by high income taxpayers who now pay little or no tax. The other is intended to help humanize the local property tax in its application to low and middle income elderly persons.

One set of proposals would repeal the existing 10 percent minimum tax for individuals and replace it with two provisions applicable to individuals: (1) A Minimum Taxable Income provi-

[51] This estimate is based on the differences between the actual level of nonresidential construction and the level projected on the assumption that nonresidential construction increased 1968-72 at the same overall rate as gross private domestic investment.

[52] Estimate assumes that combined profitability effects (increasing the rate of return on rehabilitation outlays) and cash flow benefits increased expenditures by an amount 2 or 2½ times the estimated revenue loss from this feature in 1972.

sion; and (2) a Limitation on Artificial Accounting Losses. These two provisions in combination are estimated to produce about $1 billion of additional revenues in the first full year operation, for a net revenue gain of $800 million after taking into account the revenue loss of about $200 million attributable to the proposed repeal of the present minimum tax on individuals.[53]

The other proposal, concerned with the particular weight of the property tax burden on elderly taxpayers, is an extension at the Federal level of so-called "circuit-breakers" adopted by some 14 States and designed to relieve property tax "overload situations." The proposal would provide a refundable property tax credit for low and middle income elderly persons whose property taxes exceed 5 percent of household income, up to a limit on the credit of $500. Equivalent relief would be afforded elderly renters for the property tax embodied in their rental payments. The revenue concession involved in this relief is estimated to lose about $500 million in the first full year.[54]

Minimum Taxable Income

Highlights of Proposal: Under existing law, a special 10 percent minimum tax is imposed on the amount by which the aggregate of specified tax preference items exceeds (1) $30,000 plus (2) taxpayer's income tax liability for the year. This tax is applicable to individuals, corporations, trusts, and estates. For purposes of the tax, tax preference items are:[55]

1. Excess investment interest (representing the excess of the investment interest expense deduction of taxpayers, other than ordinary corporations, over their net investment income for the year).

2. Capital gains.

3. Accelerated depreciation on real property.

4. Accelerated depreciation on personal property subject to a "net lease" (one where total business deductions for the property are less than 15 percent of the gross rental income from the property).

5. Percentage depletion in excess of adjusted basis.

6. Amortization (accelerated or 5-year write-off of specified assets such as pollution control facilities and railroad rolling stock) in excess of otherwise allowable depreciation.

7. Stock option gains (fair market value of option stock at time of exercise in excess of the option price).

8. Bad debt deduction of financial institutions.

The Treasury's reform proposal would replace the minimum tax for individuals (including fiduciaries) with a minimum taxable income rule which would prevent the combination of exclusions and itemized deductions from offsetting more than one-half of a taxpayer's income and thus require every individual to pay tax on at least the balance. The exclusions involved are those for: (1) one-half of long term capital gains, (2) the bargain element of a stock option at the time of exercise, (3) percentage depletion in excess of adjusted basis, and (4) income earned abroad and presently excluded under section 911 of the Internal Revenue Code. Unlike the present minimum tax, the proposal would not include accelerated depreciation on real property as a preference (or "addback") item.

In applying the provision, the specified exclusions would be added back to the taxpayer's adjusted gross income. From that sum would be subtracted the personal exemptions plus $10,000 (an exemption to render the provision inapplicable to low and middle income individuals). The resulting amount would be divided by two to arrive at the minimum taxable income on which tax would be computed at the regular rates.[56]

The Minimum Taxable Income proposal would operate to tax recipients of tax preferences with considerably greater severity than the present Minimum Tax. The comparative results in a presumably representative case are shown in the accompanying illustration from the Treasury's recent presentation before the House Ways and Means Committee (*Proposals for Tax Change,* previously cited, Table 4, p. 81). A more detailed comparative analysis will be made at a later point in this section.

Direct Implications for Housing: Housing investors would not be significantly adversely affected by this particular proposal. Accelerated depreciation on buildings is not included in the

[53] *Proposals for Tax Change*, Statement of the Honorable George P. Schultz, Secretary of the Treasury, before the House Ways and Means Committee, Apri 30, 1973, Department of the Treasury, pp. 18 and 82.

[54] Ibid., pp. 54–56 and 82.

[55] The listing supplied here relies upon *1972 U.S. Master Tax Guide,* Commerce Clearing House, 1971, pp. 89–91.

[56] *Proposals for Tax Change*, previously cited, pp. 13–14.

Table 14. Minimum Taxable Income (MTI)

CURRENT LAW			MTI	
Salary		$100,000		
Stock Option Bargain		(Excluded)		
Long-term Gain on Stock	$100,000			
Less 50% Exclusion	(50,000)			
	50,000	50,000		
Mineral Income	$100,000			
Percentage Depletion	(40,000)			
	60,000	60,000		
Adjusted Gross Income: (AGI)		210,000		
			AGI	$210,000
Less Deductions:			+ Option	50,000
Interest on Deep Discount Bond Margin Load	25,000		+ Percentage Depletion	40,000
			+ Excluded Gains	50,000
Charitable Contribution to Public Charity	100,000		Expanded AGI	$350,000
State Income Tax	30,000			
Other Personal Deductions	49,000		Less Exemptions	(6,000)
Exemptions	6,000		Low Income Floor	(10,000)
	210,000	(210,000)	MTI Base	$334,000
Taxable Income		0		
			× 50% = MTI =	$167,000
Tax (Joint Return)(Minimum Tax)		$11,000	Tax	$88,340

Source: *Proposals for Tax Change*, Department of the Treasury, April 30, 1973.

list of "addback" items in applying the 50 percent minimum taxable rule. Only the capital gains element in the new minimum taxable income base would affect housing investors. The additional tax effect in the case of capital gains is mild because the expanded MTI base (after the addback of 50 percent of net long term capital gain) is divided by 2 in calculating the minimum taxable income. Consequently, the capital gains obtain at least the benefit of a tax of one-half the applicable ordinary rate.

A further consideration is that the repeal of the present 10 percent minimum tax, for purposes of which accelerated depreciation on real property is a tax preference item, would actually tend to relieve housing investors receiving substantial accelerated depreciation tax benefits (the rule of the Limitation on Artificial Accounting Losses in partially replacing the minimum tax in true tax shelter situations involving accelerated depreciation on housing).

Limitation on Artificial Accounting Losses

Highlights of Proposal: The proposal for a Limitation on Artificial Accounting Losses deals with tax avoidance through the spillover of the excess of certain deductions associated with the production of income against the taxpayer's income from other sources. This proposal is thus directed at the tax shelter device, whereby artificial losses on certain types of business or investment ventures due to the existing tax accounting rules are applied to erase income from salaries, professional earnings, and various other activities.

The types of deductions involved in the Limitation on Artificial Accounting Losses include: Prepaid feed in livestock feeding syndication, intangible drilling expenses in mineral exploration, taxes and interest paid during the construction period for buildings and other structures, and accelerated depreciation in excess of straight-line depreciation in the case of buildings.

The proposed limitation would not disallow or capitalize the deductions. It would only prevent losses from the activity to which they relate from offsetting or sheltering other unrelated income of the taxpayer. The loss would be "suspended" until the property on which they arise begins to produce enough income to absorb them, at which time the loss could be used as rapidly as applicable income is generated.

The Limitation on Artificial Accounting Losses does not put a complete stop to the use of the tax shelter device; the income from the investment itself may still be sheltered as intended by the favorable incentive-type deductions. As

stated in the Treasury presentation of April 30, 1973 [57] on the Limitation on Artificial Accounting Losses:

1. It will not affect those taxpayers who are regularly and profitably engaged in the business activities involved.

2. In the case of mineral exploration and housing, where present law provides intended incentives, the proposal is declared to be liberal in its definition of the related activity against which such losses may be used. The losses from housing may be used against the income from all housing, wherever situated. Similar treatment would apply to mineral exploration; losses may be used against income from all oil and gas production wherever situated.

3. Existing investments and outstanding commitments would be unaffected, since they have been made in reliance upon existing law. According to the Treasury statement, housing projects "which will receive certain kinds of governmental subsidy assistance will be similarly unaffected even though investment commitments are not yet firm." [58] This is said to preserve the status quo with respect to Federal housing programs that depend on such subsidies. The Treasury's statement indicates that approval of new projects has been suspended by HUD and the Department of Agriculture pending the reexamination of existing programs, on which the President is to make policy recommendations to the Congress in early September. Other new projects begun outside the housing field after April 30, 1973, would be subject to the proposed tax shelter rules under the Limitation on Artificial Accounting Losses.

Direct Implications for Housing: The Limitation on Artificial Accounting Losses would seem to strike directly at the real estate tax shelter with respect to its utilization by taxpayers in both middle and upper income tax brackets. However, the liberal definition of related income against which housing losses could be offset—together with the absence of accelerated depreciation on real property from the list of addback items under the Minimum Taxable Income provision—might actually have a favorable net effect on tax incentives for housing investors. For example, it might spur investment in housing that would produce net income to absorb losses generated by "newer" projects. In short, the tax haven rules, together with the removal of the existing sanction against accelerated depreciation tax benefits on real property and the proposed tighter tax haven rules in other fields, might stimulate rather than discourage judicious packaging of combinations of "net income" and "net loss" housing investments.

Probable Impact of Enactment of Proposals on the "Housing Market"

While it is extremely difficult to quantify the probable effect of the MTI and LAL proposals on housing supply, construction, and investment, it is possible to explore the various implications for housing previously noted and to indicate the order of magnitude.

Of the $1 billion gross revenue estimate for the combined effect of MTI and LAL ($800 million net after allowance for the $200 million sacrificed in repealing the present 10 percent minimum tax), nonofficial estimates have attributed $600 million to the MTI feature and $400 million to the LAL.[59]

MTI Effects: According to Treasury estimates, the MTI will affect approximately 130,000 affected, this does not offer assurances with returns would be in income classes above $50,000. Taxpayers taking the standard deduction or low income allowance would be exempt if their adjusted gross income (less personal exemptions and exclusion preferences) was not above $10,000. While relatively few taxpayers would be affected, this does not offer assurances with regard to housing investment, where risk-takers encouraged by tax incentives fall in the higher income brackets.

The previous analysis has suggested, however, that the impact of the MTI on long term capital gain—the major aspect of the MTI proposal tending to increase taxes of real estate investors—would be mild. Only in the 70 percent top bracket would it involve applying as much as a 35 percent effective rate on capital gains; since 1972 this has been the regular tax on such gains for taxpayers in the 70 percent bracket, except for the continuation of the old 25 percent alternative capital gains rate on the first $50,000. For taxpayers subject to the present minimum tax, the MTI could mean relief, since an increment of capital gains income could bear an incremental tax rate of about 36.5 percent under present law.[60]

[57] *Proposals for Tax Change*, previously cited, p. 16.

[58] Quotation from Statement of the Secretary of the Treasury, April 30, 1973, in *Proposals for Tax Change*, previously cited, p. 17.

[59] Estimate secured from Tax Analysis and Advocates.

[60] 35 percent (½ of 70 percent) plus 10 percent minimum tax on the 50 percent excluded portion minus 3.5 percent due to the subtraction of the 35 percent from the 10 percent minimum tax base.

The exclusion of the excess of accelerated depreciation over straight-line on real property from the list of addback items under the MTI would actually save taxes for some housing investors now paying minimum tax on these benefits. Some appreciable portion of the $200 million tax reduction associated with repeal of the present minimum would thus go to investors in rental housing. A rough estimate would place the housing investors' share of the $200 million concession in the neighborhood of $10 million.[61] There would be no offset for this under the MTI because it excludes accelerated depreciation on real property, as just indicated.

The favorable response of rental housing investment to new relief from the present 10 percent minimum would probably amount to a multiple of perhaps 3 to 5 times the $50 million revenue involved.

LAL Effects: The specifications of the LAL deal liberally with losses on one housing investment, permitting them to be offset currently against the net income from another housing investment. Moreover, housing and certain mineral explorations are singled out for this treatment, as distinguished from others in which there is apparently intended to be considerable compartmentalization of projects so that income from one would be treated as unrelated income not eligible for current offset by an artificial accounting loss on another investment in the same general category. As a consequence, it may be anticipated that housing investment, along with oil and gas exploration, would enjoy substantial stimulation due to the shelter treatment in alternative investment sectors and the possibility of expanding housing investment income through shifts in taxpayers' holdings to retain the current tax sheltering effect of new housing projects.

Relatively little of the estimated $400 million additional revenue from LAL is likely to be derived from housing. The favorable response by middle and upper bracket investors to the liberal treatment of housing and oil and gas exploration under the LAL proposal is likely to amount to several billion dollars annually, of which a substantial part would be allocated to rental housing.

Conclusions

Homeownership Tax Benefits

On the basic issue of housing tax policy with which this report is primarily concerned—the rationale and cost-benefit balance of the tax deductions and exclusions benefiting homeowners—the conclusion is that the present treatment is quite defensible. The beneficial externalities of homeownership transcend the cliches of social stability and sense of community which tax reformers frequently cite as the sole excuse for the present treatment. Actually, these are strawman arguments to be outweighed and overwhelmed by the familiar case for taxation of imputed rental income of owner-occupiers in the interest of tax uniformity and neutrality. The real rationale for tax incentives for homeownership consists of:

- The essential economies of the owner-occupancy form of tenure;
- The additional real income and wealth brought into existence by homeowners; and
- The additional security afforded the population and the economy by a form of income—owner-occupied housing services—which (1) does not melt or explode with ups and downs in the economy, (2) gives individuals and families a reliable form of income with a substantial built-in inflation hedge in the face of economic change, and (3) does not contribute to problems of escalation or stabilization policy (as does rental tenure) in an economy which has not yet mastered the worldwide forces of inflation.

The taxation of imputed rental value of owner-occupied homes is greatly oversimplified in the literature of its proponents. The revenue potential of this approach tends to be overstated by a considerable margin. There seems to be a widespread trend towards abandoning this approach or reducing its practical significance in countries like Britain and Austria which previously included imputed rentals in the income of homeowners. The practical problems of implementing this form of taxation, particularly the valuation and periodic reevaluation of owner-occupied homes for Federal income tax purposes, would be especially formidable in a large and varied economic area like that of the United

[61] In 1970, tax preferences in the form of accelerated depreciation on real property generally and on low income rental housing amounted to about $248 million and $8 million, respectively, in relation to total tax preferences of $4,473 million reported on returns with tax preferences. Capital gains accounted for $3,651 million or nearly 82 percent of the total reported preferences. Accelerated depreciation, only part of which was related to housing, amounted to less than 6 percent. The total amount of additional tax on tax preferences for 1970 was $122 million. The $10 million estimate shown here is 5 percent of the higher $200 million figure for minimum tax at current levels. Data used was from *Statistics of Income*, 1970. Individual Income Tax Returns, U.S. Treasury Department and Internal Revenue Service, Table 62, pp. 166–187.

States. The element of double taxation of owner-occupied homes would be troublesome and psychologically irritating in a fiscal structure which involves heavy reliance on real estate property tax by the local jurisdictions.

Case studies based on typical homeowner situations indicate that the net imputed income is small or negative after offset by the mortgage interest and property tax deductions. In short, the bulk of the revenue to be derived from removal of the homeowner tax benefits relates to denial of the homeowner deductions rather than recognition of net imputed income per se.

Property Tax and the Tenure Decision

The report concludes that heavy reliance on local property tax tends to encourage homeownership. The portion of property tax which rests on land is borne by the homeowner and not the tenant (whose landlord absorbs it); the portion of property tax resting on the building or improvement is generally borne by the occupier—owner or tenant. The deductibility of the portion of property tax borne by the occupier in particular favors homeownership. It increases rentals and imputed rentals in a manner which enhances the income tax advantages of owner-occupier status.

The relationship between the level of property tax and percentage of owner-occupancy—like that between low and high tax localities—is difficult to identify or isolate from the empirical data because the property tax level effect is apparently obscured by other influences.

Economic Impact of the Homeowner Deductions

It seems evident from the data and analysis developed in the report that the homeowner deductions have stimulated demand for owner-occupied as against rental units. The prices of owner-occupied units and the productive factors going into their creation, particularly land, have been pushed up by the tax stimulus. The rentals on units most closely competitive with owner-occupancy type housing have been pressed down in this tax environment. To the extent the tax advantages of homeownership are merely capitalized in this way, they offset the nominal tax benefits which are perceived by the individual housing consumer and decisionmaker.

The more expansive land use patterns encouraged by the tax advantages of homeownership have encouraged urban sprawl and the horizontal spatial growth of suburbia and exurbia. While condominium development may be a recent offset to this trend, and the tax benefits of accelerated depreciation initially received by landlords but passed through to tenants are a partial offset, the basic thrust of the present tax treatment has been toward decentralization and sprawl. The inevitable effect of the attraction of economic energies and resources to either suburban owner-occupied homes (or affluent rental developments best able to utilize the acceleration tax benefits) has been further to deprive and emaciate the already handicapped development of the central cities.

The upward thrust of homeowner tax benefits on land prices, mortgage interest rates, and rates of interest or return in capital markets generally has had a diffused impact on housing consumers generally and consumers of capital-intensive goods and services outside the housing field.

Tax Incentives for Investors in Rental Housing and the 1969 Tax Reform Act

The tax incentives for investors in rental housing, present in the housing market since the administrative action of 1946 first permitting 150 percent declining balance depreciation on multiple-unit rental housing projects, have increased the supply of rental housing and have given substantial support to government-assisted housing programs which rely upon private initiative and equity capital investment.

The new tax differentials in favor of new (and used) rental housing which emerged from the Tax Reform Act of 1969 have apparently stimulated additional rental housing construction. This effect has been achieved by the diversion of investment resources from both commercial and industrial structures (which were denied the accelerated methods beginning about midyear 1969) and from producers' durable equipment (which was deprived of the investment credit for a period in 1969–71). The combined dollar amount of additional expenditures is roughly estimated at close to $4 billion at 1972 levels, or some 200,000–265,000 rental units.

Probable Impact of Current 1973 Tax Reform Proposals on the Housing Market

A review of the major features of the 1973 tax reform proposals which would directly affect housing leads to the conclusion that the proposed new minimum taxable income (MTI) and limitation on artificial accounting losses (LAL) on

net balance would not only not have a detrimental effect on rental housing investment but would actually have some favorable stimulative effect. The MTI would replace the former 10 percent minimum tax, and the MTI provides relief for housing investors. Rental housing investment would probably receive some stimulation under the LAL rules due to the proposed tighter treatment of alternative investment sectors and the possibility permitted under these rules of expanding housing investment income through shifts in investment holdings to retain the existing tax sheltering effect of new housing projects.

Appendix A: Additional Income Tax Base Potential of Disallowing Mortgage Interest and Property Tax Deductions Versus Recognition of Gross Imputed Rental Income

Mathematical Relationships: This appendix briefly formulates and explores the relationships between the two commonly considered alternatives for removing tax advantages of homeowners.

Let

IRV = gross imputed rental value
MI = mortgage interest
PT = property tax
IN = homeowner's insurance cost
RM = repair and maintenance expense
D = depreciation

Then, imputation of gross rental value to the homeowner against which the present interest and property tax deductions may be applied (along with other new deductions) would produce more revenue in the aggregate (or in a particular homeowner situation) than mere disallowance of the present deductions for mortgage interest and property taxes, if

$$IRV - (MI + PT) - (IN + RM + D) > 0$$

or if, in a slightly different formulation:

$$IRV - (MI + PT) > IN + RM + D$$

Most aggregate estimates by tax reform advocates suggest a larger revenue gain under the imputation approach than under the disallowance of deductions method.

Examples: The following exercises explore the plausibility of substantially greater additions to the income tax base under the imputation as against the simpler disallowance approach in selected illustrative taxpayer situations. All figures are based on $1,000 of capital value of an owner-occupied house.

Example 1. House with fair market value of $80,000.

Assumption	Comment
IRV = $90	Assumed IRV of 9 percent of capital value
MI = 56	Figured at 8 percent on a 70 percent unpaid mortgage principal
PT = 22.50	Property tax assumed to be 2.25 percent of fair market value of home

IRV − (MI + PT) = 90 − 78.50 = 11.50

IN = 2	Based on actual homeowner's insurance policy rates in relation to fair market value in Montgomery County, Md., i.e., .2 percent
RM = 6.25	Estimated based on observation and experience with 5- to 15-year old house
D = 16	Calculated at 2 percent (straight-line, 50-year life) on building with cost basis equal to 80 percent of the capital value of the property

IN + RM + D = 2 + 6.25 + 16 = 24.25

Under these conditions, the excess of IRV over (MI + PT) is less than the sum of the additional deductions (IN + RM + D) which would be allowed under an imputed rental income approach. Net imputed rental income (IRV − [MI + PT + IN + RM + D]) would be negative, i.e., − 12.75 (11.50 − 24.25). This set of relationships would result in an addition to the income tax base of $78.50 (56 + 22.50) under the disallowance of the homeowner deductions for mortgage interest and property taxes. The addition to the base under the full net imputed rental value approach would be 65.75 or less than under the deduction disallowance approach by the negative net imputed rental value of − 12.75.

Example 2. House with fair market value of $40,000.

Assumption	Comment
IRV = $90	Again, this relies upon the 9 percent of capital value assumption
MI = 37.375	Based on a mortgage of 57.5 percent of the house value at 6.5 percent interest
PT = 32.50	Property tax at 3.25 percent of fair market value

IRV − (MI + PT)	= 90 − 69.875 = 20.125	
IN =	3.75	Based on actual homeowner's insurance policy rate of .375 percent of fair market value of home
RM =	7.50	Estimate based on actual experience and observation with 5- to 10-year old house
D =	20.3125	Based on 2.5 percent straight-line depreciation of house basis equal to 81.25 percent of total property value

What changes in the assumed income and deduction relationships could plausibly alter this result? An increase in the gross imputed rental value by 1 percentage point of the capital value or by 10 would still leave a deficit of 2.75 (i.e., a negative net imputed rental income of −2.75). Although some tax reformers have placed gross imputed rental value at 10 to 12 percent of capital value, it is difficult to support such a figure in virtually any affluent suburb under 1973 conditions.

Suppose the $90 or 9 percent gross imputed rental assumption is retained but the homeowner's equity is increased. If the mortgage principal is assumed to be as low as $540.625, the value of MI decreases to 43.25 and the net imputed rental value is increased to 0. The additions to the tax base under the deduction disallowance and the imputed rental income approaches then become equal at 65.75. That is

$$MI + PT = 43.25 + 22.50 = 65.75$$
$$IRV - (MI + PT + IN + RM + D) =$$
$$90 - (43.25 + 22.50 + 2 + 6.25 + 16) = 0$$

(When imputed net rental value is 0, the net effect of the imputed rental income approach is to disallow MI + PT by offsetting them against an equivalent addition to the gross income concept.)

$$IN + RM + D = 3.75 + 7.50 + 20.3125 = 31.5625$$

Under these conditions, the excess of IRV over (MI +PT) or 20.125 is less than the sum of the additional expense deductions (31.5625) resulting in a net imputed rental value of −11.4375 (20.125 − 31.5625). This negative result occurs in spite of the fact that the interest on the 6-year old mortgage is at the relatively low rate of 6.5 percent, well below current 1973 mortgage financing rates.

Under this set of assumptions, the disallowance of the homeowner deductions would add 69.875 to the income tax base. By contrast, the net imputed rental value approach would add only 58.4375 (net imputed rental income of −11.4375 plus 69.875, the sum of MI + PT).

If the unpaid mortgage principal were curtailed to 399.0385, reducing MI to 25.9375, net imputed rental value would be increased to 0 and the disallowance of deductions approach would produce the same addition to the income tax base as the imputed rental income approach. That is, MI + PT would equal 58.4375 and the excess of IRV (90) over the new expenses (IN + RM + PT = 31.5625) would exactly equal 58.4375, so that the net result of the net imputed rental value approach under the facts as assumed would be to add to the tax base an amount exactly equal to the disallowance of the two homeowner deductions.

Importance of the Equity Interest: The previous examples and analysis indicate clearly that the imputed income approach produces a greater net addition to the income tax base than the deduction disallowance method only if the homeowner has a substantial equity interest in his property. In the general range of situations, the mortgage indebtedness still remains too high to produce a net imputed rental before the MI and PT deductions sufficient to absorb them. Thus, the disallowance of the deductions yields a larger addition to the revenue base than the full-fledged imputed rental value approach.

Table 15 analyzes the role of variations in the mortgage debt (with two alternative mortgage interest rate assumptions) in modifying the relationship between MI + PT (addition to the income tax base under the disallowance method) and the excess of gross imputed rental value over the other new deductions (IN + RM + D).

As this table shows, only if the mortgage debt is reduced to near 70 percent under a 6 percent interest rate assumption is the imputed rental income approach as productive of revenue as the deduction disallowance method. Under the 8 percent interest assumption, the mortgage would have to be reduced almost down to 50 percent before the imputed income approach adds as much to the income tax base as the deduction disallowance method.

The imputed income approach adds a constant amount to the tax base regardless of the debt or interest assumptions. This result may surprise the reader, but the reason for it is obvious on reflection. The addition to the income tax base under the imputed income approach is equal to:

Table 15. Tabular Analysis of the Effect of Variations in Mortgage Indebtedness (and Equity Interest) on Additions to Tax Base Through (1) Disallowance of Deductions and (2) Imputed Rental Value Approach

Assumption based on $1000 house value; IRV = 90, MI varies as indicated in table, PT = 20, IN = 2, RM = 5, D = 18.75

Excess IRV over "constant expense" 44.25

(1) Equity interest	(2) Mortgage debt	(3) Mortgage interest (MI)		(4) Addition to income tax base under disallowance approach (MI + PT)		(5) Net imputed rental value after all deductions and expenses [1]		(6) Addition to income tax base under imputed income approach [2]	
		6%	8%	6%	8%	6%	8%	6%	8%
50	950	$57	$76	$77	$96	$−12.75	$−31.75	64.25	64.25
100	900	54	72	74	92	− 9.75	−27.75	"	"
200	800	48	64	68	84	− 3.75	−19.75	"	"
300	700	42	56	62	76	2.25	−11.75	"	"
400	600	36	48	56	68	8.25	− 3.75	"	"
500	500	30	40	50	60	14.25	4.25	"	"
600	400	24	32	44	52	20.25	12.25	"	"
700	300	18	24	38	44	26.25	20.25	"	"
800	200	12	16	32	36	32.25	28.25	"	"
900	100	6	8	26	28	38.25	36.25	"	"
1000	0	0	0	20	20	44.25	44.25	"	"

[1] IRV − (MI + PT + IN + RM + D)
[2] Figures in these columns equal the sum of the figure in corresponding interest rate columns (4) and (5).

(a) (MI + PT) which are in effect erased as deductions to the extent they are absorbed by the new gross income item IRV, plus

(b) the excess, positive or negative, of IRV − (MI + PT) over IN + RM + D.

As MI is increased (or decreased) by an amount x, the term MI + PT increases (or decreases) by that same x amount; at the same time, the term IRV − (MI + PT) then decreases (or increases) by the same x amount (as does the excess of this term over (IN + RM + D)), thus exactly offsetting the change in (MI + PT). Thus the addition to the income tax base under the imputed income approach remains constant.

Federal Income Tax Provisions and Urban Homeownership

By Raymond J. Struyk *
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This paper will review current studies of the determinants of the homeownership decision with emphasis on their implications with respect to the effect of termination or reduction of Federal income tax advantages to owner-occupants. No estimates of the change in the actual rate of homeownership for particular groups or in the aggregate can be made on the basis of existing information. Some notion, though, as to which groups will be most affected and to the likely redistribution of homeownership among groups is possible.

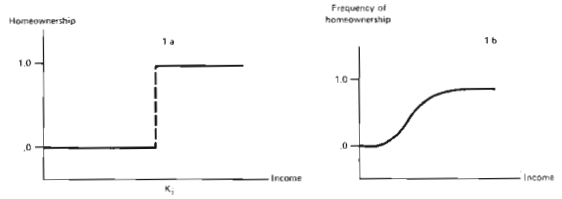
Two salient characteristics of the studies should be noted from the outset as they define the limitations of the analysis presented. First, they are econometric studies of the demand for owner-occupancy. Not dealt with is the effect that owner-occupancy has on the amount of services which the owner-occupant provides himself from the unit versus that which a landlord might provide; nor is the issue of how ownership affects neighborhood stability or other social aspects considered. While it is clear that such aspects of owner-occupancy are important, the extent to which they feed back and affect the demand for owner-occupancy is much less evident. In the studies reviewed herein, the feedback effects of supply phenomena are treated as being sufficiently small to permit ignoring them in the statistical analysis of demand.

The second characteristic of the studies is that they are based on cross-sectional data. In such analysis, one assumes a longrun equilibrium situation. Even dividing the households into various family types and life-cycle positions may not insure, however, that certain dynamic aspects of household behavior will be properly treated. In both the theoretical and applied analysis which follows, the explicitly dynamic aspects of the tenure decision are neglected.

The paper is informally organized as follows. A brief theoretical discussion of the effect of certain factors, including Federal tax treatment, on the tenure decision is presented. Following this, the direct empirical evidence on the encouragement to homeownership given by the tax advantages is reviewed. In view of the paucity of this evidence, indirect evidence on the same issue is marshaled.

The determinants of household tenure choice are essentially the same set as those for the demand for housing services of which tenure is a single—albeit very important—aspect. From studies of the demand for housing services, one would expect the tenure decision to depend on household type and age, family size, race, income, and the price of housing in general and owner-occupied housing in particular, the latter including price subsidies from Federal income tax treatment.

Figure 1
Homeownership – Income Relation

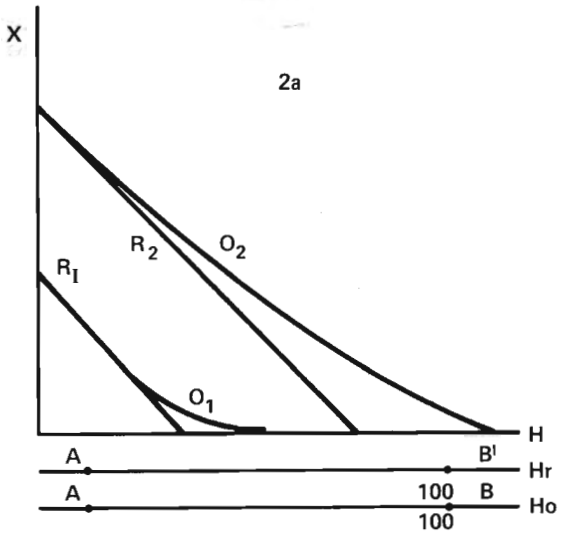


The foremost characteristic of the tenure decision is its discrete nature: Either the unit is owner-occupied or not. Figure 1a depicts graphically the discrete relationship between homeownership and income for a given household, holding fixed the family characteristics, its preferences, and market conditions. Below some income level, k_i, the household rents; above k_i, the household is an owner-occupant. Now, if one introduces additional households broadly similar to the i^{th} except for income (e.g., nonelderly married white), two factors act to make the function continuous. First, even among households with the same level of income some stochastic variation is introduced which effectively makes k_i a locus of points instead of a single point. Second, one can allow one or more of the givens, such as family size, to vary, and this in turn varies the position of k_i. The resultant relationship is likely to be similar to that shown in Figure 1b, in which the frequency of owner-occupancy asymptomatically approaches an upper bound

* The views expressed are those of the author. Frank de Leeuw and Morton Isler provided useful comment on an earlier version.

(possibly unity) as the household's income becomes great enough. An important point is that over the middle range of incomes we expect the tenure decision to be quite sensitive to increments of income.

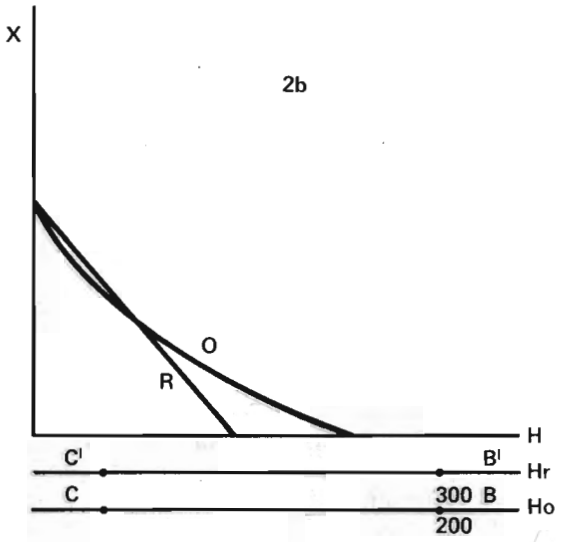
Figure 2
Indifference Curve Analysis of Tenure Choice Decision

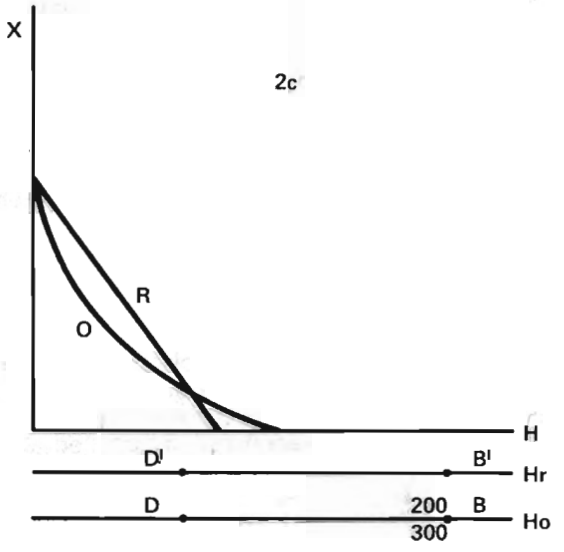


We can examine the effects which family type, preferences for owner-occupancy, and Federal income tax advantages to homeownership have on the tenure decision through use of indifference curve diagrams. We make use of a slight variant of the standard diagram, which can be described with reference to Figure 2a. The diagram generally depicts the consumption possibilities of housing services and all other goods by means of the budget lines which are drawn. The budget lines are for two households, one (household 2) more affluent than the other (household 1).

Although the general relationship is between other goods (X) and housing services (H), use of two horizontal scales permits us to distinguish between owner-occupied and rental services. One horizontal scale measures the units of owner-occupied housing services (Ho); the other scale measures units of rental housing services (Hr). Separate budget lines are shown in Figure 2 for owners (O) and renters (R); and each is drawn with reference to its own horizontal scale. That is, the intercept of the owner budget line on the horizontal axis indicates the amount of owner-occupied housing services he could purchase if he spent all its income on these services.

The households in diagram 2a have no preference for one tenure form over the other, as indicated by both the owner and rental scales representing equivalent quantities of services at each point. For example, points at B and B [1], respectively, indicate 100 units of rental and owner-occupied housing. The horizontal scales in Figures 2b and 2c, on the other hand, demonstrate situations in which there is a preference for owner-occupied and a preference for rented housing services, respectively. Points BB [1] in Figure 2b, for example, indicate that it takes 300 units of rental housing to offer the equivalent satisfaction yielded by 200 units of owner-occupied housing. Thus the relative positions of the





budget lines indicate the result of both tenure preference and differences in the price of housing services by type of tenure.

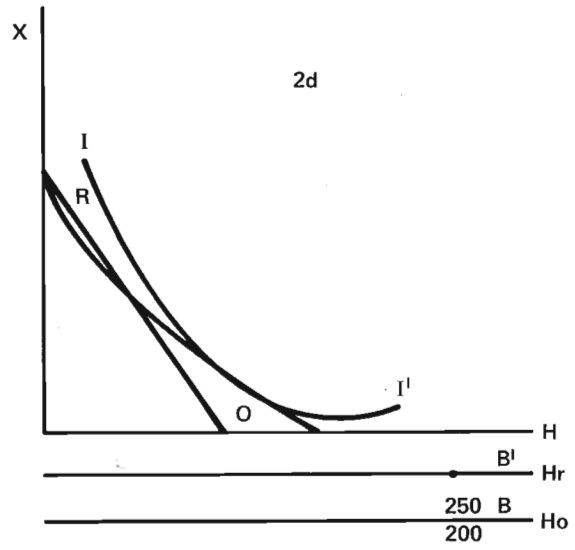
Figure 2a shows two budget lines for each household, the budget constraint each would face if it were an owner (O) and that it would face if it were a renter (R). The differences between O and R arise here because of the advantageous treatment of certain home expenses of owner-occupants. The magnitude of these advantages depends both on the level of income (tax rate) and the quantity of services consumed, adjusted for the fraction subject to preferential treatment for each household. It is this combination of factors which accounts for O_1 being above R_1 only when a relatively large fraction of income is devoted to housing [1] and for O_1 bending slightly away from the horizontal axis as it approaches it.[2]

Let us now turn to the case in which a single, moderate income household has a definite preference for owner-occupied housing. This is the situation depicted in Figure 2b. Again, only the budget lines are shown. In this instance, though, other factors which affect the relative prices of owner-occupied and rental housing, such as the availability of single unit structures in the overall market, are allowed to enter. For simplicity of presentation, the scales of the horizontal axes are assumed to be consistently of the same units, although this is not a necessary restriction.

At CC [1] the household is indifferent between tenure form—that is, it is indifferent between, say, 50 units of rental services and 33 units of owner-occupied services, because at this particular point the portion of its income devoted to housing is the same for both. Simultaneously, of course, its preference for owner-occupied housing is satisfied.

The relative positions of the budget lines show that the household will maximize its utility by being an owner at all levels of housing consumption beyond CC.[1] Such preferences for owner-occupied housing are typical of middle-aged husband-wife families, especially those with children.

Preferences for rental housing as typically associated with unrelated individuals and very young families are depicted in Figure 2c. In this case the pecuniary advantages of ownership do not offset the preferences for rental tenure until a greater quantity of housing is consumed than was the case in Figure 2b, i.e., DD [1] is to the right of CC.[1] In brief, the relative positions of the owner and renter budget lines reflect the trading off of pecuniary advantages against household preferences. For some family types (like those in 2b) the preferences and pecuniary advantages are in the same direction, so that rental tenure dominates ownership over only a small portion of the entire possibility set.



Finally, Figure 2d shows the equilibrium consumption of housing services and tenure choice for a single household which has a modest preference for ownership. As drawn, the household chooses to be an owner-occupant. Clearly, though, a counterclockwise rotation of the indifference curve would both switch the tenure choice and reduce the quantity of housing services consumed.

The above discussion makes two important points for the problem at hand. First, the elasticity of demand for owner-occupancy with respect to both income and price should differ by family type. Second, the effects which Federal income tax advantages have on the tenure decision are appropriately price effects, altering the relative price of owner-occupied housing vis-a-vis rental housing and other goods.

Unfortunately, the direct evidence on the magnitude of the tax subsidy price effect is very

[1] The concavity will also increase as the level of income rises. For a discussion and estimates of the magnitude of the Federal income tax advantages to homeownership, see Henry Aaron, "Income Taxes and Housing," *American Economic Review*, December 1970.

[2] For a critical evaluation of the advantages of howeownership for renters at the lower end of the income distribution, see Peter Marcuse, "Home Ownership for the Poor: Economic Implications for the Owner/Occupant," (Washington, D.C.: The Urban Institute, 1971).

limited. Only two direct estimates are available. The first of these was made by David Laidler using cross-sectional data for several cities; the unit of observation was the Census tract.[3] Laidler estimated the price elasticity of the quantity of housing services purchased indirectly from separate income elasticity estimates of the quantity of services purchased by owners and renters. The subsidy price elasticity of owner-occupied housing services is estimated to be between -1 and -3, certainly consistent with estimates of the overall price elasticity of demand for owner-occupied services.[4]

The second direct estimate is from a study by Struyk of the tenure choice of individual households in the Pittsburgh SMSA which disaggregated households into six classes, four husband-wife types distinguished by age of head, other families, and unrelated individuals.[5] Several specifications of the effective price subsidy afforded by Federal tax treatment were experimented with for each household type in models in which variation in tenure choice associated with income and family size and composition had already been controlled for. The results were generally disappointing as a significant relation between only one price subsidy variable specification was established for two family types. The subsidy-price elasticity of ownership at the mean for husband-wife households with heads under age 30 and age 30–44 were .470 and .038, respectively. These were the two household types which (as detailed below) also exhibited the greatest income elasticities of tenure choice. One limitation of these estimates, though, is that the one subsidy measure which did yield significant results is not an unambiguous measure of the subsidy. Thus, the direct evidence on the price subsidy effect on tenure choice is meager indeed.

Given this situation, we shall attempt to make some inferences as to the effect of tax subsidies on the homeownership decision by examining the income sensitivity of the ownership decision of various household types, of which defensible empirical estimates do exist. Implicitly, it seems evident that households whose tenure decision is sensitive to income changes will likewise be sensitive to price changes that directly effect their *real* purchasing power. Stated differently, the total price effect is comprised of substitution and income components which, for a superior good like owner-occupied housing, will produce changes in demand in the same direction. Whether the income effect alone offers a useful approximation to the total subsidy price elasticity depends both on the magnitude of the substitution effect and on its variance across household types. It might be that the price substitution effect is small; this could be the case if households view the subsidy as an increment to income rather than a price reduction. Such an "income view" is already encouraged by the lump-sum payment of the subsidy which occurs when the income tax return is prepared. A small substitution effect would, of course, be consistent with the inability to quantify the effect of the subsidy treated as a price reduction. In the following the assumption is that the ordering of subsidy sensitivity among household types is the same as ordering of income effects.

Two recent estimates of the income elasticity of demand for owner-occupancy are reviewed here, those for Pittsburgh households mentioned previously and those for a sample of 39 cities. Both sets of estimates are cross-section estimates for 1970 and are based on various Census data. The sample household type breakdown listed earlier was used in both studies.

In studying the tenure choice of households in a single housing market like Pittsburgh, the advantage is that the broad market parameters —the price per unit of housing service, structural types available, and so forth—are the same to all households and are, therefore, held fixed. At the same time, the resultant estimates depend on the characteristics of the market itself. Table 1 presents point income elasticities of the demand for owner-occupancy by household type for white Pittsburgh households. "Income" in these estimates consisted of measures of both current and an estimated permanent household income. Several income variables were frequently included in the models to approximate the nonlinear income-tenure choice relation noted earlier.

The point elasticities in the table clearly differ by family type, and they exhibit three distinct patterns. For younger husband-wife families, the elasticities are extremely high at low levels of income and steadily decline at higher income levels. For the two older husband-wife family types and primary individuals, the elasticities increase and then decrease as income rises; for primary individuals, the elasticity actually becomes nega-

[3] David Laidler, *The Income Tax Incentive to Owner-Occupation of Housing* (Chicago: The University of Chicago, unpublished Ph.D. dissertation, 1964).

[4] See, for example, Frank de Leeuw, "The Demand for Housing: A Review of the Evidence," *The Review of Economics and Statistics,* February 1971.

[5] R. Struyk assisted by S. A. Marshall, "The Determinants of Household Home Ownership," *Urban Studies,* Vol. II, 1974, pp. 289–99.

tive at the highest income levels. The income elasticity for non-husband-wife families increases over the entire income range.

While these estimates of the household income-tenure relation are of interest, they may, as noted, depend on some unique features of the Pittsburgh housing market. The cross-city estimates allow various market factors to vary and interact with the income demand for owner-occupancy. Although the estimates are based on aggregate data, the underlying model represents a rigorous aggregating over the theoretical individual household tenure choice-income relation. Thus the estimates have a direct relation to individual household behavior.[6]

Table 1. Elasticities of Tenure Choice with Respect to Income for White Pittsburgh Household Types at Selected Income Points [a]

Family Type	Income [b]				
	$4,000	$8,000	$12,000	$16,000	$20,000
Husband-Wife Families					
1. Head under age 30	1.90	1.19	.786	.555	.424
2. Head age 30–44	.847	.700	.576	.464	.331
3. Head age 45–65	.170	.183	.211	.222	.163
4. Head age 65	.112	.141	.154	.136	.091
Other Families	.091	.168	.232	.268	.335
Primary Individual	.237	.269	.189	.014	−.276

[a] Elasticities are total elasticities of all income terms.

[b] Income shown in column heads is current income. The permanent income corresponding to the current income for each family type was calculated separately and used for permanent income variables.

Source: R. Struyk with S. A. Marshall, "The Determinants of Household Home Ownership," op. cit.

Table 2 displays the elasticities at mean income and point elasticities at $4,000 income of tenure choice with respect to income by household type by race. Only one point elasticity is shown, since the form of estimated model yields elasticities that will decline steadily and linearly as income rises. There are appreciable differences between the races in the mean elasticities, with those for black households being larger for five of six family types. These differences are, however, frequently due to differences in average income levels between blacks and whites. For the younger husband-wife family types, the point elasticities are quite close between races; for the other family types, blacks display substantially greater elasticities. For policy purposes, though, the mean elasticities which summarize the existing situation should be emphasized; and these indicate a greater income sensitivity on the part of blacks.

The above estimates do not provide the basis for making any quantitative statements as to the extent which homeownership might be reduced by the termination of the favorable Federal tax treatment of some ownership-related expenses and imputed rent. They do, however, allow us to suggest which groups would be the most affected by the likely overall reduction in homeownership which would accompany termination of the favorable treatment, based on the income elasticities for owner-occupancy just reviewed. There are three, non-mutually exclusive groups which would probably be the most adversely affected:

Table 2. Elasticities of Owner-Occupancy with Respect to Income by Race, Based on 39-City Cross Sectional Study

Family Type	White Householder		Black Householder	
	Income = $4000	Mean Income	Income = $4000	Mean Income
Husband-Wife, Head				
Under age 30	1.44	.493	1.05	.431
Age 30–44	.875	.220	.887	.289
Age 45–65	474	.110	.541	.184
Over age 65	.126	.050	.511	.312
Other Families	.513	.212	1.02	.688
Primary Individuals	.115	.078	.400	.396
All Households		.189		.269

Source: R. Struyk assisted by S. A. Marshall, "Income and Urban Home Ownership," op. cit.

1. Husband-wife families with heads of the house under age 45 and non-husband-wife families.

2. Households (of all six family types) with low to moderate incomes.

3. Households headed by blacks in husband-wife families with head over age 44 and in non-husband-wife family types.

While membership in two or more of these categories may increase the income-sensitivity of demand, it is not necessarily so; thus these groups should be thought of independently. On balance, then, there is a likely reduction in and

[6] For details see R. Struyk with S. A. Marshall, "Income and Urban Home Ownership," *The Review of Economics and Statistics*, Vol. 56, February 1975.

redistribution of homeownership away from younger families, those with low to moderate incomes, and some blacks. It may be that the probability of owning a home at some point in their lives will not be diminished for some households, but they may end up purchasing later in life as their income and preference for owner-occupancy become greater.

Finally, some notion of the magnitude of the groups that may be most adversely effected is available from Table 3, which displays the distribution of owner-occupants by family type. About one-third of all owner-occupants are in husband-wife households with heads under 45, and another 11 percent of owner-occupants are in non-husband-wife families. Only about 6.6 percent of all owner-occupant households are headed by blacks, but of these, nearly two-thirds are in households with high income elasticities of demand for owner-occupancy. The accounting below shows the percentage of current metropolitan area owner-occupants with low annual incomes (below $5,000) and moderate incomes ($5,000–$10,000) by race in 1970:

	All Households	Black-headed Households
Low income	16.0	30.2
Moderate income	25.2	34.0

In short, all three of the groups which would be primarily affected by the tax premium repeal contain a substantial proportion of current homeowners; cumulatively they represent over half of all homeowners in metropolitan areas.

As a necessary caveat, the reader is warned again that the assertions just made are subject to the limitations of the studies upon which they are based, which were set forth at the outset of this paper. Also, all of the findings are based on quite indirect observation—that is, we have not been able to observe the behavior of households confronted with different income tax provisions as regards homeownership.

Table 3. Distribution of Owner-Occupant Households by Race by Family Type (Percent) in Metropolitan Areas, 1970

Family Type	All Households		Black-Headed Households	
	Percent	Number (000)	Percent	Number (000)
Husband-Wife, Head	98.2	20,417	66.9	1,221
Under age 25	1.8	457	1.7	31
Age 25–34	3.5	3,519	11.0	200
Age 35–44	19.0	4,956	17.0	311
Age 45–65	34.0	8,878	29.0	529
Over age 65	9.9	2,607	8.2	150
Other Families	10.9	2,858	21.4	391
Unrelated Individuals	10.8	2,813	11.7	213
Total	100.0	26,089	100.0	1,826

Source: U.S. Bureau of the Census, Census of Housing, 1970 Metropolitan Housing Characteristics Final Report HC(2)–1, United States and Regions, Tables B–7 and B–17.

Housing and Federal Taxation: Costs and Effectiveness

By Housing Policy Staff
Urban Systems Research & Engineering, Inc.

Overview: Tax Policies and Housing

Introduction

There are a wide variety of Federal tax laws and tax provisions that affect the housing market. These provisions have important impacts on such diverse features as the rate of homeownership across income classes, the rate of return on housing investments, the amount of investment in housing, the rate of residential suburbanization, and the distribution of income, both across income levels and according to race. For example, tax incentives favoring homeownership constitute a substantial reduction in the price of owning relative to renting, especially for high income households. This in turn increases the demand for single family structures. Since these can be most cheaply provided in more suburban locations, the tax laws have been one among many factors encouraging suburbanization in the post-World War II period.

Assessing the effects of tax laws on the housing market therefore requires that a broad range of decision processes be analyzed, including how households, investors, and financial intermediaries behave. In each case the several effects of tax policies on incentives must be made explicit. Evaluating a set of multidimensional outcomes is a familiar problem for many public sector budgeting decisions. The discussion below is organized around a matrix which delineates the several principal tax provisions along one dimension, and the several principal outcomes or influences felt in the housing market on the other. Evaluating the effects of any given tax policy requires that these different types of outcomes be evaluated. In some cases a particular tax provision or policy may partially or totally counteract the effects of other policies; in other instances the provisions may be complementary and mutually reinforcing.

The following are the principal outcomes of Federal tax laws:

- Tenure mix.
- Income redistribution: Via changes in prices to households as consumers and by altering opportunities for wealth accumulation.
- Spatial pattern of urban development.
- Age distribution and quality of the housing stock, by altering rates of return on new construction versus maintenance and rehabilitation.
- Forgone Federal tax revenues.

No explicit statement of national objectives exists which permits a complete and objective evaluation of the tradeoffs between the many outcomes listed above. Most analysts regard our progressive income tax and the various programs that provide goods in kind or cash payments to poorer households as testimony that redistributing income in favor of the poor is a national objective. However, when actual Federal tax payments as a share of income are related to gross income, it is revealed that the burden of the tax laws on the rich is much less than might be supposed, given the very progressive marginal tax rates. A variety of tax shelters exists that provide relief for middle and upper income households, of which the capital gains tax provisions are the largest. In addition, there are many Federal programs that have a regressive (or, at best, neutral) effect on the distribution of income. Thus, while the income tax laws and other transfers in kind suggest that a policy of transferring income so as to reduce income equality is a "national objective," it is clearly a policy whose objective is only limited redistribution. Making a quantitative estimate of society's preferences for differing levels of income redistribution is hazardous.

There is even less basis for judging what society prefers with respect to the other outcomes listed above. There is no explicit reference to homeownership as a national goal. Nor does the National Housing Policy elucidated in 1968 of a "decent home for everyone" (or earlier, in the 1949 Housing Act) make reference to the necessity to replace old housing with new; housing objectives were described in terms of housing "quality," which is hardly synonymous with age. Finally, no stated national policies favoring more (or less) suburbanization are evident. Many public policies exist that affect location patterns, with some encouraging and others discouraging residential dispersal. These hardly

can be viewed as implying a clear national objective. In short, the appropriate social welfare function to continue these many effects is not apparent. Accordingly, in the discussion below no attempt is made to combine numerically the several effects of tax laws into a single welfare measure.

A Review of the Major Tax Provisions

There are several major provisions of the Federal tax laws that affect the housing markets. These are briefly explained below. (A more comprehensive discussion of each of these is made in subsequent sections of the report.)

Tax Treatment of Homeownership: The Federal tax laws provide specific benefits for homeowners through:

1. Deduction of mortgage interest and real property.

2. Forgoing taxation on "imputed rent" earned by homeowners.

3. Forgoing of capital gains taxes on homeowners' equity.

The first tax provision is familiar to most homeowners through its importance as an itemized deduction on their income tax forms. The concept of imputed rent is less familiar to its beneficiaries because it need not be explicitly calculated, but is no less important. A homeowner has an investment in his house, which, if he rented it to someone else, would yield a taxable income. By being both landlord and tenant, the homeowner avoids this tax on his home's rental value. This gives him an important advantage over the renter with equivalent assets in taxable investments. Forgoing taxation of capital gains when a residence is sold—as long as another house of equal or greater value is bought—also constitutes a substantial subsidy. Few financial investments enjoy this advantage —that capital gains taxes are not paid when the asset is sold. The rationale for this provision is that many sales of residences are induced by job relocation or other events that cannot be anticipated or avoided. However, the net effect of this provision of the tax laws is to allow homeowners to defer capital gains taxes well past the peak point in their life cycle of marginal tax rates.

The effect of these tax advantages of owning is in effect a price subsidy, which increases the demand for owning relative to renting; the magnitude of the impacts will depend on the demand elasticity and the nature of supply responses. These are discussed below.

Depreciation Allowances for Rental Property and Capital Gains Taxation: All capital asset holders are favored by the tax laws to the extent that depreciation allowances exceed the market rate of depreciation of the asset in question. Rental residential properties are no exception. As with most types of capital assets in an inflationary environment, depreciation schedules for many rental properties for tax purposes exceed market depreciation rates. This is most likely to occur when using accelerated depreciation but also may occur when using more conservative, straight line methods. The advantage to investors of fast depreciation lies in the ability to forgo taxes until the date of sale, and in the lower tax rates for capital gains.

The Tax Reform Act of 1969 provides for somewhat different depreciation procedures for different types of real estate investments (Sections 167 and 1250). New rental housing can be depreciated by 200 percent declining balance, compared with 125 percent for existing housing. This encourages new construction. In each instance, a limit is placed on the tax savings associated with accelerated depreciation by the "recapture" provision; this requires that capital gains arising from using accelerated versus straight line methods be taxed as ordinary income *if* the asset is held less than 100 months. This discourages rapid turnover in the rental capital stock purely to take advantage of capital gains taxes.

Analogous to the case of homeownership tax shelters, the above tax provisions regarding depreciation reduce the price of renting. Since the average income of renters is below that of owners, this tax provision primarily benefits lower and middle income households. If the rate of return on investment is increased, benefits will accrue to investors as well. Those investing in rental structures tend to be in the upper portion of the income distributions. Analyzing how rates of return on investments are affected requires that an analysis be made of how the capital markets operate. It will be argued below that any major effects on rates of return are unlikely.

Subsidies to Lending Institutions and Individuals: A wide class of financial institutions or intermediaries is affected by the Federal tax laws. The most celebrated tax shelter is that afforded real estate investment trusts. Real estate investment trusts are essentially mutual funds investing in mortgages and equity in real estate; they are exempt from corporate income taxes if

90 percent of the income is distributed. This makes the tax treatment of income equivalent to that earned by an individual or partnership.

Mutual savings banks and savings and loan associations also enjoy tax benefits by being permitted excessive bad debt reserves in calculating profits. As noted below, because these financial markets in which thrift institutions participate are essentially competitive, the principal effect of these tax provisions is to reduce the interest rates at which mortgage loans are made, and to increase the volume of loans.

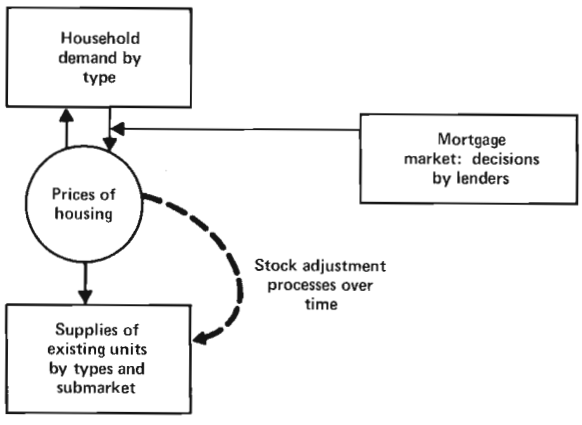
A Summary of the Impacts

The Federal tax laws essentially alter market prices or incentives to which households, lenders, and investors respond. Assessing the impact of the tax laws on the housing market requires an analysis of how these several types of decisionmakers are affected. This analysis is made complicated by the fact that many types of markets are involved. To develop satisfactory empirical estimates requires detailed models of household consumption and investment decisions, models of the behavior of lending institutions and the financial markets in which they operate, and a model of the adjustments in the housing stock itself to changes in prices and mortgage markets. The housing stock varies dramatically throughout space in a metropolitan area, and is properly considered the aggregation of a great many individual, interrelated submarkets. Analyzing how the stock changes really entails analyzing how all these submarkets adjust. Determining the effects of tax laws on location patterns implicity involves a model of metropolitan development which explicitly treats the location and tenure decisions of households and the decisions by housing suppliers in various submarkets. Completely satisfactory models of this sort are not available. Lacking satisfactory models of these several market processes limits the extent to which empirical estimates can be made of some of the tax provisions.

An assessment of the impact of Federal tax laws on the housing market can be subdivided into that of analyzing several broad classes of decisionmakers. Because these groups participate in markets which are interrelated, there necessarily remain some areas of overlap. The beginning point is to consider how households behave as consumers, reacting to the prices of owning or renting. As noted, the tax laws affect both owners and renters. In the latter case, the effect is indirect, because investors holding the rental stock establish rents. This is the second group of decisionmakers affected. The critical question is, of course, whether rental markets are competitive; if so, any change in costs (e.g., due to depreciation procedures) is passed on in the form of rent changes. The third class of actors is lending institutions. In this instance the issue is how much will be lent at differing interest rates and to what types of borrowers. The tax laws have two impacts on lenders; the demand for credit is altered (e.g. by homeownership tax advantages), and the cost of lending is affected by the tax treatment of the lending institution itself. Again, the critical questions involve whether the lending institutions operate in a competitive market.

All of the above actions by households, financial institutions, and those who have invested in the capital stock could be viewed in a static context, i.e., in a very short period in which the residential capital stock is "fixed." This is a useful pedagogical point of view since the residential capital stock is very durable, long-lived, and changes only very slowly. Demand changes tend to occur more rapidly than supply adjustments, leading to changes in prices or rents. Units in short supply in particular markets will be bid up in price, and vice versa. That process by which prices change will involve households, financial intermediaries, and the owners of the existing stock, as noted above. Over a period of years, however, these changes in prices or rates of return to those owning the stock, of either single family or multifamily structures, will induce construction and other changes in the stock. These supply changes will tend to equalize rates of return to investors. These stock adjustment proc-

Figure 1



esses have long lags, and are the most difficult to forecast reliably.

Figure 1 summarizes in very simple fashion these interrelationships in a single flow diagram. The diagram is oriented in terms of fixed housing stocks, whose prices are determined at each point in time by decisions by households, mortgage lenders, and suppliers. Prices will be determined by, and determinants of, household decisions. The dotted line denoting changes in supply in response to market prices is intended to denote a lagged adjustment process. This flow diagram is only intended as a pedagogical device, and is hardly suited to represent all the interrelationships or adjustment processes over time. For example, it does not illustrate any of the interrelationships between geographic submarkets, which are really at the essence of the stock adjustment process on the supply side.

the amount of housing consumed will be affected. The detailed analysis below of the effects of tax provisions for homeowners on the tenure choice essentially employs this procedure; estimates of the effects on tenure and type of housing chosen are based on econometric estimates of household demand functions.

The tax laws reducing the price of owning relative to renting have both direct and indirect effects on the distribution of income. Homeowning is a superior good with a significant positive income elasticity. It therefore bestows its biggest benefits on higher income households. Estimates of income redistribution effects can be made by determining the changes in tenure choice and expenditures across income classes.

In addition, homeownership in the postwar period has proven to be a lucrative investment due to the general inflation in property values

Table 1.1 Summary of Tax Impacts on the Housing Market

Housing Market Outcomes:	Tax Provisions		Tax Shelters to Financial Intermediaries	
	Home Ownership Tax Shelters	Accelerated Depreciation for Rental Property	Thrift Institutions	Real Estate Investment Trusts
1. Tenure Mix:	Increases rate of homeownership by 5–7 percent	Reduces rate of homeowner slightly	Small effect favoring ownership	Small effect favoring renting
2. Income Redistribution:				
a. households as consumers	Regressive income transfer	Progressive income transfer	Small regressive transfer	Small progressive transfer
b. wealth accumulation	Regressive income transfer	Very regressive income transfer	Negligible	Small transfer to very wealthy
3. Spatial Pattern of Urban Development	Small effect encouraging residential dispersal	Encouraged centralization in post-World War II; current effects negligible	Negligible	Negligible
4. Age Distribution and Quality of Housing Stock	Negligible	Favors new construction over existing units	Negligible	Negligible

The discussion below summarizes the information available on the effects of the various tax instruments using this general framework. The best approximation of the empirical magnitudes is indicated where possible. The following matrix (see Table 1.1) provides a summary of the qualitative impacts of various tax provisions. More detailed discussion of these outcomes follows.

Homeownership Tax Shelters: The principal issue in assessing the longrun effects of the tax relief provided homeowners is to estimate how this affects the demand of housing. The tax is conceptually equivalent to a price subsidy or negative excise tax. Both the tenure choice and

and the freedom from taxation on capital gains represented by the increase in market values of a person's home. Those households able or inclined to invest in a home have therefore enjoyed a large increase in financial net worth. Among lower and middle income households, homeowners' equity is a major component of financial asset holdings for those households who are owners. The survey of consumer finance conducted by the Federal Reserve Board in 1963 revealed that housing equity was the single largest type of financial holding for households with incomes below $15,000.

The tax provisions favoring homeownership have particular effects on black households. Because of the existence of widespread discrimination in urban housing markets, large numbers of black households are confined to central city ghetto locations. A principal characteristic of the housing stock in these areas is the preponderance of multifamily structures particularly unsuited for resident ownership. A disproportionately large portion of black households residing in ghettos are renters. Thus, black households are deprived of enjoying some of the benefits of tax laws favoring ownership because of the unavailability of single family structures in the ghetto, and the high costs of entry into suburban submarkets. A second-order effect is that the opportunity to accumulate financial assets is much curtailed.

In the short run, the effects of homeowner tax treatment may differ from the longrun effects because of the time lags involved in altering the housing stock. For example, in the immediate postwar period there existed a shortage of single family structures, given the increased demand for such housing associated with rising birth rates, mortgage guarantees, rising incomes and high levels of financial wealth, and the tax incentives for ownership. Similarly, the location of existing housing was hardly suitable, given the above factors, which tended to increase the demand for more dispersed locations, and given employment dispersal and development of urban highway systems, which also added to incentives for suburbanization. Thus the introduction of significant tax incentives favoring single family, owner-occupied housing probably affected the types of housing consumed and the spatial pattern of urban housing development over a period of many years. Virtually no empirical research has been done on housing supply elasticities, especially in the short run, and hence the nature of these lagged adjustment processes is uncertain. The tax laws, however, were one factor contributing to dispersal in the postwar period.

While there is no pent-up demand for single family structures remaining that can be attributed to the tax laws, any significant change in tax provisions would again introduce a gradual stock adjustment process. For example, changes in the tax laws inducing a big shift in tenure would in the short run create shortrun gains and losses to investors in the existing capital stock.

The development of condominiums is increasing the number of residents of multifamily structures who are owner-occupants. Nevertheless, most households who are owners will also be residents of single family structures. Accordingly, retention of existing tax shelters for homeownership will continue to constitute a small encouragement of residential dispersal. While rental units are increasingly available throughout the metropolitan area, most single family units are in suburban locations.

Accelerated Depreciation: Many of the same general issues are raised in assessing the effects of accelerated depreciation for rental properties. Again, important assumptions must be made on the supply side in order to distinguish between longrun and shortrun impacts.

In assessing the longrun impacts, the important simplifying assumptions are those of perfect capital markets—that is, the rate of return on rental real estate investments is not influenced by the tax provisions. This implies that savings are channeled to investments such that differences in rates of return in different types of investments only reflect differences in risk or variability of returns. This implies that the supply of funds available for any type of real estate investment instrument is therefore perfectly elastic. Second, as in the case of single family structures, the supply curve for rental properties is perfectly elastic in the long run. Accordingly, a change in tax laws affects the price at which rental housing is offered, but not the financial rate of return. These changes in rents in turn affect the tenure mix and the types of structures consumed. Assessing the longrun impact therefore involves knowing the demand elasticities.

The income redistribution effects of accelerated depreciation are twofold. Renters enjoying lower prices for rental property tend to be poorer than owners on average. On the other hand, the advantages of accelerated depreciation and capital gains taxes increase with income, and hence it is to be expected that real estate investments are especially favored at the high end of the income distribution. Investors in residential properties therefore tend to be from among the highest income groups (though virtually no data exist on the magnitudes involved). To the extent that "unanticipated" capital gains are associated with owning rental real estate, a greater volume of rental property (associated with the tax shelters which lowered rents) will result in greater financial wealth for that segment of the population making the investment.

There is virtually no effect on spatial development patterns associated with rental tax provisions at present because rental properties are now widely dispersed throughout metropolitan areas. As noted above, this was not true in the

early postwar years since rental properties tended to be quite spatially concentrated. In the short run, of course, changes in tax laws may yield quasi-rents (either profits or losses) to certain owners of the rental capital stock, in submarkets where the supply cannot be quickly adapted to changes in rates of return.

A small incentive favoring new construction over existing structures arises from the different depreciation provisions of new versus used units. Since new units can be depreciated at a faster rate, either prices will be lowered, vis-a-vis older but comparable units, or investment rates of return will differ. The latter is unlikely, given relatively perfect capital markets. The tax advantage for new units tends to encourage more entry or construction; this greater supply in turn influences market rents for new versus older units.

A greater supply of newer units tends to reduce prices and equalize rates of return. Thus, the effects of the tax laws on the mix of units by age level depends on the magnitude of the effects of the tax differential on rents and the demand functions for new versus older units. The latter determines how many new versus older units will be consumed at different relative prices.

Tax Shelters to Financial Intermediaries: In the case of tax subsidies to different types of mortgage lenders, one additional factor must be considered—the rate at which flows of funds respond to changes in rates of return associated with particular tax provisions. Since financial capital transactions costs are generally small and capital is relatively mobile, the assumption that the supply of funds is virtually perfectly elastic at prevailing rates of return is not a bad approximation, even in the relatively short run. Much of the capital market relevant to the mortgage lending sector is also perfectly competitive, with many "sellers." For example, there are large numbers of thrift institutions. This competitive market environment implies that the tax advantages of saving and loan associations and mutual savings banks are passed on to consumers in the form of lower cost mortgages. Again, a determination of the elasticity of housing demand with respect to interest costs provides the basis for estimating the longrun effects of tax laws on the housing market. As before, the supply responses in the short run may differ from those in the long run because of the lags in adding to or changing the capital stock in response to a change in demand.

The effects of these interest rates changes on the tenure mix, or income distribution, are modest because the interest rate changes involved are not large. Because the savings and loan industry is competitive, equity holders within that industry are not enriched by the tax shelters.

In the case of real estate investment trusts, the effects of tax laws on wealth accumulation is less clear. These tax provisions are largely a shelter for wealthy individuals. The assumption of perfectly elastic supply curves for investment funds is less tenable; thus, changes in the tax laws may alter rates of return to investors (as well as rents on these properties to households in residence) and hence the distribution of wealth. At the same time, many of the tax advantages of real estate investment trusts are also available through limited liability partnerships. Changes in tax provisions regarding the former may lead to changes in the amounts of funds channeled into the mortgage market by the latter type of financial instrument.

Homeowners' Tax Deductions

This section will analyze in some detail the effects of three specific benefits to homeowners of the Federal personal income tax structure:

1. The deductibility of mortgage interest and real property taxes;

2. The exclusion of net imputed rent from taxable income; and

3. The forgoing of capital gains taxation of homeowner's equity.

The following conclusions are drawn from the ensuing analysis.

1. The impact of the tax benefits on the distribution of income is large and substantially regressive, with direct benefits accruing principally to upper income homeowners;

2. The subsidies have played a significant role in determining housing tenure choice in the United States and explain a significant portion of the historical trend toward increased ownership evident since World War II;

3. Since the tax shelters constitute only a small portion of the total price of housing, the effects of the subsidies on the aggregate stock of housing has probably been considerably

smaller than was once believed. Increased consumption of housing on the part of low income households as a result of the subsidies has been negligible; and

4. The subsidies have contributed significantly to observed postwar trends toward decentralization in the residential location of urban households.

Distribution of Income

The impact of the tax benefits on the distribution of income is large and substantially regressive, with direct benefits accruing principally to upper income homeowners. Most of the regressivity is due to the progressivity of marginal tax rates and the nature of the subsidy. Subsidies enacted as deductions or exclusions are worth more to higher than to lower income households. A deduction of $1,000 in mortgage interest is "worth" $700 in tax savings to a household with a $100,000 income and a 70 percent marginal rate. The same deduction is worth only $140 to a household with a $7,000 income and a 14 percent marginal rate. This effect is compounded by the fact that many lower and middle income families find that total itemized deductions only marginally improve upon the recently increased standard deduction. Their taxable income is reduced only to the extent that mortgage interest and property tax deductions raise total itemized deductions above the "standard" level. Poor households with exemptions and deductions (whether itemized or standard) already sufficient to reduce their taxable income to zero receive no subsidy at all.

The latter point renders published I.R.S. data (*Statistics of Income, Individual Income Tax Returns*) insufficient for estimating first order distributional effects. Accurate estimates require extensive analysis of disaggregated tax return data. Although net imputed rent by income bracket can be estimated fairly easily, its effect on tax liabilities again depends upon detailed tax file information. Undoubtedly the best data base in existence for such estimations is the Brookings Merge File, which combined information on 30,000 families and single persons included in the 1967 Survey of Economic Opportunity conducted by the Census Bureau with a file containing full information from 90,000 Federal individual income tax returns for 1966.[1] Table 2.1 presents estimates of direct aggregate benefits accruing to households by total income bracket that result from the exclusion of net imputed rent and from the deductibility of real estate taxes and mortgage interest. Estimates are computed using the Brookings file updated and are based on the Revenue Act of 1971 applied to 1972 incomes.[2]

Attacking the question of distributional implications from a slightly different angle, Aaron has examined the impact of the full subsidy on gross rents (what the homeowner would be required to report if he were treated like other businesses, i.e., net rent plus mortgage interest, property taxes, maintenance expenses and depreciation.) (See Table 2.2) [3] Aaron estimates the full subsidy as a percent of gross rent for five marginal tax rates under three plausible assumptions. Overall the results suggest that tax benefits reduce the price of homeownership from 10–15 percent.[4]

Tenure Choice

The three special tax provisions under consideration affect consumers in three ways. First, homeownership is cheaper relative to renting than it would be in the absence of the subsidies. Second, the after-tax rate of return from investment in an owner-occupied home is higher than it would be if income from housing were fully taxed. Both of these effects tend to encourage homeownership in lieu of renting. Finally, the capital gains provisions provide strong, direct incentives for present homeowners to remain homeowners rather than become renters.

There can be no doubt that these factors, combined with the availability of mortgage credit on increasingly liberal terms after World War II, have contributed significantly to the substantial alteration of tenure pattern that has taken place during the past 30 years. Table 2.3 indicates that the percentage of total housing units occupied by owners, which remained virtually constant from 1900–1940, rose sharply after the war and continued to rise into the 1960's.

A number of economists including Maisel, Lee, Orcutt, and David, have conducted econometric studies of the determinants of home

[1] Pechman, J. and B. Okner, "Individual Income Tax Erosion by Income Classes," *The Economics of Federal Subsidy Programs, Part I.* Joint Economic Committee, 1972, pp. 13–40.

[2] Ibid. Computed from Table 2, p. 22, Table 8, p. 27, and Table A–2, p. 34. The Brookings procedure for estimating net imputed rent is described in detail in Henry Aaron, "Income Taxes and Housing," *American Economic Review,* Vol. 60, No. 5 (December 1970), Appendix, p. 805.

[3] Aaron, H. "Income Taxes and Housing," *American Economic Review,* Vol. 60, No. 5 (December 1970), p. 799.

[4] Ibid.

Table 2.1. Increase in 1972 Federal Income Tax Collections if Net Imputed Rent on Owner-Occupied Houses Were Taxed and Mortgage Interest and Real Estate Tax Deductions Were Disallowed, by Income Class

Total Income Class * (Dollars)	Total Collections (Millions of Dollars)	Increase in Tax Per Family (Dollars)	Increase In Tax as Percent of Income
0– 3,000	4	1	.1
3,000– 5,000	41	6	.2
5,000– 10,000	625	32	.4
10,000– 15,000	1,588	91	.7
15,000– 20,000	2,032	194	1.1
20,000– 25,000	1,598	323	1.5
25,000– 50,000	2,631	590	1.8
50,000–100,000	723	1,157	1.8
100,000 and above	399	2,015	.9
All Classes	9,642	137	.9

* Total income includes all realized capital gains, constructive realization on gifts and bequests. State and local bond interest, net imputed rent, and all transfer payments.

Source: See Footnote 3.

Table 2.2. Subsidy as a Percent of Gross Rent

Imputed Rent Plus Deductible Expenses As a Fraction of Gross Rent	14	20	30	50	70
⅜	5.2	7.5	11.2	18.8	26.2
½	7.0	10.0	15.0	25.0	35.0
⅝	8.8	12.5	18.8	31.2	43.8

Source: Aaron, "Income Taxes and Housing," p. 799.

Table 2.3. Occupancy of Rental and Owner-Occupied Housing 1900–1970

Year	Percent Owner-Occupied Units	Percent Renter-Occupied Units
1900	46.7	53.3
1910	45.9	54.1
1920	45.6	54.4
1930	47.8	52.2
1940	43.6	56.4
1950	55.0	45.0
1960	61.9	38.1
1963	61.0	39.0
1966	62.0	38.0
1969	61.0	39.0
1970	62.9	37.1

Source: U.S. Department of Commerce, *Statistical Abstract of the United States 1972*, p. 687. For 1963-1969 George Katona, Lewis Mandell, and Jay Schmiedeskamp, *1970 Survey of Consumer Finances*, University of Michigan, 1971, Table 3–12, p. 46.

ownership.[5] Maisel, Lee, and Orcutt analyze the probability of homeownership and home purchase using a binary dependent variable and a number of socioeconomic characteristics, including income, as explanatory variables. Although the coefficient of "income" gives us some indication of the income effects of the tax differentials, substitution effects are ignored because relative prices are not included among the independent variables. As a consequence, these studies are of little real value in analyzing the effects of the tax subsidies on tenure choice; the subsidies directly affect the relative price of rental versus owner-occupied housing.

The only study to date which explicitly examines price effects on the decision to own or rent is a forthcoming work by Straszheim.[6] In a departure from traditional analyses of the housing market which view "housing service" as a single dimensional, homogeneous commodity, Straszheim views housing as a multidimensional, heterogeneous commodity. In his econometric analysis, he uses San Francisco data to derive demand functions for individual housing attributes one of which is tenure.

Straszheim estimates that the price elasticity of the "probability of ownership" is ap-

[5] Maisel, S. J., "Rates of Ownership, Mobility, and Purchase," *Essays in Urban Land Economics* (Los Angeles: Real Estate Research Program, University of California, 1966), pp. 76–108; Tong Hun Lee, "Demand for Housing: A Cross-Section Analysis," *Review of Economics and Statistics*, XLV, 2 (May 1963), 190–6; Guy H. Orcutt, et al., *Microanalytics of Socioeconomic Systems* (New York: Harper and Bros., 1961); Martin David, *Family Composition and Consumption* (Amsterdam: North Holland Publishing Co., 1962).

[6] Straszheim, M., *An Economic Analysis of the Urban Housing Market*, NBER (forthcoming).

proximately −.462. Accordingly, tax benefits that reduce gross rents by 10–15 percent would cause a 5–7 percent increase in the overall probability of homeownership, or a shift of from 3.2 million to 4 million units nationally in 1970 from renter to owner-occupied status.

These results indicate that homeowner subsidies in the present income tax laws have played a significant role in determining housing tenure choice in the United States and explain a substantial portion of the historical trend toward increased ownership evident since World War II.

Impact on the Housing Stock

Traditional analyses of housing stock response to various stimuli rest upon the contention that housing expenditures are a good proxy for "housing services," a homogeneous, unobservable commodity obtained by the users of heterogeneous dwelling units. This contention in turn rests upon the assumption of a perfectly competitive housing market.[7] Landlords and owners can increase or decrease the quantity of housing service yielded by a dwelling unit by increasing or decreasing expenditures on maintenance and rehabilitation. Under the assumption of constant construction and maintenance costs, some indication of the response of the housing stock to tax policies can be obtained from estimates of the price elasticity of demand for housing services.

Estimates based on these standard assumptions all suggest that the price elasticity of demand for housing is in the vicinity of −1 to −1.5[8] Thus, if tax benefits reduce gross rent in the neighborhood of 10–15 percent for homeowners, the quantity of housing services consumed at equilibrium would rise by between 10 and 22 percent, indicating a very substantial increase in construction, maintenance, and rehabilitation expenditures.

Recent studies have taken more explicit account of the heterogeneous nature of the housing stock. To say that the quantity of "housing services" consumed has changed tells us little about the nature of changes in the housing stock. A more fruitful approach examines the demand elasticities of individual housing attributes. Straszheim has estimated price elasticities of lot size, structure size, age, and tenure.[9] Straszheim's estimates indicate that demand for various housing attributes are quite sensitive to changes in incremental "attribute" prices, but quite insensitive to changes in the price of the composite bundle. In virtually every equation, the elasticity of attribute demand with respect to bundle price is substantially below unity.

These results indicate that stock response to elimination of the subsidies being considered would be considerably smaller than the response predicted by the traditional theories.

Conspicuously absent from these analyses is any explicit consideration of the supply side of the housing market. De Leeuw and Ekanem considered the response of housing supplies to changes in the demand for rental housing, but their results, which rest on some rather ad hoc assumptions, are of little use to the present analysis.[10] Accurate assessments of housing stock response to elimination or alteration of the subsidies in question must await further research into the supply of single family dwellings. Consideration must be given to the durable and heterogeneous nature of the existing stock, time lags in decision making and implementation, and the nature and determinants of maintenance and construction costs.

Based on evidence gathered in research to date, we conclude that aggregate stock response to changes in present tax subsidies is probably considerably smaller than once believed. A price elasticity of .8 implies that if elimination of tax benefits reduces gross rents to 10–15 percent,[11] the quantity of housing demanded will fall by 8–12 percent. In addition, it is clear that since benefits accrue largely to individuals in the upper brackets, adjustments will occur in high-cost housing stocks. Poor households only benefit from the subsidies to the extent that filtering of dwelling units occurs. All evidence indicates that these benefits are indeed small if not nonexistent and that filtering is an extremely inefficient method of increasing consumption of housing services on the part of low income households.[12]

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[7] See Department of Commerce, *Statistical Abstract of the United States 1972*, Table 1155, p. 687 and Henry Aaron, *Shelter and Subsidies*, Brookings Institution, 1972, p. 62.

[8] See Edgar Olsen, "A Competitive Theory of the Housing Market," *American Economic Review*, Vol. LX, No. 4 (September 1969), pp. 612–622.

[9] For example see Tong Hun Lee, "The Stock Demand Elasticities of Non Farm Housing," *Review of Economics and Statistics* (February 1964), pp. 82–89; Margaret Reid, *Housing and Income* (Chicago: University of Chicago Press, 1962), p. 381; Richard Muth, "The Demand for Non Farm Housing," in Harbinger, A. C., ed., *The Demand for Durable Goods*, Chicago, 1960, pp. 290-96; M. Houthakker and L. Taylor, *Consumer Demand in the United States, 1929-1970—Analysis and Projections*, Cambridge, 1966.

[10] Straszheim, op. cit., p. 161.

[11] F. de Leeuw and N. Ekanem, "The Supply of Rental Housing," *American Economic Review* (December 1971).

[12] See Aaron, "Income Taxes and Housing," op. cit., p. 799.

Implications for the Spatial Pattern of Urban Development

Over the last several decades, at least, there has been a trend toward decentralization in the residential location of households that seems to have been caused by:

1. A decentralization of employment location,
2. a decline in travel costs,
3. an increase in real income levels, and
4. a change in the age composition of urban population (younger average age).[13]

According to Hoover and Vernon, young high income households have tended to lead this charge to the suburbs in search of low density housing.

Straszheim's demand functions indicate that lot size decisions are the most sensitive to housing price change and to income change.[14] Since the bulk of benefits accrue to upper income households, there is substantial reason to believe that the subsidies being considered have contributed significantly to the observed postwar trends in the residential location of urban households.

Projected Costs

In the absence of extensive disaggregate tax return information, estimates of revenue loss to the Treasury are plagued with the same difficulties encountered above in the analysis of distributional effects. Estimates and projections of the dollar value of total mortgage interest paid, residential property tax collections, and net imputed rent, can be made with reasonable accuracy; however, the response of income tax revenues to changes in either their treatment under the Internal Revenue Code or their magnitudes depends upon the extent to which households would utilize the standard deduction in the absence of the subsidies. For example, a household with an income of $15,000 and standard deduction of $2,000 receives benefits from the mortgage interest and property tax deductions only to the extent that they raise its total itemized deductions above $2,000. A household with total itemized deductions (including housing preference items) of less than $2,000 would pay no additional taxes if the deductibility of mortgage interest and property taxes were eliminated.

Again we turn to the Brookings Institution's extensive data base for the initial estimate of $9.64 billion in 1972.[15] The procedure used to compute the Brookings estimate involved actual recomputation of 86,610 representative tax returns.[16] Our projections of 1973–1977 were based on forecasts of growth in total net imputed rent, residential property tax collections, and mortgage interest payments under the assumptions outlined above and assume implicitly the same pattern of homeowner utilization of the standard deduction predicted by the Brookings simulations.

An econometric estimate of the responsiveness of aggregate home mortgage volume to changes in national income indicate that mortgage volume has been increasing at a rate 1.65 times the rate of growth of dollar GNP. Assuming a constant interest rate and annual growth of money GNP of 7.5 percent, mortgage interest paid is rising at approximately 12.4 percent annually. These results are remarkably consistent with HUD projections of residential mortgage flows through 1978.[17]

Property tax receipts were econometrically estimated to be growing at approximately 1.4 times the rate of growth of money GNP, resulting in an estimated annual increase of 10.5 percent in residential property tax collections. This aggregate estimate takes into consideration trends in assessment ratios, home values, and rate adjustments.

Similar projections of the value of net imputed rent were made in two ways. First, national income accounts data (available through 1971) were used to estimate econometrically the elasticity of net imputed rent with respect to GNP. The results, based on annual data from 1962–1971, indicate that net imputed rent has grown at a rate of 6 percent below that of money GNP.[18] Second, data from the University of Michigan's 1970 *Survey of Consumer Finances* indicate that the value of net equity in houses grew just slightly slower than GNP prior to

[13] Aaron, *Shelter and Subsidies*, op. cit., p. 165.

[14] For empirical analysis of the declining density gradient, see Edwin S. Mills, "Urban Density Function," *Urban Studies*, Vol. 7, No. 1 (February 1970); Richard Muth, *Cities and Housing* (Chicago: University of Chicago Press, 1969), Chapters 7–8. For a descriptive study, see Edgar Hoover and Raymond Vernon, *Anatomy of a Metropolis*, Cambridge, 1969, Chapters 6–9.

[15] *Economic Report of the President*, 1973. Table c–64, p. 269.

[16] Bechman and Okner, op. cit. p. 23.

[17] See Aaron, "Income Taxes and Housing," op. cit., p. 805.

[18] See Leo Grebler, "Broadening the Sources of Funds for Residential Mortgages," in *Ways to Moderate Fluctuations in Housing Construction*, Board of Governors, Federal Revenue System (December 1972), Appendix E., p. 225. (From *Second Annual Report on National Housing Goals*, p. 31, Table XII).

1970.[19] Both estimates are consistent with recent research indicating an income elasticity of housing demand for homeowners of less than unity.

The Katona data indicate a sharp discontinuity in 1970, however, with median home value rising 18.7 percent, and net equity has been rising at a rate in excess of the rate of growth in money GNP since 1970. As a consequence, our estimates of net imputed rent are based on an elasticity of 1.2 with respect to GNP, and thus on a 9 percent annual growth rate overall.

The estimate of the value of forgone capital gains tax requires a less complex technique, because it is unaffected by the standard deduction option in tax calculation. The data on which to base calculations are, at best, approximations, however. Extrapolations from the 1960 Census data on the value of owner-occupied housing yield a 1972 value of $690 billion. The median value of net equity increase has been estimated by Katona to be about 7 percent annually, or $48.3 billion in 1972.[20] Assuming that half of the homeowners avoid all capital gains taxes by remaining homeowners until their death, and estimating a tax rate of 11 percent, the annual capital gains tax loss (rather than just postponement) was $2.65 billion for 1972.

ent tax laws or rates, (2) growth of real GNP at 3 percent annually, (3) inflation of 4.5 percent per year and (4) constant interest rate on outstanding mortgage debt. As such, they represent lower bound estimates. The revenue effects of the individual subsidies cannot be added to determine combined effects, because the standard tax deduction becomes effective for more taxpayers when combinations of deductions are eliminated. Thus the effect of eliminating all provisions would be slightly less than the sum of the individual efforts.

To determine the revenue loss of 1973–77, it is necessary to consider the overall responsiveness of the Federal income tax to changes in the level of aggregate income for those years. Because of the fixed and progressive marginal rate structure, as incomes increase in money terms (whether due to inflation or increased productivity), tax revenues grow faster as everyone moves into higher and higher brackets. Case has estimated the overall elasticity of tax liabilities with respect to personal income to be 1.422.[21]

The bulk of this responsiveness, however, is due to the relatively large number of households entering the bottom tax bracket for the first time. Our estimates, however, assign most of the revenue loss from the subsidies being considered to

Table 2.4. Estimated Revenue Loss from Homeowner Preference Subsidies 1972–1977 (Billions of Dollars)

Year	Mortgage Interest Deduction	Real Estate Tax Deduction	Exclusion of Net Imputed Rent	Foreign Capital Gains
(1972)	(2.26)	(2.06)	(5.50)	(2.65)
1973	2.57	2.30	6.04	2.84
1974	2.92	2.57	6.64	3.04
1975	3.31	2.86	7.30	3.25
1976	3.76	3.20	8.02	3.48
1977	4.28	3.57	8.82	3.72
5 Year Total 1973–1977	16.84	14.50	36.82	16.33

Estimates of the present and projected annual revenue loss resulting from the exclusion of imputed rent, the deductibility of mortgage interest and real estate taxes, and the forgoing of capital gains taxation are presented in Table 2.4. The projections are based on the Revenue Act of 1971 and assume (1) no changes in pres-

the upper brackets. In addition, the responsiveness has shown a steady decline since 1964, a trend which is anticipated to continue. As a result, it was assumed that a 1 percent increase in the level of net imputed rent, mortgage interest, or residential property tax payments would result in a 1.1 percent increase in revenue loss rather than a 1.422 percent increase.

[19] Department of Commerce, *Survey of Current Business*, July 1966, 1969, 1972, Table 7.3. George Katona, Louis Mandell, Jay Schmiedeskama, *1970 Survey of Consumer-Finances*, University of Michigan, 1971, Table 3–6, p. 41 and Table 3–8, p. 43.

[20] Katona et al., op. cit., p. 41.

[21] Katona et al., op. cit., p. 41.

Tax Incentives for Construction and Rehabilitation of Rental Housing

The Federal Government currently provides a variety of tax incentives for the construction and rehabilitation of housing. In contrast to the incentives discussed in the last section, these provisions are directed at the supply side of the housing market, and operate through the creation of tax shelters for qualified investments in construction and rehabilitation. There are three major elements of these tax shelters:

- Accelerated depreciation.
- Conversion of income to capital gains.
- Deferral and avoidance of capital gains liability.

These individual dimensions of tax shelter characteristically operate in conjunction to increase the return on qualified investments. The advantages to public policy of providing incentives of this nature relate to the ability of the government to be specific with respect to the kinds of housing investment encouraged. Characteristically, these provisions are directed towards the provision of rental accommodations, with an emphasis on the income eligibility of the tenant and with special treatment being given to rehabilitation rather than construction of rental units. These provisions are described in summary in the next section; a more comprehensive discussion of their methods of operation is provided in Appendix A. In the remaining sections an assessment is made as to the impact of these provisions on the supply of housing in relation to the cost to the Treasury of providing these incentives.

Summary Description of Tax Shelter Provisions

Accelerated Depreciation: Investors have long been able to take accelerated depreciation on real estate, but the 1969 Tax Reform Act was instrumental in changing the relative depreciation benefits for certain types of real estate. Specifically, the maximum allowable depreciation rate on used residential rental property was reduced from 150 percent to 125 percent, with a corresponding rate for new residential rental housing being left unchanged at 200 percent. The 1969 act provided in addition, through Section 167(k), for qualified rehabilitation expenditures for low income tenants to be written off over a period of 5 years.

The general effect of these provisions is to defer payment of taxes that would otherwise be due until the time of sale of the property, in this way providing an interest-free loan to asset holders. The value of this loan is dependent on the tax bracket of the asset holders and, as will be discussed later, on the ability of the asset holder to convert this income into capital gains taxable at a lower rate. In summary, the intent of the legislation is to increase the return on investment for rental housing, with a special emphasis on rehabilitated properties for low and moderate income families. The effect of these provisions on the return on equity investment is significant given the characteristically high debt/equity ratios in real estate development.

Conversion of Income to Capital Gains: In the absence of any other provision on the tax laws, the impact of accelerated depreciation would be simply the deferral of tax liability. There are, however, additional provisions of the tax law which allow income that would be taxed at ordinary rates to be converted into income taxable as capital gains.

Gains from the sale of depreciated property is taxed at capital gains rates unless subject to "recapture." "Recapture" applies to that fraction of accelerated depreciation taken that exceeds straight line depreciation over the normal useful life of the property. If the property is held long enough, however, the recapture provision does not apply. This essentially permits asset holders, taking advantage of the recapture provision, to convert income subject to tax at ordinary rates into income subject to tax as capital gains. This in turn increases still further the return on qualified investments.

The Deferral and Avoidance of Capital Gains Liability: Several methods exist in the tax code to further defer or even avoid capital gains taxation. By refinancing instead of selling, a property owner can recoup his original investment without having to pay the capital gains tax at that time. Another means of deferring capital gains is to exchange the property for other real estate rather than first selling and then buying (IRC Sec. 1031). Death is the only means to avoid, rather than defer, capital gains taxation.

The one tax deferral provision aimed directly at low and moderate income housing is the Section 1039 rollover. If the owners of a 221(d)3 or 236 project sell the project to the tenants, and reinvest the net amount realized in another such project, then no taxable gains will be recognized on the sale. However, the basis on the second project will be reduced by the

amount of gain not recognized on the sale of the first.

Costs Impacts of the Tax Shelter Provisions

It cannot be overemphasized that estimates of the impact of these provisions of the tax legislation are extremely difficult to develop. The extent to which the elimination of tax shelters, either separately or in conjunction, would lead to redirection of capital away from the rental housing market in general, and from the low income housing market in particular, is hard to assess. Accurate estimation of the extent and nature of such redirection would depend on detailed understanding of the cross-elasticity of supply in these markets, and are in any case contingent on assumptions with respect to the continuation of current provisions for homeowners and on the future operators of the subsidized programs to which they are closely linked. In this section an attempt will be made to arrive at an overall assessment of the cost of these programs in the "tax budget" sense; in other words, their costs will be assessed as the difference between current and projected tax revenues under the current provisions, and tax revenues as they would be if no excess depreciation or conversion of ordinary income to capital gains was permitted. On the impact side, more qualitative judgments will be made with respect to the effect of these provisions on spatial and income distributions; estimates of their impact in terms of housing quantity and quality will, necessarily, be based on rather crude assumptions.

Income Distributional Effects: The provision and use of tax shelters for the construction and rehabilitation of rental housing have direct effects on the distribution of income. These effects impact on both high and low income groups.

The particular nature of tax shelters insures that those who take advantage of them are primarily individuals in high tax brackets, and corporations wishing to reduce and defer tax liability. In 1971, almost 70 percent of individuals taking advantage of excess depreciation provisions had incomes of over $50,000 per annum. Table 3.1 shows the distribution of excess depreciation by income group.

It should be pointed out that "adjusted gross income" has already been adjusted for such deductions as depreciation. Without depreciation, therefore, the adjusted gross income of these taxpayers would be significantly higher.

Table 3.1

Adjusted Gross Income Class	Percentage of Excess Depreciation
$3,000 to $5,000	—
$5,000 to $7,000	2.0
$7,000 to $10,000	3.0
$10,000 to $15,000	7.0
$15,000 to $20,000	11.0
$20,000 to $50,000	7.5
$50.000 to $100,000	29.5
$100,000 and over	17.5
	22.5
	100.0

Source: Statement of Hon. Edwin S. Cohen, Under Secretary of the Treasury, Hearings before the Joint Economic Committee, July 19-21, 1972, p. 166.

This table, therefore, understates the regressive impact of these provisions on the suppliers of rental accommodation. It should also be mentioned that these figures are for individuals only, and do not include corporations; corporations in 1972 took 60 percent of all such excess depreciation.

In the event that these provisions were removed, there would be an increase in the demand for other forms of tax shelter. The effect of this increase in demand would be to bid up the price of nonhousing sheltered equities, and therefore to reduce the income impact in these tax rate categories. To the extent that other sheltered assets were less than completely perfect substitutes for housing investments to those currently holding housing assets, the loss in income in these high tax brackets would exceed the total amount of tax currently avoided under these provisions. Estimates of the cost of these provisions provided by the U.S. Treasury indicate that some $650 million of tax revenues are forgone through the provisions permitting excess depreciation under the 1969 act.

To offset this, it is necessary to assess the value and distributive impact of the rental housing investments that result from these programs. In this connection, it is useful to distinguish between depreciation taken as part of a development involving 236, leased, or 312 subsidies, and depreciation unrelated to subsidized programs. With respect to the first category of investment, there is a direct insurance that the occupants of this housing are in the low and moderate income bracket. Nevertheless, it is not clear that the tax shelters have themselves contributed much towards the improvement of quality or the increase in quantity for these families. The number of de-

velopers ready and able to undertake 236 projects has far exceeded the supply of 236 funds in nearly all local FHA offices, even before the moratorium; indeed, in some instances (i.e., New York UDC), agencies were able to force developers to plow back syndication proceeds into the project and still keep them interested. Leaving aside these cases, the only way that depreciation benefits are passed directly to the tenants is when developers forgo cash dividends to reduce rents to FHA limits. In most cases, however, tenants receive no direct reduction in rent from the tax shelter; direct subsidies keep rents sufficiently below the market rates that developers have little concern about vacancies, or about meeting FHA limits. This argument suggests that in cases where direct subsidies are available, excess depreciation provisions may be redundant in the sense that they contribute little or nothing to additional construction.[22] To reverse the argument, it is not clear, if these subsidies are rationed, why it is necessary to stimulate the demand for them through tax shelters. Indeed, the high return on many of these projects to the holders of these equities suggests that it is in large part a pure economic rent received by the holder of a scarce commodity—the right to 236 subsidy money.

Failure to benefit directly the tenants of rental accommodations through the passing on of depreciation savings does not necessarily mean that these programs fail to confer benefits on low and moderate income groups. Indeed, the emphasis on rehabilitation—as opposed to new construction—suggests that since rehabilitation is cheaper than new construction, the real aim of the program is to increase the supply of housing, and thereby to promote across-the-board reductions in rents. In fact, although 167(k) does appear to have reallocated some 236 money towards rehabilitation and away from new construction, the costs of rehabilitation have been essentially equal to that of new construction. The average 236 limited dividend mortgage has been $15,300 overall, and $15,600 for rehabilitation projects on a yearly basis. This reflects the fact that rehabilitation has frequently been concentrated in high cost areas.

A significant amount of 167(k) excess depreciation has been combined with unsubsidized mortgage funds as shown in Table 3.2. It is interesting to note that this rehabilitation is qualitatively different from rehabilitation carried out in conjunction with the subsidized programs. Mean rehabilitation costs for the latter are in the vicinity of $1,300 a unit; for conventionally mortgaged rehabilitation using 167(k), the costs average $4,000 a unit. In this instance, there seems to be a strong presumption that excess depreciation is providing a required incentive for rehabilitation on the conventional market; this estimate must be arrived at by indirect means. The only available information is the Office of Tax Analysis figure of $50 million in depreciation taken in 1972 under 167(k) in excess of the depreciation that would have been taken using the actual useful life. This figure, however, is the combined total of subsidized and unsubsidized rehabilitation. The unsubsidized amount can be estimated by first computing the value of subsidized rehabilitation through data and assumptions, and then subtracting subsidized costs from total costs. HUD figures indicate that by mid-1972, rehabilitation had begun or had been completed on nearly 11,000 limited dividend dwelling units at an average mortgage of $15,800 and an average total development cost of $17,600. Assuming that construction expenses equal $1,600 per unit and that land and shell costs are also $1,600, the bases depreciable under 167(k) would then be $14,400 per unit. The annual allowable depreciation would then be $2,880 per unit, $720 of which would be deductible using a normal useful life of 20 years. Finally, assuming an average tax bracket of 50 percent, the total amount of Treasury loss accruing from the 5-year writeoff under Section 236 is $1,080 per unit for a total of about $12 million. These calculations underlie the figures presented in Table 3.2.

Treasury estimates of the existence of $650 million of excess depreciation in 1972 indicates that the impact of 167(k) remains moderate in relation to the total. It is hard, nevertheless, to say much about the distributional impact of this additional $600 million of tax shelter on the rental market. There are no data on the income distribution of persons occupying these rehabilitated units, although there may be a presumption that they are middle income families. In terms of achieving distributional goals, there may be a reasonable assumption that this rehabilitation, by forestalling abandonment, has a significant trickle-down effect, thereby reducing the market rents for the low and moderate income. It is, in any case, reasonable to assume that since these rents are not controlled, there are some direct benefits passed on to tenants. In this case, the real contributors to this subsidy would be landlords who own property not capable of rehabili-

[22] Sunley, Emil, "Tax Incentive for the Rehabilitation of Housing," *The Appraisal Journal* (July 1971).

tation whose rents are bid down. In summary, therefore, the impact of these provisions of the tax law seems to be redistribution in favor of the wealthy, which is at least as great in real terms as the value of the tax savings. There is, in addition, some redistribution in favor of renters at the expense of certain classes of landlords not able to take advantage of these provisions. Within the context of 167(k), there is favorable distribution of income, for those who occupy rental property, which does not take advantage of mortgage subsidy programs; there is a more limited distribution of income attributable to tax shelters which accrues to those occupying mortgage subsidy programs.

Spatial Distribution and Tenure Mix: The period following World War II saw a tremendous expansion in suburban areas and a simultaneous deterioration of the inner city. The late 1960's saw a slight reversal of the earlier trend, with considerable new construction and rehabilitation taking place in central cities. Government subsidies and government-financed housing have played a major role in reversing the earlier trend.

The overwhelming preponderance of Section 236, Section 221(d)4, and State agency housing has gone into metropolitan areas. Less than 3 percent of all 236 limited dividend projects (43 out of 1,552) have been built on urban renewal land. The bulk of government-assisted housing has gone into fringe areas of central cities, with lesser amounts going into suburban areas.

Rehabilitation starts under 236, which are likely to have been influenced by 167(k), have been overwhelmingly concentrated in the Nation's largest cities. Three-quarters of the 151 limited dividend rehabilitation 236 projects have been in cities with populations of over 250,000 inhabitants; 97 percent have been in cities with populations in excess of 10,000. While not a single limited dividend 236 rehabilitation project has been closed on urban renewal land, considerable subsidized rehabilitation has been taking place in the older portions of central cities. The 167(k) incentive is maximized where large clusters of rehabilitable units are situated together. These considerations all apply to tax incentives related to mortgage subsidy programs.

To a large extent, however, the impact of tax shelters must be considered independently of these programs. To the extent that these shelters have provided incentives for rental housing, it appears clear that they have contributed to the reversal of the trend towards residential decentralization. The extent of this influence may be quite limited, however. The impact of tax shelter provisions is unlikely to offset homeowner deductions and allowances or any individual in a position to buy a house. To the extent that this is true, these incentives will have had little effect in reallocating resources between the single family and multifamily housing. Because the multifamily housing is almost exclusively located in metropolitan and submetropolitan areas, it may be assumed that it has little impact on the spatial distribution of metropolitan housing.

Cost to the Treasury

Although tax benefits of ownership of rental housing are extremely important to housing investment decisions, the actual magnitude of tax subsidies to rental housing is quite small in comparison to the level of Federal revenues lost through subsidies on owner-occupied homes. Calculation of the exact cost to the Treasury of rental residential property is extremely difficult because of the complexity of the applicable tax provisions. Projections of future tax revenue losses are even more difficult because of the historical pattern of widely fluctuating rates of new investments.

The largest Federal tax subsidy program for rental housing is the accelerated depreciation procedure. Treasury Department estimates of the cost of this provision in reduced Federal revenues are $500 million in 1971 and $600 million in

Table 3.2. Breakdown by Program of Excess Depreciation Taken Under 167(k)

Program	Number of Units	Rehabilitation Cost/Unit	Excess Depreciation Unit/Year	Excess Depreciation (Millions)
236	11,000	$14,400	$1,080	12
Leased	4,000	10,000	600	8
312	1,000	10,000	600	3
Conventional	142,000	4,000	240	27
Total	159,000	$5,000	$333	$50

1972.[23] Projecting these depreciation benefits over the next 5 years is hazardous, but the long-run trend in rental housing construction would indicate that a 10 percent annual gross rate over this period is more likely than the 20 percent annual increase experienced between 1971 and 1972. At 10 percent annual growth, the annual cost of this subsidy would increase from $660 million in 1973 to $970 million in 1977.

Tax incentives for the rehabilitation of rental housing are a recent innovation whose long term effects on Federal revenues are difficult to judge. Early estimates of the impact of the rehabilitation tax incentive provision of the Tax Reform Act of 1969 predicted Federal revenue losses of $50 million in 1971, $100 million in 1972, $200 million in 1974, and, assuming the program continued beyond 1974, stabilizing at about $330 million in 1979.[24] The actual experience with housing rehabilitation indicates a much lower level of revenue loss. 1973 Federal estimates are $25 million for 1971 and $40 million for 1972.[25] The discrepancy between projection and actual experience is the result, in large part, of a lower level of housing rehabilitation activity than was anticipated. The dollar cost of other Federal tax benefits for rental property owners are, like the rehabilitation provisions, overshadowed in magnitude by the accelerated depreciation provisions.

Tax Impacts on Financial Intermediaries

Introduction

Tax advantages have been granted to specific financial intermediaries as an incentive for participation in the housing sector. In this study, attention will be focused upon three sets of tax provisions:

1. Allowance for bad debt reserves for commercial banks and thrift institutions.

2. Exemption of real estate investment trusts from corporation income tax.

3. Implicit taxation resulting from restrictions placed on deposit rates in financial intermediaries.

[23] U.S. Congress Committee on Ways and Means, *Estimates of Federal Tax Expenditures,* June 1, 1973, p. 5.

[24] U.S. Congress Joint Committee on Internal Revenue Taxation, *Revenue Estimates Relating to the House,* Senate and Conference (enacted) versions of H. R. 13270: Tax Reform Act of 1969, 91st Congress, Second Session, 1970, p. 11.

[25] *Estimate of Federal Tax Expenditures,* p. 5.

The approach to be followed in each case will center on a determination of the resultant effect on the housing market in the event that the tax provision is lifted. The tax change can be expected to alter the structure of interest and deposit rates that presently prevail. These rate changes, in turn, influence the demand for housing and the net flow of funds into the mortgage market. Specification of the interest elasticity of demand then provides the basis for estimation of the effect on the housing market of specific tax provisions.

Allowance for Bad Debt Reserves

Allowances for bad debt reserves granted by financial institutions have long been thought to be inappropriate and to give far too much credit in excess of actual bad debts. Over the years, Congress has gradually whittled away at this provision, with the latest attack coming in the Tax Reform Act of 1969.[26]

Commercial Banks: Prior to 1969, .8 percent of eligible loans outstanding at the end of the year were allowed to be added as bad debt reserves to a maximum total buildup to 2.4 percent. The above act alters the maximum percentage as follows:

Year	Percent
Prior to 1969	2.4
1969–1975	1.8
1976–1981	1.2
1982–1987	.6

After 1988, the bank must compute these reserves on the basis of its average experience for the current and 5 preceding years.

Eligible loans exclude (1) loans to other banks, (2) loans to domestic branches of foreign banks, (3) loans secured by deposits in the lending bank or other banks if the lender has control over the deposit, (4) loans guaranteed by the United States, (5) loans of Federal funds, and (6) commercial paper traded in the open market.

Thrift Institutions: Prior to the Tax Reform Act of 1969, the reserve addition was the highest of (1) the amount needed based on experience or (2) 60 percent of taxable income before reserve addition. The Tax Reform Act of 1969 alters the 60 percent rule over a 10-year period:

[26] *Tax Reform Act of 1969,* Public Law 91–172, 91st Congress, H.R. 13270, December 30, 1969. For a concise explanation of the law and the changes it entails see: *Tax Reform Act of 1969: Concise Explanation,* Prentice-Hall, N.J. 1970.

Year	Percent	Year	Percent
1970	57%	1975	45%
1971	54%	1976	43%
1972	51%	1977	42%
1973	49%	1978	41%
1974	47%	1979+	40%

If less than 60 percent of assets qualify, no percentage of income allowance is permitted—reserves must be based solely on experience. If qualified assets of a mutual savings bank fall below 72 percent (82 percent for savings and loan associations) for each percentage point of deficit, the otherwise allowable percentage-of-income is reduced by 1.5 percent (.075 percent for savings and loan associations). A provision prior to 1969 remains intact restricting the reserve for qualifying loans to 6 percent of such loans at yearend; in addition, the reserve cannot exceed 12 percent of deposits.

Methodology: In order to analyze the effect of these bad debt reserves on the housing market, the following assumptions will be made:

1. Because of the diversity of asset portfolio and the method of calculation of the eligible loans, with its numerous exclusions, commercial bank bad debt reserves do not affect the mortgage rate for housing.

2. Any tax advantage that thrift institutions possess relative to commercial banks will be passed along to the customer in the form of lower interest rates than would prevail without the tax advantage.

Given these assumptions, an estimate must be made of the true differential between interest rates, in order to be able to analyze the effect on the housing market. Because of differences in markets and credit terms, however, it is not immediately evident what represents this differential impact.

Looking at the mortgage market as of December 1971 as shown in Table 4.1, certain generally valid characteristics are apparent.[27]

- Effective interest rates for Mutual Savings and Savings and Loans equal or exceed commercial rates, despite previously mentioned tax advantages.
- Commercial banks have shorter terms to maturity than do the others.

[27] *Savings and Home Financing Source Book*, Federal Home Loan Bank Board, Washington, D.C., February 1973, pp. 44–46.

Table 4.1. Characteristics of First Mortgage Loans on Single Family Homes

	Effective Rate	Term to Maturity	Loan to Price	Purchase Price
Commercial Banks				
New Homes	7.45	23.6	66.7	43.0
Existing Homes	7.38	21.9	65.9	38.6
Mutual Savings Banks				
New Homes	7.44	25.5	69.2	34.2
Existing Homes	7.48	24.2	70.8	32.5
Savings and Loan Associations				
New Homes	7.79	27.1	77.8	34.7
Existing Homes	7.74	25.5	77.6	30.4

- Greater downpayments are required by commercial banks.
- Higher value homes are financed by commercial banks.
- For only a very slight increase in interest rates, all three institutions are lenient in applying the last three credit provisions to new housing, e.g., for new homes, they allow better terms to maturity, higher loans to value ratios, and permit higher price housing purchases.

These points are not insignificant in their effects on the housing market, but an approximation must be made of the true differential of tax provisions on like mortgages. In connection with the Economic Stabilization Program, the Committee on Interest and Dividends has collected data on VA and FHA mortgages. Assuming that the credit terms on these loans do not differ between institutions, differences in effective rates can be designated as an approximation of the tax subsidy effect. This differential on the average is slightly more than 13 basis points.

The removal of the relative tax advantage of thrift instituting may be treated in one of two general ways. First, the mortgage rates charged by thrift institutions will increase on the average of 13 basis points. It is possible that the increase in interest rates will be constant over all types of mortgage loans, but it is probable that certain types of loans may bear a greater or lesser amount of the burden. For the present analysis, we shall assume all loans are affected by the average. Second, mortgage terms of credit other than the interest rate may be affected, i.e., decrease in loan-to-value ratios, or a decrease in years to maturity.

Impacts on Housing Stock: In a study of the sensitivity of the housing market to mortgage

credit terms, George Break specified a demand function for new homes related to: [28]

- The level of personal income
- Rate of family formation
- Composite credit term
- Housing prices
- Total stock of housing available for occupancy

The composite credit term was a function of the average term to maturity (m), the loan to value (L/V) ratio, and the mortgage interest rate (r).

$$\text{Composite} = \frac{r}{(m)\ (L/V)}$$

His results indicate that during the post-World War II period covered, most of the credit term elasticities of demand exceeded -0.4 and a significant number were greater than -1.0, depending on the combination of independent variables and the assumed log structure.

Present credit terms (as of February 1973) for S&L loans on new homes are as follows: [29]

Effective interest rate	7.72
Terms to maturity (years)	28.3
Loan-to-value ratio	.80

Using Break's formula, this results in a composite credit term of:

$$\frac{7.72}{(28.3)\ (.80)} = .341$$

An increase in the interest rate of the 13 basis points determined earlier would result in a new composite term of:

$$\frac{7.85}{(28.3)\ (.80)} = .347$$

The .006 increase represents a percentage increase of 1.8 percent. If it is argued that the S&L need not take the 1.8 percent increase in the composite term totally or only in part by increase in the mortgage rate, the terms to maturity and/or the loan-to-value ratios must become more restrictive.

Using the range of elasticities of -0.4 to -1.0, the 1.8 percent change in the composite term implies a range of $-.7$ percent to -1.8 percent change in the demand for new housing.

As a check on the reasonableness of these figures the expected changes in demand for single family homes can be estimated using an interest elasticity of demand figure of -1.3 from the Federal Reserve-MIT-Penn (FMP) econometric model.[30] The 13 basis point increase would represent a percentage increase of 1.7 over the present 7.72 mortgage rate. The effect on housing demand would be a 2.2 percent decrease. The relative comparability of this figure and the upper level figure from the previous method indicate that a 2 percent effect will be the result of removing the tax preferences for thrift institutions.

Impacts on Tenure Mix: The discussion so far has been couched in terms of demand for single family housing, on the assumption that the mortgage rate for that group goes up by the average 13 basis point increase. These results may vary depending on the relative rates of return for single vs. multifamily housing loans and the relative interest elasticities they face in each market. If both the rates of return and elasticities are the same, activity in the multifamily market can be expected to decline also by approximately 2 percent. If the rate of return on the multifamily housing and the interest elasticity is greater than the 1.3 figure for single family housing, one could expect that the thrift institutions will shift the burden to the single family home market with a net result of further reducing activity in this market.

Impacts on Distribution of Income: Because of the degree of competition in the savings and loan and mutual savings industries it was initially assumed that the full amount of the tax relief was passed on to the mortgage holder; therefore, there was no direct benefit to depositors of these institutions. Likewise, if the tax relief is rescinded, the full burden is assumed to lie with the customers of the company via increased mortgage rates. Mortgage holders of thrift institutions no longer would receive a subsidy from the general public. To the extent that concentration of homeownership occurs in upper income classes, plus the fact that 80 percent of thrift institution activity is in the 1–4 family housing market, implies that the present tax policy represents a small but nevertheless regressive impact on income distribution.

Cost to Treasury: In testimony during Hearings on Tax Subsidies and Tax Reform before the Joint Economic Committee, Edwin S.

[28] G. Break, "The Sensitivity of Housing Demand to Changes in Mortgage Credit Terms," *Urban Analysis: Readings in Housing and Urban Development* (Glenview, Ill.: Scott Foresman and Company, 1970), pp. 105–122.

[29] *Federal Home Loan Bank Board Journal 73,* FHLBB, Washington, D.C., April 1973, p. 89.

[30] R. Fair and D. Jaffee, "The Implications of the Proposals of the Hunt Commission for the Mortgage and Housing Markets: An Empirical Study," *Policies for a More Competitive Financial System,* Federal Reserve Bank of Boston, June 1972, p. 137.

Cohen gave figures for the effect of specific tax provisions.[31] The following assumptions were made:

1. The estimate for each item is made on the assumption that it would be eliminated without any other changes in the law.

2. No offset is made for the cost of substitute programs that would doubtless be enacted to replace some of the tax provisions if they were terminated.

3. The effects are first-level effects with no feedback response.

Based on these assumptions, the estimated impact on Federal revenues amounts to $415 million in 1972. Assuming a 10 percent average annual increase in savings deposits, and allowing for the declining percentage of reserves allowed under the 1969 provisions, the 5-year projections of revenue impact are:

Year	Federal Revenue Loss
1973	$436
1974	$458
1975	$481
1976	$510
1977	$547
5-Year Total	$2,432 million

Summary—Bad Debt Reserves: Following is a summary concerning bad debt reserves.

1. Thrift institutions receive more lenient treatment than do commercial banks; this results in an interest rate advantage of 13 basis points, which is applied toward the lowering of mortgage rates.

2. Using a composite credit term including the interest rate, average term to maturity and the loan-to-value ratio, the net effect of an increase in the mortgage rate by 13 basis points would be an approximate 2 percent reduction in the demand for new housing.

3. The presence of the tax represents a transfer of income from the general public to the mortgage market. To the extent that homeownership is concentrated in upper, as opposed to lower, income classes, this redistribution of public funds is regressive.

4. The cost to the Treasury is estimated to be between $400 million and $550 million annually for the next 5 years.

Tax Exemption for Real Estate Investment Trusts

Real estate investment trusts (REIT) are exempt from Federal corporation income tax, provided they meet the following specific requirements: [32]

1. The REIT must be a passive investor rather than an active participant in the operations of its properties. However, the active manager of a REIT's properties can own up to 35 percent of the REIT's stock.

2. At the end of each quarter, 75 percent of the value of the REIT's total assets must consist of real estate (including mortgages), cash, cash items, and government securities.

3. At least 100 persons must own shares, and five or fewer persons cannot own more than 50 percent of the shares.

4. At least 75 percent of the gross income of the REIT must be derived from rents, mortgage interest, and gains from the sale of real estate.

5. At least 90 percent of the REIT's income must be distributed to the shareholders.

The purpose of a REIT is unique—its main function is to provide funds for less traditional and more risky real estate investments, many of which would not be able to acquire financing were it not for the existence of REIT. This may take, for example, the form of a contractor who is trying to establish himself in a new type of construction activity and has been refused credit by the more established institutions because of risk. The REIT may gamble on the high profit potential of the project and grant the loan at a high but not prohibitive rate of interest.

The ability and desire to accept risk is a distinct feature of the REIT industry. It provides one of the few outlets for equity capital into the real estate market. The cost for the equity capital is on the order of 11-12 percent with the average short term borrowing costs between 5–6 percent.[33] Of late, however, this short term cost

[31] E. Cohen, Statement of Hon. Edwin S. Cohen, Under Secretary of the Treasury, *Tax Subsidies and Tax Reform,* Hearings before the Joint Economic Committee, July 21, 1972, p. 164.

[32] P. Schulkin, "Real Estate Investment Trusts: A New Financial Intermediary," *New England Economic Review* (November/December 1970), p. 2–3.

[33] P. Schulkin, "Recent Developments in the REIT Industry," *New England Economic Review* (September/October 1972), p. 6.

Construction Loan Holdings—December 1972 ($ Million)

	Total	1–4 Family	Multi-family	Commercial & Individual
Commercial Banks	18,809	4,803	5,589	8,417
S&L	11,187	5,307	3,998	1,882
Mutual Savings	1,413	345	685	384
REIT	5,717	576	3,809	2,332

has risen considerably, with debt issues in 1972-73 running in the 7–8 percent range.

Because of the relatively high percentage of high cost equity capital, the average cost of funds for an REIT may be on the order of 9 percent—well in excess of the 5 percent faced by commercial banks and the 5.5 percent faced by savings and loan associations.

By far the most prevalent type of investment is in construction and development. Construction of apartment houses, commercial structures, and single family homes account for 56 percent of all mortgage activity.[34]

Of the construction ventures, 40 percent are in multifamily housing, 41 percent in commercial structures, and only 10 percent in 1–4 family housing. Although REITs possess only 16 percent of the total construction loan holdings as of December 1972, these represent over 21 percent of the mutifamily construction total. In periods of monetary restraint, the 1–4 family housing market is all but completely excluded from the domain of the REIT.

Holdings of long term mortgages form the second major type of asset holding. This type of REIT financing completely avoids the single family home market and places great emphasis on commercial and industrial mortgages. Figures for December 1972 reveal the following splits:

Conventional Multifamily	Nonfarm Nonresidential	Total All Types
$518 million	$1,579 million	2,480

Impacts on Tenure Mix: Real estate investment trusts owe their existence to their exemption from the corporation income tax. Unlike the marginal effect the removal of bad debt reserves would have on commercial banks and thrift institutions, removal of tax exemptions could possibly be ruinous to the industry. The REITs of large commercial banks may be able to stay afloat if the amount of equity capital is relatively small, but it is doubtful that these REITs would remain in the long run. Should REITs fold, their present mortgage holding could be sold to existing mortgage institutions—but possibly only at a loss, because of the risk nature of the loan and the circumstances of the transfers. There would most likely be no new formations because any public offering of shares would not attract enough of an asset base to insure the prospective advisor a sufficient management fee.

The pertinent question, then, centers on the ultimate destination of the current capital tied up in REITs. At the end of 1972, assets amounted to a total of $10.3 billion. Total equity involvement amounts to approximately $5.3 billion.

Under the worst of all possible situations, the total capital commitment eventually may be transferred to new investments totally unrelated to housing. New construction and development loans outstanding have doubled in the last year and a half, with the REITs' percentage of the construction and development market increasing from 7.9 percent in the third quarter of 1970 to 16.7 percent as of the end of 1972. Loss of the REITs in the construction and development markets would represent a serious blow to multifamily housing construction, which could amount to well over $1.5 billion per year.

If this capital is invested in financial institutions in proportion to the present relative asset strength of commercial banks and thrift institutions, then roughly a third of $10.3 billion ($3.4 billion) will transfer to thrift institutions, with commercial banks picking up $6.9 billion. The net addition to each institution depends on the extent to which they have bought up the dispersed mortgage holdings of the REITs as they close down operations. In this situation, the effect on the housing market will be much less severe than if the money were to go to other than financial institutions. Here, at least, some of the cash will be diverted back into housing investment with virtually all of the thrift instituion deposits going into single family housing. Investment in real estate by commercial banks averages approximately 16 percent of total loans and securities; thus the net effect will be a substantial reduction in funds allotted to the housing

[34] *REIT Industry Data*, unpublished document obtained through the National Association of Real Estate Investment Trusts.

market. Because of the differences in markets of commercial banks and thrift institutions, the net effect should result in a substantial transfer of those funds that are invested into housing away from construction of multifamily housing and into construction and purchases of single family housing.

Impacts on Distribution of Income: As mentioned previously, the involvement of equity capital into the real estate market is a unique feature of the REIT. The tax incentive has a definite impact on the distribution of income via wealth accumulation of the equity holder. For firms subject to the corporation income tax, dividends paid to stockholders are not deductible for income tax purposes. Thus, at a 48 percent tax rate, pretax earning would have to be $1.92 before $1 could be returned in dividends. It is this exemption that permits the REIT to attract these equity funds into these relatively risky enterprises.

But from the point of view of the consumer, the preponderance of construction investment in multifamily housing is to the obvious benefit of the rental class. To the extent that this class is at the lower end of the income distribution, REITs represent a progressive element in the housing market. Elimination or, at a minimum, a disruption of the REIT industry by way of removing their tax exemption would have a significant impact on rental housing.

Cost to Treasury: Assuming that, in the short run, REITs would remain in existence, they would absorb all of the tax increase themselves; that, in turn, would effect the distribution of dividends to the equity holders. The net effect on the Treasury would be the newly acquired corporation income tax minus the reduction in income tax paid by the equity holder. For the present year, net income is expected to attain $550 million. If one assumes that the equity holders are in the 40 percent tax bracket, the Treasury presently receives $220 million in tax revenues. If REITs were taxed at the present corporation income tax rate of 48 percent, then $264 million would go directly from the REIT to the Treasury. But only $286 million would now be taxed at the equity holders' 40 percent rate, for a total of $114 million. The Treasury total intake would be $378 million. The net gain to the Treasury would be $158 million.

If these assets are in fact transferred to nonhousing related industries, the effect on the Treasury revenues will largely depend on the manner in which this capital is spread between debt and equity, and the relative rates of return each commands. The most feasible assumption is that the debt-to-equity split will remain at the present 1:1 ratio; the REIT investors have expressed their preferences for debt and equity, and it is likely that they would seek investments demanding similar financing. If one makes the further assumption that alternative investments are available that return comparable rates of return, then there is a possibility that revenues will increase over that of the shortrun case. This is so because the return on equity (ROE) would now have to be on an after-tax basis if done in corporations subject to the corporation income tax. The taxation of the higher level of profits needed to attain the same ROE would represent a net addition to the Treasury. Hence, if the money is invested in corporation stock the return to the Government increases by a factor equal to the present REIT return on equity, or approximately $500 million per year.

If the capital were invested in financial institutions, the net gain to the Treasury would be less than the prior situation because of the tax-exempt nature of interest payments on deposits. Therefore, the boundary for the cost to the Treasury is between the $158 million figure for the short run, and a maximum of $500 million under the most severe transfer of funds out of the housing market. Using the lower-bound figure as a base, and estimating a 10 percent annual growth rate in REIT profits (a much lower growth rate than has been experienced in the last few years, representing a maturing industry), the cost to the Treasury over 5 years is:

Year	Federal Revenue Loss
1973	$158 million
1974	$174
1975	$191
1976	$211
1977	$231
5-year total	$915 million

Summary—Real Estate Investment Trusts: Following is a summary concerning real estate investment trusts.

1. REITs are exempt from corporation income tax provided 75 percent of income comes from real estate transactions and at least 90 percent of net income is distributed to stockholders.

2. REITs represent an outlet for equity capital into the real estate market. Because of this equity involvement, funds are made available to less traditional and more risky real estate ventures that cannot get credit elsewhere.

3. Taxation would in the long run force REITs out of existence, with the net impact on the housing industry depending on the manner in which funds are transferred to other industries.

4. The effect on the multifamily housing construction market could be as great as $1.5 billion per year.

5. Due to their heavy concentration in construction of multifamily as opposed to single family housing, the existence of REITs alters the tenure mix in favor of rentals. This in turn affects the distribution of income in a progressive manner.

6. If REITs were taxed, the increase in revenue to the Treasury would be as much as $158 million annually in the short run, and as much as $500 million as funds are transferred out of REITS and into other enterprises.

Deposit Rate Regulation

The rationale behind deposit rate restriction is based on the basic difference in the structure of asset and liability composition of commercial banks and thrift institutions. While banks have wide latitude in developing their asset and liability structure, thrift institutions generally face a situation in which they borrow short and lend long. Although this may work to the latter group's benefit when short term rates are lower than long term rates, it creates serious financial problems as short term rates increase.

Deposit rate restrictions represent one means of avoiding serious net outflows of funds

Table 4.2. Federal Reserve System-Maximum Interest Rates Payable on Time and Savings Deposits: 1962 to 1972

Type of Deposit	Jan. 1962	July 1963	Nov. 1964	Dec. 1965	July 1966	Sept. 1966	Apr. 1968	Jan. 1970 June 1972
Savings	4	4	4	4	4	4	4	4½
Multiple maturity:								
90 days or more					5	5	5	5–5¾
Less than 90 days (30–89 days)	4	4	4½	5½	4	4	4	4½
Single maturity:								
Less than $100,000					5½	5	5	5–5¾
$100,000 or more					5½	5½	5½–6¼	6¼–7½

Source: *Statistical Abstract of the United States, 1972*, Dept. of Commerce, Table 730, p. 459.

Table 4.3. Maximum Rates of Return Payable on Savings Accounts by Savings and Loan Associations that Are Members of the Federal Home Loan Bank System

Type of Account	Effective Date and Percentage Rate			
	Sept. 26, 1966	April 1, 1969	Dec. 19, 1969	Jan. 21, 1970
Regular	4.75	4.75	4.75	5.00
90-day notice (for withdrawals)	4.75	5.00	5.00	5.25
Fixed or minimum term or qualifying period and minimum balance:				
Minimum balance less than $100,000 and qualifying period of at least:				
3 months				5.25
6 months	5.25	5.25	5.25	5.25
1 year	5.25	5.25	5.25	5.75
2 years or more	5.25	5.25	6.00	6.00
Minimum balance of $100,000 and qualifying period of at least:				
60–89 days				6.50
90–179 days				6.75
180–364 days				7.00
1 year or more				7.50

Source: *Federal Home Loan Bank Board Journal* 73 FHLBB, Table S. 4.12, p. 88.

from thrift institutions due to competition with commercial banks. By imposing these artificial ceilings, a source of housing mortgage funds is thus preserved above the level it would attain if the competitive deposit rates were allowed.

Both the Federal Reserve System and the Federal Home Loan Bank (in conjunction with States) have set maximums with the FHLB ceilings for savings and loan associations slightly above those of the commercial bank maximums set by the FED. (See tables 4.2 and 4.3.)

The Hunt Commission has recommended that all ceilings on deposit rates be dropped.[35] However, they did not explicitly consider the effects this would have on the housing market. The elimination of ceilings will place commercial banks and thrift institutions in more perfect competition for funds. Intuitively, one might expect the time deposit rate for commercial banks to rise by a greater margin than that of savings and loan associations and mutual banks. Transfer of funds will take place from thrift institutions to commercial banks. The impact on mortgage rates, housing demand, and, ultimately, housing supply requires analysis.

Impacts on Housing Stock: A study by Jaffee and Fair has used the Federal Reserve-MIT-Penn (FMP) econometric model in an attempt to analyze the effect of the elimination of restrictions on deposit rates.[36] They first consider the removal of FED restrictions on commercial banks; next, they remove ceilings from all intermediaries.

In the first case (removal of the ceiling only for commercial banks) the simulation showed the following in deposit rate rates: Commercial bank time deposit rates increase by 95 basis points, savings and loan rates increase 38 basis points, and mutual savings bank rates increase by 57 basis points. The resulting net flow of funds from thrift institutions to commercial banks resulted in an increase of the mortgage rates by 20 basis points. Mortgage levels of the three institutions have a net decline of $9 billion: Commercial banks increase $4.7 billion dollars, S&Ls decline $10.6 billion, and mutual savings banks decline $3.1 billion.

The second case of interest ceilings removed on all financial intermediaries shows substantial increases in rates (95, 78, and 52 basis points, respectively) but only a three basis point increase in the mortgage rate. Mortgage levels reflect a net increase of $3.8 billion, with commercial banks and S&Ls increasing by $3 and $1.4 billion, respectively. Only the mutual savings banks declined, by $0.6 billion.

If one accepts the range of values for the increase in mortgage rates, then one must conclude that the net effect of dropping the rate requirements for all institutions is quite small; it may even be difficult to detect any longrun effects on housing supply.

Table 4.4. Deposit Interest Forfeited and Mortgage Subsidies

	Deposits ($ Million) 1971	Deposit Basis Points	Deposits Interest Forfeited ($ Million)
Commercial Banks	278,800	95	2,649
Savings and Loans	174,472	78	1,360
Mutual Savings	81,978	52	426
			4,435
	Residential Mortgage Loans Outstanding ($ Millions)	**Mortgage Rate Increase Basis Points**	**Mortgage Subsidy ($ Million)**
Commercial Banks	51,505	20	103
Savings and Loans	174,385	20	348
Mutual Savings	53,441	20	107
			558

Source: *Statistical Abstract of the United States, 1972,* Dept. of Commerce, Tables 701 (p. 448), 704 (p. 449), 707 (p. 450).

Impacts on Distribution of Income: Current rate restriction creates a substantial redistribution of income from depositors in financial institutions to mortgage holders. Reductions in interest income amounts to $4.4 billion annually. Assuming that the mortgage rate only rises by 20 basis points, the direct mortgage subsidy of the deposit ceilings can be measured by applying

[35] *The Report of the President's Commission on Financial Structure and Regulation,* December 1971.
[36] Fair and Jaffee, op. cit., pp. 99–148.

this increase to the present quantity of residential mortgage money outstanding to arrive at a crude measure of the direct mortgage subsidy of $558 million.

This transfer is even more significant if it is assumed that mortgage holders do not themselves heavily support thrift institutions with their own deposits. To the extent that the poor renter places the vast majority of his savings dollars in depository financial institutions, the burden lies most heavily on the lower income classes. The upper income mortgage holder most certainly has a greater diversity in the distribution of his savings, either because of greater knowledge of investment opportunities or because of his ability to accumulate a critical mass necessary for certain investments.

Cost to Treasury: The penalty that deposit rate ceilings place on depositors in financial intermediaries was estimated to be on the order of $4.4 billion for 1971. The cost to the Treasury is represented by the forgone income it would receive from the taxation of this interest income by way of the individual income tax. If one assumes that the average depositor is in the 20 percent tax bracket, then this may amount to as much as $880 million in lost revenue. Based on a projected 10 percent annual average increase in deposits, the tax loss for the next 5 years is estimated to be:

Year	Federal Revenue Loss
(1972)	$ 975 million
1973	$1,075
1974	$1,180
1975	$1,300
1976	$1,425
1977	$1,570
5-year total (1973-1977)	$6,550 million

Summary—Deposit Rate Regulation: Following is a summary of deposit rate regulation.

1. Deposit rate restrictions prevent serious outflows of funds from the housing market.

2. Elimination of these ceilings would increase deposit rates:

- Commercial Banks by 95 basis points
- Savings and Loan Associations by 78 basis points
- Mutual Savings Banks by 52 basis points

3. Estimates of the increase in the mortgage rate range from 3 to 20 basis points.

4. Since the average income of mortgage borrowers is significantly higher than that of savings depositors, the current rate restrictions represent a serious regressive transfer of income from the poor to the rich.

5. The net effect on the housing market of dropping deposit requirements is quite small, and it may even be difficult to predict whether the longrun effect will be positive or negative.

6. The cost to the Treasury is estimated to be between $900 million and $1,500 million annually for the next 5 years.

Appendix A. The Mechanics of Tax Shelter in Various Types of Housing Investments

Tax shelter takes on a different significance in various types of housing investments. In conventionally financed, new construction, profit considerations are primary, while tax shelter is a secondary concern. Profits can be expected to far exceed depreciation losses.

Used conventionally financed rental housing is even less dependent on tax shelter. The 125 percent declining balance method applicable to such housing affords only slight economic benefit in excess of actual physical deterioration.

Government-regulated, privately owned rental housing, whether it be subsidized or unsubsidized, FHA or State agency financed, presents an entirely different pattern. Tax incentives are the most important incentive in such housing. The governmental aim in these projects is to keep the rents as low as possible. One way this is done is by limiting but by no means guaranteeing profits of 6 percent of implied equity (8 percent in certain State programs). Another means is to provide especially large mortgages at low interest rates.

While, as seen above, the depreciation rules are no different for Government regulated housing than for any other housing, the low equity requirements and limited return on equity mean that tax losses far exceed taxable income on the project. These losses can be used to offset other income of the taxpayer. Because of the low equity requirement, these losses are relatively more significant in boosting the rate of return on equity. They serve to compensate for the limitations placed upon the return for equity. Tax shelter is particularly important for a 236 rehabilitation

project where the risks are great and the depreciation allowances are most liberal. However, excess tax losses are of no value to those with no outside income, and of little value to those in low tax brackets.

Those developers who are unable productively to use tax shelter themselves will syndicate ownership in their projects to high income investors. Generally, such syndications take the form of a limited partnership with the developer serving as the managing general partner, and the investors serving as limited partners with very limited authority in the management of partnership affairs.

The 1950's saw a rapid increase in homeownership, spurred by a combination of tax incentives to homeowners, the availability of FHA mortgage insurance, and the proliferation of highways to open up land for single family dwelling construction. Tax incentives to developers of rental housing were not sufficient to buck the trend toward homeownership, nor were they intended to do so. Depreciation provisions reached their most liberal level in 1954.

In the late 1960's, the postwar baby boom reached their late teens and early twenties, and created a strong demand for apartments. Most of the apartment demand was for rentals; however, large numbers of apartment seekers, especially older apartment seekers, sought condominiums, maintaining the high percentage of homes with owner occupants. As children of the baby boom have formed families, the pendulum has begun swinging back toward homeownership of single family units in the 1970's.

Depreciation benefits, of course, provide an incentive to invest in rental housing. The amount of the incentive is the discounted present value of the difference between the accelerated depreciation taken and the actual depreciation in value accruing. Table 1 shows that for new construction the incentive provided by double declining balance depreciation over 33⅓ years, as compared with straight line depreciation over the same period, is 4.5 percent for a property owner in a 50 percent tax bracket using any discount rate between 6 and 10 percent. The new construction incentive provided in excess of reverse sum-of-the-years digits over 40 years, a more true reflection of actual depreciation, would be about 12 percent (see Table 3). The value of the 167 (k) rehabilitation incentive is between 13 and 17 percent, depending on the discount rate as compared with straight-line depreciation over a normal useful life of 20 years (Table 4); it is between 18 and 23 percent compared with reverse sum-of-the-years digits depreciation over 20 years.

Table 1. Cost to Treasury Per $100,000 of New Construction

Year	Annual Depreciation	Straight Line Depreciation	Excess Depreciation	50% Excess Depreciation	Discount Rate @ 6%	Discounted Cost
1	6,000	3,000	3,000	1,500	.943	1,415
2	5,640	3,000	2,640	1,320	.890	1,173
3	5,302	3,000	2,302	1,151	.840	967
4	4,984	3,000	1,984	992	.792	786
5	4,684	3,000	1,684	842	.747	629
6	4,403	3,000	1,403	702	.705	495
7	4,139	3,000	1,139	570	.665	379
8	3,891	3,000	891	446	.627	280
9	3,657	3,000	659	330	.592	195
10	3,438	3,000	438	219	.558	122
11	3,232	3,000	232	116	.527	61
12	3,038	3,000	38	19	.497	9
13	2,856	3,000	(144)	(77)	.469	(36)
14	2,684	3,000	(316)	(158)	.442	(69)
15	2,523	3,000	(477)	(239)	.417	(100)
16	2,372	3,000	(628)	(314)	.394	(123)
17	2,229	3,000	(771)	(386)	.371	(143)
18	2,096	3,000	(904)	(452)	.350	(158)
19	1,970	3,000	(1,030)	(515)	.331	(170)
20	1,852	3,000	(1,148)	(574)	.312	(179)
						5,535

Discount Tax on sale = .312 × .30 × (40,000–29,011) = (1,029)
Discounted net cost to Treasury = $4,506

Table 2. Cost of Treasury Per $100,000 of Rehabilitation

Year	Accelerated Depreciation	Straight Line Over 20 Years	Excess Depreciation	50% Excess Depreciation	Discount Rate	Discount Cost
1	20,000	5,000	15,000	7,500	.943	7,073
2	20,000	5,000	15,000	7,500	.890	6,675
3	20,000	5,000	15,000	7,500	.840	6,300
4	20,000	5,000	15,000	7,500	.792	5,940
5	20,000	5,000	15,000	7,500	.747	5,603
6		5,000	(5,000)	(2,500)	.705	(1,763)
7		5,000	(5,000)	(2,500)	.665	(1,662)
8		5,000	(5,000)	(2,500)	.627	(1,568)
9		5,000	(5,000)	(2,500)	.592	(1,480)
10		5,000	(5,000)	(2,500)	.558	(1,395)
11		5,000	(5,000)	(2,500)	.527	(1,317)
12		5,000	(5,000)	(2,500)	.497	(1,243)
13		5,000	(5,000)	(2,500)	.469	(1,172)
14		5,000	(5,000)	(2,500)	.442	(1,105)
15		5,000	(5,000)	(2,500)	.417	(1,043)
16		5,000	(5,000)	(2,500)	.394	(985)
17		5,000	(5,000)	(2,500)	.371	(927)
18		5,000	(5,000)	(2,500)	.350	(875)
19		5,000	(5,000)	(2,500)	.331	(828)
20		5,000	(5,000)	(2,500)	.312	(780)
						13,448

Discounted tax on sale = .312 × .30 × (0) = 0
Discounted net cost to Treasury = $13,448

Table 3. Accelerated Depreciation Compared with Reverse Sum-of-the-Years Digits Depreciation per $100,000 of New Construction

	Double Declining Balance Depreciation 33⅓ Years	Reverse Sum of Years Digits 40 Years	Excess Depreciation	50% Excess Depreciation	Discount Rate @ 10%	Discounted Tax Savings @ 6%	Discount Rate @ 6%	Discounted Tax Savings @ 10%
1	6,000	122	5,878	2,939	.909	2,672	.943	2,771
2	5,640	244	5,396	2,598	.826	2,228	.890	2,401
3	5,302	366	4,936	2,468	.751	1,853	.840	2,073
4	4,984	488	4,496	2,248	.683	1,535	.792	1,780
5	4,684	610	4,074	2,037	.621	1,265	.747	1,522
6	4,403	732	3,671	1,336	.564	1,036	.705	1,294
7	4,139	854	3,285	1,542	.513	842	.665	1,092
8	3,891	976	2,915	1,458	.467	681	.627	914
9	3,657	1,098	2,559	1,279	.424	542	.592	757
10	3,438	1,220	2,218	1,109	.386	428	.558	619
11	3,232	1,341	1,891	946	.350	331	.527	499
12	3,038	1,463	1,575	787	.319	251	.497	391
13	2,856	1,585	1,271	536	.290	184	.469	298
14	2,684	1,707	977	488	.263	128	.442	215
15	2,523	1,829	694	347	.239	83	.417	145
16	2,372	1,951	421	211	.218	46	.394	83
17	2,229	2,073	156	78	.198	15	.371	29
18	2,096	2,195	(99)	(50)	.180	(9)	.350	(18)
19	1,970	2,317	(347)	(273)	.164	(28)	.331	(57)
20	1,852	2,439	(587)	(294)	.149	(44)	.312	(92)
Sale*					.149	(2,028)	.312	(4,248)
						12,011		12,468

* Tax on Sale if price equals reverse sum-of-the-years digits basis = (79,390–29,011) × .30 = (13,614)

An additional incentive to developers is the ability to deduct certain expenses in full during the construction period, rather than having to depreciate them. On FHA-insured housing, these expenses are likely to total 9 percent of the mortgage over a 1-year period according to the following schedule:

Interest @ 8½ percent on an average of 50 percent of value	4.25%
Mortgage insurance premium	.50%
Financing fees	2.00%
FNMA/GNMA fees	1.50%
Property taxes	.75%
	9.00%

Nine percent of a Government assisted mortgage translates into about 8 percent of total costs, and approximately 10 percent of depreciable costs. For conventionally financed construction, the HUD-Touche Ross & Co. *Study on Tax Considerations in Multifamily Housing* found that construction period expenses equaled a median of 4 percent of total costs equalling about 5 percent of a conventional mortgage and about 5 percent of depreciable costs. The reasons that construction expenses are lower in conventional construction are reduced fees, a shorter construction period, and less emphasis on tax shelter considerations.

For an investor in a 50 percent tax bracket, being able to expense construction losses is worth $5,000 per $100,000 of depreciable basis on FHA-assisted housing, and $2,500 on conventional. Were these construction losses, instead, depreciated on a straight line (assuming ownership of 20 years and a useful life appropriate for new construction of 33⅓ years) they would be worth only $1,323 on FHA-assisted housing, using a 10 percent discount rate and $1,887 using a 6 percent rate; they would be worth about half of these values for conventional housing. Depreciating construction expenses on a rehabilitation project—i.e., using a useful life of 20 years, the discounted value on FHA-assisted projects would be $2,128 using a 10 percent rate, and $2,874 using a 6 percent rate, and half these amounts on conventional projects. Thus, expensing of construction items increases the rate of return between 2 and 4 percentage points on FHA-assisted housing, and between 1 and 2 percentage points on conventional housing. The difference between expensing and reverse sum-of-the-years digits depreciation is about one and a half times as great as between expensing and straight line depreciation.

The benefits of accelerated depreciation and the expensing of construction losses have all been calculated, assuming that the property will be held for 20 years, thereby minimizing the tax on sale. However, if a sale occurs in an earlier year, the rate of return declines considerably. Depreciation and construction loss benefits, of course, are only applicable to rental housing. The only tax incentive for developers to create owner-occupied housing is the 1039 rollover.

Under normal circumstances, however, 1039 provides an insufficient incentive for investors to sell to tenants. Not a single limited dividend 221(d) 3 or 236 project has been sold to a tenant cooperative out of some 2,200 limited dividend projects still being insured by FHA.

While most limited dividend projects, particularly 236 projects, have several years of depreciation remaining before a sale of any type might be anticipated, the mathematics of 1039 make it unprofitable for investors ever to sell to tenants except in instances where the project is otherwise likely to go into foreclosure. Under 1039, a taxpayer (defined in the regulations to be the entire partnership, rather than a single limited partner) must reinvest the "net amount realized" on the sale of the first project in a second project in order to avoid paying a tax on sale at this point. More colloquially, he must "roll his investment over" to a second project. The cost to the taxpayer of making such a reinvestment is likely to be considerably greater than can be obtained from the tenants of the first project. Moderate income tenants as a group can afford to pay only slightly more, than the outstanding mortgage amount—in most instances, no more than one or two hundred dollars per family above the mortgage, if that. Investors, however, would have to pay on the order of 15 percent above the mortgage to reinvest in a second new project and even more to reinvest in a rehabilitation project. Stable used projects are unlikely ever to be available to limited dividend investors. Fifteen percent above the mortgage translates into roughly $3,000 per unit in cost that the investors would have to lay out. This price is based largely upon the amount of depreciation that ownership of such property would normally generate. Yet investors who are involved in a rollover are limited as to the tax shelter benefits they can receive in a second project. Their basis in the second project is reduced by the amount of gain not recognized on the disposition of the first. The only significant benefits an investor would receive in the second project would be

the right to deduct the construction losses, lower taxable amortization,* and possibly a small charitable contribution deduction. These small benefits are not nearly enough to make a rollover profitable for investors in a normal situation.

The only situations where a rollover would be beneficial to investors would be: 1) If the first property is otherwise likely to go into foreclosure, and 2) if HUD is willing to refinance the mortgage. In the first instance, buying into a second project would be cheaper than the recapture cost of foreclosure. Yet few tenant organizations are willing, or for that matter should be willing, to take over the ownership of a project threatened by foreclosure. Refinancing by HUD to provide investors with sufficient capital to reinvest in a second project would be the only way to encourage the sale of sound projects to tenant groups. Thus far, however, HUD has been reluctant to provide such refinancing.

* Debt service on a mortgage generally involves a constant payment with an increasingly higher percentage of taxable amortization and lower percentage of (tax deductible) interest. Rolling over into a second project would enable an investor to move back to the beginning of the amortization schedule.

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Housing and Income Tax Subsidies

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In this report I will inventory the existing direct and indirect tax subsidies to single and multifamily housing. Given the short timespan in which this report has to be prepared, I find it necessary to forgo certain technical proofs, delightful though they are, and to rely on citations to appropriate references. It is necessary, however, for certain definitions to be set forth at this time.

Tax Subsidies and Other Definitions

The recent JEC volume on tax subsidies [1] has indicated the conceptual difficulties in establishing an all-inclusive definition of "subsidy." Tax subsidies, however, are easier to define. According to both an "ability to pay" and economic efficiency approach, a person (or firm) is granted a tax subsidy if his tax payments are less than those of another person with the same "economic" or true income.[1] [2] Tax subsidies, therefore, reflect lower tax rates for certain persons or types of transactions or a tax base that is less than economic income.

In this report housing will be defined in terms of quantity or number of units of a standard type and quality. "Quality" will include such things as the condition of the building shell and the range and type of equipment and other services provided in supplying shelter. "Single family" will stand for owner-occupied, and will include condominiums and mobile homes, while "multifamily" will mean rented housing. Indirect tax subsidies are those granted to mortgagers or suppliers of raw materials used in constructing houses and which result in a reduction in the market cost of producing housing services.

[1] In this paper I will assume that income and not consumption or wealth is the agreed-upon tax base unless specifically stated otherwise. In the definition, I am also ignoring possible adjustments for differential risk bearing.

[2] Economic income is defined as consumption plus the change in net worth.

At some points we will be concerned with low and moderate income housing, which are defined as housing whose costs are such that people with certain specified levels of income can afford the mortgage or rent payments.

An Inventory of Direct Tax Subsidies to Rental Housing

The current tax law provides a variety of direct tax subsidies to housing. An excellent summary of most of these can be found in Slitor [2], some of whose details have been outmoded by changes in the 1969 and 1971 Tax Acts, and in Aaron [3].[3]

Table 1 lists these subsidies separately for owned and rented houses. In this table and subsequent discussion I have not included certain programs that are only available to small groups such as farmers or veterans. See Aaron's appendix for these [3]. The first item on the list for rented housing, too-rapid depreciation of the building, is most important by itself and also plays a key role in magnifying the tax subsidies inherent in items 2, 3, and 4. Because too-rapid depreciation is so important, it is necessary to consider in detail what we mean by "too rapid" and what depreciation system would be just right.

Too-Rapid Depreciation

Nearly all tax depreciation systems allow the taxpayer to write off the value of his investment or the cost of the asset during the asset's life.[4] But as has been shown rigorously by Samuelson and demonstrated numerically by Taubman and Rasche [4], a tax system will confer a subsidy if the present discounted value (PDV) of the tax depreciation exceeds that of the PDV of the stream of annual losses in value.[5] This true or economic depreciation also should be included in determining economic income on page 1, footnote 2. Or, in other words, if the taxpayer is allowed to write off an asset too quickly, he in effect receives an interest-free loan from the government in the form of postponed taxes.

[3] The 1971 and 1969 Tax acts made important changes in the treatment of housing. We use these provisions, although buildings purchased before these dates have even more preferable treatment.

[4] Below, we consider the effects of mortgages that form a wedge between the owner's equity and the cost of the investment.

[5] If the opposite occurs, the tax system imposes an excise tax on the asset.

Table 1. Direct Tax Subsidies for Owned and Rented Houses

Multifamily Housing
1. Too-Rapid Depreciation on Building
2. Capital Gains Treatment of Certain Transactions and Limited Recapture
3. Depreciation Base Too Large
4. Tax Free "Exchanges"
5. Too-Rapid Depreciation of Equipment
6. Noncomparability of Treatment of Expenses and Revenues
7. Tax Free Transfer Payments
Single Family Housing
1. Imputed Rental Value Tax Free
2. Interest and Property Taxes Deductible if Itemized
3. Capital Gains on Sale
4. Tax Deferral on Capital Gains
5. Capital Gain Exemption for those who are older than 64
For Both Types
1. Exemption from Corporate Tax

The definition is clear, but the factual question of the age pattern of economic depreciation still remains. Since 1971, the tax code has allowed investors to use the double declining balance depreciation formula on new buildings and 125 percent on used residential buildings. (These will be defined below.) Most readers of this report will have heard enough stories about double declining balance (or related methods) which allow (accelerate) deductions faster than that allowed by straight line, to be convinced that double declining balance is too rapid.[6] Some firmer evidence is available on the pattern of true depreciation. First, based on published data on rents and costs, Taubman and Rasche [4] have calculated that true depreciation is much slower than even straight line. While their exact results vary by year and are somewhat sensitive to certain assumptions, they always find that for each of the first 40 years of useful life—the average tax life of shell and equipment—the true annual loss in the value of the building is less than that allowed by the straight line formula with a 40-year useful life. Second, even in the early 1960's, when inflationary expectations were very small, it was possible for investors to receive close to 100 percent, 15-year mortgages on new apartments. Thus banks and life insurance companies must not have expected much loss in value over this timespan, during which the tax laws let the investor write off 3/8 of the cost of the building with straight line methods, or more if accelerated depreciation formulas are used. Thus it seems that not only are the permissible tax depreciation rules—double declining balance on new residential buidlings, 125 percent on used—a subsidy, but so is straight line depreciation. Indeed, Taubman and Rasche conclude that true depreciation is approximated by reverse sum of the years' digits.[7]

There is one special rapid depreciation system for low income housing. Section 167k permits the taxpayer to amortize certain expenditures on repairs undertaken to rehabilitate low income housing over a 5-year period (with salvage value set at zero) as long as the useful life is at least 5 years.[8] This provision expires in 1975. While I know of no study that has examined the pattern of true depreciation on such repairs, the economic life of the repairs may be 10, 15, or more years, and salvage value will often be positive. Hence it seems clear that, as intended, a tax subsidy is granted by this provision.

Capital Gains and Limited Recapture

The Tax Code currently allows ½ of (long term) capital gains to be excluded from the tax base.[9] [10] Thus the maximum tax rate is only ½ of that on ordinary income and there is, according to our definition, a tax subsidy.[11] As noted above, the special treatment only applies to "long term" gains. While the general rule in the Tax Code is that an asset passes from the short to long term status after being held for 6 months, there are some special features for residential rental properties.

[6] Straight Line Depreciation allows an annual deduction equal to (1/N) times Cost where N is the useful life of the building, or 40 years for apartment buildings. Double Declining Balance lets the person write off in each year an amount equal to 2/N (Cost—Previously Accumulated Depreciation). The person also can switch to straight line for the remaining life and undepreciated balance whenever he wishes. As shown in [4], the optimal time will be in n/2 years.

[7] The sum of the years' digits method allows a deduction in year t of $(N-t) / \sum_{t=0}^{N} (N-t) = 2(N-t)/(N+1)N$. Reverse sum of the years' digits is equal to $2(N - (N - t))/(N + 1)N$.

[8] To try to make sure that rehabilitation occurs, at least $3,000 has to be spent during 2 successive years, while to restrict the subsidy to low income housing, no more than $15,000 per unit is granted this treatment. Also, qualified investment is to be defined by HUD standards.

[9] It is sometimes argued that capital gains are due to inflation and thus the tax is on capital and not income. This argument is evaluated in the homeowner section.

[10] The first $50,000 of long term capital gains from all sources is taxed at the lesser of half the ordinary income tax rate or 25 percent. Capital gains in excess of $50,000 are taxed at half the ordinary rate. The maximum rate on ordinary income is 70 percent.

[11] The half of capital gains not taxed is subject to the minimum tax provision, however.

Since 1969, all depreciation on such investments is subject to a "recapture rule." This rule states that until a property is held for at least 100 months, that portion of the difference between the sales price and the tax basis (i.e., original cost less accumulated depreciation taken on tax returns) that represents excess depreciation is not granted capital gains status but is taxed as ordinary income. Excess depreciation is the cumulated difference between accelerated and straight line depreciation. In other words, the tax law "recaptures" all of the excess depreciation in the first 100 months. For each month that the property is held beyond 100 months, however, an additional 1 percentage point of the excess depreciation is treated as a long term capital gain and not as ordinary income.

Thus, the complete holding period before a gain is considered long-term is 16⅔ years.[12] Several points must be noted about this recapture rule. First, even when the taxpayer sells the building before the 100th month and is subject to full recapture, he still has received the substantial advantage of an interest-free loan from the government by deferring tax payments for up to 100 months. Second, and probably more important, the "excess" depreciation subject to recapture is only the cumulated difference between straight line and the more accelerated method used. Yet the above discussion indicated that there is some evidence that straight line depreciation is too large. Finally, the capital gains treatment is still granted to that amount of the difference between sales price and tax basis that exceeds excess depreciation. Such capital gains can arise because of increases in site value, good management, or even lower mortgage rates.

Depreciation and Borrowed Funds

The depreciation and capital gains subsidies are conferred on the owner of the property, with the statutory amount of the subsidy determined by the cost of the property. The dollar amount of the subsidy is the same regardless of the distribution of the financing of the project between debt and equity, but the full subsidy is paid to the provider of the equity.[13] A 1 percent subsidy based on the original cost paid to someone who actually invests 1 percent of the price—a situation that does occur—is a 100 percent subsidy on his investment. If the tax law only allowed economic depreciation, then no subsidy would arise from letting the owner depreciate the total original cost of the asset, since the decrease in his net worth is a reduction in his ability to pay. While a taxpayer can increase the value of the subsidy from too-rapid depreciation by using debt financing, the subsidy arises from the excess depreciation and not from the too-large depreciation base.

Tax-Free Exchanges

Capital gains (and the possible recapture of excess depreciation) are only recognized when the gain is "realized." Realization generally requires the sale of the building. There are, however, some sales or transactions on which the taxpayer is not considered to have realized the gain and thus is not subject to tax. Tax-free exchanges include swaps for a like kind of asset; contributions in kind to universities and certain other charitable institutions; remortgaging of a building; bequests at death; and involuntary conversions.

Section 1031 allows certain types of swaps of the same assets. Because, however, these swaps do not have to be for assets with the same tax basis, or market value (since cash can be added), it is possible for the person to acquire a more valuable asset without paying the tax on the old property, but continuing to use its basis for the new property.

A taxpayer can itemize as a deduction up to 30 percent of his adjusted gross income of contributions in appreciated assets made to certain charities. The deduction is for the current market value of the asset, but the contributor need not realize the gain on these assets. If a taxpayer were going to sell the building in any event, he can actually make a net profit by giving it to charity. For example, if his tax basis is zero and he is in the 70 percent tax bracket, a $100,000 sale would yield him a $65,000 increase in his disposable income after paying his capital gains taxes.[14] But if he donates the building, he can reduce both his taxable income by $100,000 and his taxes by $70,000 (if he does not exceed the 30 percent annual limit). In other words, his after-tax disposable income from giving the building away is increased to $70,000.

[12] Given our "ability to pay" definition of a subsidy, it is worth noting that currently the excess of accelerated over straight line depreciation for all other assets is always subject to recapture whenever a business asset is sold for more than the tax basis.

[13] The subsidy, of course, can be shifted to the debt financer through higher interest rates.

[14] However the recapture rule for excess depreciation applies.

Another, perhaps quantitatively more important means of achieving a tax-free transfer is via remortgaging. Suppose that at the end of 15 years a person has repaid his original mortgage. Further, suppose that he has written off 50 percent of the original price of the asset but that its true value has declined by only 10 percent. He can obtain a mortgage on all or part of this 90 percent at a mortgage rate of, say, 7 percent, which is deductible against his ordinary income (at regular tax rates), but reinvest all the mortgage proceeds in tax-free or subsidized assets such as municipal bonds or residential properties.

When a person dies and bequeaths an asset, his heirs are allowed to use the true market value at date of death (or 1 year later) as their tax value, but the deceased is not considered to have realized any income from their step-up in basis. In other words, any unrealized capital gains—including those connected with excess depreciation—are not taxed as income although, like all other assets, residential properties (at market value) are subject to an estate tax.

When insurance or condemnation awards exceed the tax bases, the owner can defer paying a capital gains tax if he invests in a "like kind" property within a year or other specified period.[15] It is debatable if this should be treated as a tax subsidy.

Under provisions of Section 453, when the proceeds of a sale are spread over several years and the sale qualifies as an installment contract, the taxpayer need only include in his annual income the proportion of the gain equal to the percentage of the eventual total payments actually received in that year. Alternatively for a deferred payment sale, the taxpayer need not report the gain until payments received exceed the tax basis. Under both methods, the tax payment is deferred and it is possible to spread the gain and thus for the taxpayer to be in a lower tax bracket than if all the gain were taxed in 1 year.

Finally, for Section 236 housing, there are certain conditions, described as "rollover," under which taxes of capital gains on a sale are deferred.

Too-Rapid Depreciation of Equipment

Buildings do not receive either the investment tax credit or the subsidy of too-short lives granted by the Asset Depreciation Range System (ADR).[16] But housing services or shelter are provided by equipment as well as a building shell; the equipment (including elevators, escalators, and appliances) installed in a building receives these subsidies. In addition, equipment is eligible for accelerated depreciation, but I know of no studies which indicate whether building equipment depreciates that fast or not.

Noncomparability of Expenses and Revenues

The general economic, accounting, and tax procedure is that expenditures should be offset (amortized) against the revenues they generate, and that both should be accorded the same tax treatment under the tax laws. It is possible, however, to write off certain repair expenditures in the year when made although these will generate revenues in the future. Such instant deductions of depreciable expenditures probably occur because of the difficulty of isolating and determining the items involved.[17] Alternatively, it is possible to upgrade an apartment building through painting and other maintenance items and then sell the building. The maintenance expenditures can be offset against ordinary income, while the revenues generated from the expenditures are treated as a capital gains and taxed at half the ordinary rate. It is also possible for firms which construct and operate buildings to expense certain construction costs rather than capitalizing and later depreciating them.

Tax-Free Transfer Payments

At least brief mention should be made of the whole gamut of subsidy programs in which renters receive accommodations that have a market value more than the rent they pay.[18] The excess value—in public housing or rent supplement plans—to the recipient constitutes income to the individual that is not subject to the income tax.[19]

[15] See Section 1033 of the IRS Code.

[16] For a discussion of each, see [5] and [6]. Roughly, the tax credit rebates a portion of the purchase price of the asset as a tax credit with no reduction in the depreciation base. The ADR section sets a useful life that generally corresponds to that life used by the firm at the 30th percentile of useful lives (with the firm with the shortest life first) rather than average life used.

[17] Expenditures on major improvements, when identified as such, are depreciated over their useful life.

[18] See Aaron [3] for a list.

[19] Eligibility for the programs and the excess value received may be affected by levels of income.

Direct Subsidies to Owner-Occupied Housing

Implicit Rents, Property Taxes, and Interest Payments

Owners who occupy their own home receive a somewhat different set of subsidies. Conceptually, a homeowner can be thought of as a businessman who rents to himself. Under this view, the homeowner should be taxed on his business profits, which would equal the rentals that could be charged, minus appropriate costs of doing business. These costs would include mortgage interest and property taxes.[20] In fact, the tax allows those taxpayers who itemize to deduct mortgage interest and property taxes but does not include in the tax base any estimate of implicit rents. The combined treatment of these deductions and of rents constitutes a tax subsidy.

It is sometimes argued that property taxes on residential properties are improper or unfair. Hence, it is also concluded that the current income tax treatment is necessary to offset the unfair tax. The fairness of any particular tax base is an important question, but not one that economists have any special expertise in answering. That conclusion is not valid, however. First of all, communities use the property tax to provide services to residents, and if the tax is too high relative to the services, many people have the option of moving to another community or voting for different leaders. Second, even if the tax is so high that people suffer a net loss (on their imputed income less cost of providing service), only this loss should be deducted from income.[21]

Capital Gains Treatment

The difference between the original purchase price (plus improvements) and subsequent sales price is taxed as a long term capital gain (after being owned for 6 months)—a preferential treatment considered to be a subsidy.[22] However, for owner-occupied homes and, indeed, for most assets, it has been argued that the capital gains treatment is not a subsidy but a necessary and proper offset to the "unfair" tax arising from inflation. The essence of this argument is that the increase in sales price over original cost represents a general price increase and that only changes in the real (constant dollar) purchasing power should be included in the tax base. There is substantial merit in the argument that only increases in real purchasing should be treated as taxable income, but fairness and logic require that such a theory should be extended to all assets and liabilities. At least in the case of an unanticipated inflation, the homeowner and the owner of residential rental properties receive a capital gain from paying off mortgages with "cheap" money. Because owned and rented residential properties usually require down payments of less than 25 percent and often about 10 percent or less, the inflation argument does not seem very important.[23]

Deferment of Capital Gains Taxes

In the United States, capital gains taxes generally are levied only when the gain is realized by a sale (or other transaction). There are several situations, however, when the capital gains tax on owner-occupied housing can be deferred for many years or forever. As with accelerated depreciation, the postponement of the payment of a tax confers an interest-free loan or a tax subsidy. Under Section 1033, a taxpayer who sells one house but buys another residence within 12 months does not have to pay capital gains tax to the extent that the price of the new residence exceeds the sales price of the old residence. (For tax purposes, however, the basis of the new residence is the basis of the original house.) The taxpayer can use Section 1033 on each subsequent sale. As with rental housing, the tax is deferred if an involuntary conversion was the source of the gain and if the homeowner buys a like asset.

Forgiveness of Capital Gains Taxes

In at least two instances, the taxpayer can avoid the capital gains tax. First, if the person dies, the Tax Code does not consider "realization" to have occurred, and no income tax is levied. (The deceased's share of the house at current market value is included in the estate tax base.) Second, under Section 121, individuals aged 65 or over do not have to pay taxes on gains on houses if the house's adjusted sales price is no more than $20,000 (with partial exemption if the price exceeds $20,000) and if the

[20] There are various other costs, such as utilities and gardening, but since these would also increase rent, they would not change profits and can be ignored.

[21] Aaron [3], however, indicates that, on average, people receive a net profit from their own home.

[22] Deferment of the capital gains tax is discussed below.

[23] And less important than for most other types of assets that are less financed by debt.

house was used as the homeowner's residence for 5 of the 8 previous years.[24]

Transfers Not Taxed

There are several subsidy programs (including FHA Section 235) which reduce mortgage payments either through guarantees or through government payment of part of the interest. As in the case of rental housing, the value of these subsidies are not included in the income tax base.

The Corporate Tax

Most business assets are owned by corporations that are subject to the corporate income tax.[25] Owner-occupied and most rental housing is operated by individuals and partnerships. Harberger [7] has pointed out that since corporate profits are also subject to the individual tax when distributed, owners of both types of residential property pay less tax than owners of corporate assets with the same ability to pay. Thus housing receives a subsidy vis-a-vis other assets. While in principle he is correct, the issue is much more complicated, because many residential properties are owned by people in the 70 percent tax bracket who, in the absence of tax subsidies, could escape taxes by incorporating and retaining earnings.

Indirect Tax Subsidies to Housing

The cost of housing depends on the price of raw materials and of mortgage money. The tax law grants tax subsidy to many of these suppliers, and at least a portion of the subsidy will result in lower market prices of raw materials.[26]

Houses obviously are built from many types of materials, and each one of them is a potential recipient of a tax subsidy. But, it is well beyond the scope of this paper to discuss all such indirect subsidies. At least a few are so important, however, that brief mention must be made. First, commercial banks, savings and loans, savings banks, and life insurance companies, which are major suppliers of mortgage funds, receive a variety of tax subsidies. They all benefit, for example, from the capital gains provisions and the ability to invest in tax-free municipals. Also, savings and loans and mutual savings banks are allowed "bad debt" deductions that apparently exceed the actual deductions and thus reduce the tax base below economic income.[27] These deductions are available only if the banks have certain percentages of their assets in mortgages or real property. The bad debt deduction is being reduced gradually from the present to 1979. Also, the tax rate on interfirm dividends on stocks is only 15 percent.

Currently, large commercial banks pay a zero tax rate "because of the use of accelerated depreciation and the investment credit in their leasing companies and the application of the foreign tax credit to their foreign income." See Barr [11] p. 207, 208. Second, interest payments on life insurance are not taxable. While this may divert consumer savings from banks and other mortgage-granting institutions, some funds will be diverted from the stock market.[28] Third, earnings of noninsured pension funds, who also invest in mortgages, are not taxed.

Other important raw materials receive tax subsidies. For example, timber, gravel, and other major constituents of housing benefit from percentage depletion allowances that allow a taxpayer to amortize more than 100 percent of his investment costs.

One recent important development in the housing and mortgage field has been the Government's repackaging and selling of mortgages through GNMA and FNMA. Under this plan, individuals can buy and sell pooled mortgages on the bond market. But because the purchase price of old issues will vary with interest rates, when interest rates rise individuals can buy such bonds at a discount but receive face value at maturity. This difference is accorded capital gains treatment and should attract more money for mortgages and lower mortgage rates.[29] Similarly, FHLBB raises money which it lends to savings and loans by selling bonds on which capital gains can be received.

[24] On all these deferment and forgiveness provisions, there are technical rules concerning tax basis and adjusted sales price. See Slitor [8].

[25] Closely held corporations can elect to be taxed as partnerships under subchapter S.

[26] In a partial equilibrium setting such market prices will be lower unless the recipient industry has a vertical supply function. More complicated conditions are involved in a general equilibrium model. See Musgrave [8].

[27] See Friend [9] for a discussion of the bad debt provisions for saving and loan industry, p. 1359. He also discusses some of the commercial bank tax subsidies on p. 1388, including footnote 44. Jones [10] has an excellent summary of the tax subsidies conferred on investment of life insurance companies.

[28] Moreover life insurance companies tend to invest more in residential properties than commercial banks though less than savings and loans.

[29] In general when interest rates are considered above normal, investors can expect to receive capital gains on all bonds once interest rates return to normal.

Criteria for Evaluating the Effectiveness of Tax Subsidies

As the above inventory indicates, a substantial number of housing subsidies are contained in the income tax code. To decide whether the existing ones are useful, or should be modified or abolished, or new ones created, it is necessary to have certain criteria to evaluate the subsidies. The two most general justifications for a subsidy are income redistribution and a failure in the privately functioning market. The income redistribution argument needs little explanation at this point, although it is worth noting that until recently most economists felt that subsidies were an inefficient way to redistribute income because they restrict the recipients from spending in the way that maximized their own utility. But recently it has been observed that society approves of redistribution because the donors receive satisfaction from helping to make the donees better off.[30] If the donors' utility depends on how the recipients spend their income, subsidies may increase the welfare of society more than unrestricted cash grants.[31]

The market failure argument is a bit more complex. Economists have demonstrated that under certain conditions—including perfect competition, knowledge, and foresight, and the proper income distribution—individuals who act to maximize their own utility and profit will end up producing the amount of various goods and services that will maximize the society's welfare. But if any of the many conditions required in proving the above statement are violated, a private economy will not generate the social optimum. Since individuals use prices net of subsidies as signals in making their decisions, the government could give just enough subsidies to offset distortions so that people purchase the socially optimal amount of goods. Note, however, that while this argument implies that there is a correct amount of subsidy, seldom if ever is this optimal amount known to economists or government policymakers.

Both of these criteria have been used to justify various subsidies in housing. For example, the loan guarantee programs lower mortgage interest rates by reducing private uncertainty to (or towards) society's uncertainty level. Also there are several programs that are particularly targeted to the poor. As an alternative type of subsidy to correct market failure, it is sometimes argued that because a house is a large investment, homeowners will participate more actively and wisely in local government—thus providing benefits to others in the community.[32]

While, with a few exceptions, most of the tax subsidies do not go directly to those with low income, both the redistribution and market failure justifications are still made. The income redistribution argument is not so obvious but is connected with the idea of filtering.

Filtering Theory

In its crudest form, the filtering theory states that when a new luxury unit is built, the person who rents it will free a near-luxury unit that will be rented by someone else previously further down in the "quality chain." As each person moves up, the lowest quality units will become vacant, obsolete, and eliminated; hence, the increase in a luxury unit improves the quality available to poor and moderate income families. The theory also assumes that rents per unit of quality decrease throughout the "chain" because of the increase in supply of luxury units.

Many general housing tax subsidies are justified, therefore, on the grounds that the increase in the proportion of the national saving and investment that goes to any housing will filter down to the poor.[33] Since most current tax subsidies are not restricted to type or income level of housing, it is appropriate to ask if the filter theory is a valid description of the real world. Before attempting to answer this question, it is best to consider several different dimensions of the term "housing."

Quantity, Quality, and Useful Life

At least as far back as the 1948 Housing Act, it has been a national policy that each person or family should have "adequate housing." "Adequate" is an imprecise measure that, like poverty, changes with national prosperity. But the term certainly indicates that the quality of housing is important. Quality encompasses external and internal structural and neighborhood aspects.

[30] See Hochman and Rogers [12].

[31] While economists accept this argument, it was made long after most subsidies were introduced into the law. But maybe the government knew this result before economists "discovered" it.

[32] Each person can sell his home, but if a community made bad decisions and many homeowners tried to sell, prices would decline.

[33] Tax subsidies may also increase the amount of savings, but I will assume that the effect of subsidies to housing will have so little impact on total saving that they can be ignored.

External and internal structural aspects of quality change as a building ages. Hence, it will be necessary for us to consider both initial quality and average quality during a unit's lifetime. The latter, of course, depends on maintenance, improvement, and repair strategy adopted by the landlord. The number and quality of housing units also depends on the length of time a building is used or, alternatively, when a building is destroyed or abandoned.

Problems with the Filtering Concept

With these definitions, it is possible to demonstrate several possible flaws in the filtering argument. First, most of the tax subsidies are paid without regard to whether or not the housing unit would have been built without the subsidy. The general tax subsidies could result in more or better low income housing, but landlords of luxury buildings can respond to a tax subsidy by increasing the quality of the unit—e.g., floor space, soundproofing, equipment, etc.—rather than building more units. But in this case, in the short run, there is no additional chain reaction, as described above, and no filtering. It seems that most new apartment buildings that are used for tax shelters are built for the luxury or upper moderate income people. Of course, after 20 or 30 years, these new buildings may be lived in by the poor or lower middle class, who can benefit then from the increased quality if it still exists. But there are reasons, described below, for expecting that the tax laws encourage sloppy maintenance and lower quality as a building ages. Thus, even in 20 or 30 years, the extra quality induced by the subsidies need not filter down and, in any event, 20 or 30 years is a long time to wait when more narrowly focused subsidies can increase housing for the poor now.

There is another important aspect to the problem. In [13], Taubman-Rasche demonstrated that most subsidies will lessen the useful life of buildings even when the subsidies do not alter maintenance, repair, and improvement strategies.[34] Since we also expect the tax subsidies to induce less maintenance, the useful lives will be reduced even more. The shorter the useful lives, the less the average number of units available and the less filtering that occurs.

Both of the above arguments suggest that luxury and moderate-price buildings will have shorter lives and less maintenance as a result of (most) subsidies. Hence, the above statements at least cast some doubt on the validity of the filtering theory and on policies that attempt to improve low income housing by general housing subsidies.

Equity and Efficiency

Two quite general criteria in judging subsidies or tax policy are equity and efficiency. Equity, or fairness, involves both horizontal aspects —the equal treatment of people with the same ability to pay—and vertical aspects—the proper treatment of people with different abilities to pay. A tax subsidy can be considered unfair if it is not equally available to equals or if it distorts the (socially agreed-upon) progressiveness of the tax law.

An efficiently organized economy is one in which marginal social costs and benefits are equalized. Rational individuals, however, will base their decisions on private costs and benefits, which include tax subsidies. If private and social costs (and benefits) are the same without a subsidy, then a subsidy is inefficient, and some are more inefficient than others. But if private and social benefits (and costs) do not correspond, then a subsidy can increase efficiency.[35]

As noted above, it is difficult to determine the exact amount of subsidies needed to achieve the most efficient allocation of resources. Thus some more modest efficiency criteria are more commonly used, of which cost effectiveness is one of the most important.

The cost effectiveness criterion can be summarized as the increase in the quantity and quality of housing per dollar of revenue loss. Cost effectiveness can vary by subsidy because some subsidies are paid to people for doing what they would have done anyway, while others are paid only on marginal units.

Another related criterion is the cost of administering the tax subsidy. If the subsidy applies only to qualified investors or investments, an "inspector" has to determine if particular people or projects are qualified. Included in this criterion are the costs of illegal actions or of checking the "inspector's" actions. Also in-

[34] The reduction occurs because the market responds to a subsidy by reducing profits on all buildings but replacement, abandonment decisions depend on profits plus subsidies in later years only. Since most subsidies are either front loaded or constant per year, but rents are adjusted in all years, profits plus subsidies decline in later years in response to a subsidy increase.

[35] It is not necessarily true, however, that correcting the difference between private and social benefits in one industry increases social welfare in a world in which private and social benefits differ in many industries. That is, countervailing power often is useful.

cluded are the costs to the taxpayer of hiring tax specialists to insure that his transaction qualifies for a subsidy.

Related to the efficiency and equity criteria are the taxpayer morale and hidden subsidy questions. If taxpayers feel that the tax system is unfair because of too many loopholes, many people, it is argued, will try to cheat and evade taxes and will become cynical about the fairness of government. Some subsidy programs require Congress to appropriate funds annually. This yearly review subjects the subsidy to the continuing question of whether it is still needed and whether the proper amount is being spent. Tax subsidies do not involve expenditures and thus are continued without review and without Congressional supervision. This encourages subsidies to outlive their usefulness and to be unresponsive to fiscal crises.[36]

Relation to Other National Goals

The amount and location of housing is often related to other national goals. For example, the quality of schooling available to children depends on where they live—at least as long as current policies on busing and local financing of schools remain in effect. But some types of housing subsidies can help determine housing location and availability to the poor. Thus the subsidies can help or hinder meeting what seems to be a national goal of making quality schooling available to all.

Another set of examples concerns the controversies over open spaces, the rapidity of suburban growth, and revitalization of neighborhoods and cities. Housing tax subsidies can have important impacts on these major policy issues.

Effectiveness of Existing Tax Subsidies

In this section we will examine how well various subsidies measure up to the different criteria just given. We will begin our analysis with the rental market and will consider in greatest detail the package of accelerated depreciation, capital gains, limited recapture, and mortgage financing, among which there are so many interconnections.

[36] In 1973, for example, these subsidies were not subjected to impoundment, although expenditure subsidies to housing were.

Rental Market

It is well known that this package of tax law subsidies forms a primary element in the so-called real estate tax shelter. Furtheremore, there is substantial evidence that the advantages of such tax shelters have been well promoted to sophisticated, high income taxpayers.[37] This suggests that the package has been successful in increasing the share of savings going to housing.

There are, however, a few caveats that bear mentioning. First, one effect of the increase in tax shelters would be to drive up prices and union wages; thus, dollars buy less housing in physical terms.[38] Second, the "professional" builders and landlords (the ones who were not attracted into the industry solely because of the tax shelters), may be investing less because their afterprofits have been reduced.[39] Third, with the exception of 167k rehabilitation, most of the tax shelter investments have gone into luxury or moderately expensive housing, and not low income housing. This concentration may well be due to the importance of capital gains and the highly levered investments for current (and prospective future) purchasers. Both these advantages may not materialize for lower income projects because of the greater possibility of neighborhoods deteriorating. Of course, the increase in expensive apartments can still benefit all renters if, contrary to objections raised above, the filter theory is correct. Finally, it must be emphasized that we really do not know if housing is more or less subsidized than other investments. I doubt that anyone knows all the direct subsidies paid to all assets, and the interindustry price effects or indirect subsidies are terra incognito. Thus it is possible that the tax and other subsidies conferred on housing may not fully offset the subsidies conferred on other investments, in which case housing would still be underfinanced, or vice versa.

The accelerated depreciation, capital gains, leverage package has probably increased the number of units built and the initial luxuriousness of these buildings. But average quantity and quality may have decreased because of ef-

[37] Indeed Taubman-Rasche [4] explain most of the annual variation in multifamily housing starts by a single variable that can be thought of as the after tax profitability of investment. Also there are available various tax planning books that provide detailed analyses of real estate tax shelters and their various provisions.

[38] This assumes the long-run supply curve of housing is not horizontal.

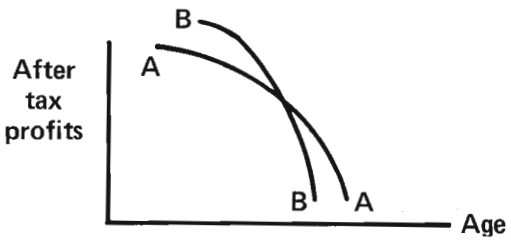
[39] See Deffet [14] for the anguished cries of one professional.

fects on maintenance and repair and on useful life. That is, these subsidies will cause owners to reduce maintenance and repairs. Both the capital gains provision and the decline in the annual interest deductions as mortgages are repaid favor rapid turnover in ownership.[40] Many people feel that rapid turnover leads to shoddy maintenance because the current owner gets out before the effects of shoddy maintenance comes to haunt him. (See Deffet [14].) I don't know of any empirical work that bears directly on this question, but economic theory suggests that this ought to happen. To see this, suppose that any outside investor finds it difficult to establish the exact quality of a building or how many corners have been cut in maintaining the building. Then owners who have a building that on the surface appears to be in good shape—although in fact it is undermaintained—will receive extra profits. Of course, investors will eventually learn that the average quality of buildings is less than what they anticipated, but as long as they cannot easily distinguish the good from the bad, they will pay an average price for both types.[41] In this type of a market, it will still pay for all owners of buildings to undermaintain and receive the average price when they sell. Even if eventually all owners are driven to maintain at the same level, the average maintenance and quality will be less under a system that encourages rapid turnover than when the consequences of shoddy maintenance are internalized through a system that encourages long term ownership.

It probably is even more difficult for tenants to determine quality. Hence, the same argument would suggest that, even for new buildings, short term ownership would encourage high surface quality, but reduced quality for hard-to-observe items. While I think this conclusion is true—and there are confirming newspaper stories—about the only "hard" piece of evidence I know of is oral complaints from landlords that a 40-year life is too long, since they don't build apartment buildings the way they used to.

Repairs and maintenance may also be reduced for one other reason. Let the equilibrium age profile of after-tax profits be represented by

Figure 1
After Tax Profit Profiles as a Building Ages



the line AA in Figure 1. Now let a tax subsidy be introduced. For front-loaded or constant dollar per year subsidies, the new profile of after-tax profits (including subsidy) will look like BB once the market has adjusted to the increase in supply induced by the subsidy.[42]

Since on this new profile net profits in later years are smaller, it would be less profitable to maintain and repair buildings.[43]

Buildings will be destroyed when annual profits are less than the return that can be made by selling the land and investing the proceeds.[44] Thus, when BB is substituted for AA, destruction occurs earlier. If maintenance is lessened for either reason given above, BB will shift further to the left, and useful lives will be shortened still more and average lifetime quality will decline.

To summarize this material, it seems likely that the tax subsidy being discussed has increased the quantity of buildings and especially expensive buildings. It may also have increased the surface luxuriousness of buildings. But partly because of market adjustments to subsidies and partly because of the incentives to rapid turnover and thus to shoddiness, the useful life and true quality are probably reduced.

This particular set of tax subsidies does not seem to involve much additional recordkeeping and administrative costs for the taxpayer or the IRS. But as with most tax shelters, individuals will spend resources on tax lawyers and accountants to insure that they benefit from the law. In addition, there are now tax shelter brokers who are paid to find the right shelter for the right group of (passive) investors.

[40] It is important to remember that even after the 1969 changes, the recapture rule only applies to depreciation in excess of straight line, but straight line depreciation apparently is a subsidy. Also, recaptured excess depreciation still allows taxes to be deferred for substantial periods. When the large interest deductions of early years peter out, the building could show a profit which would be taxed at the owner's marginal rate or 50 percent to 70 percent for many tax shelters.

[41] If it were inexpensive to determine quality, this need not happen.

[42] See Taubman, Rasche [13] for a proof.

[43] For certain shapes of AA or subsidy packages which are concentrated at the end of the assets life, opposite conclusions follow.

[44] The owner need not sell the land but can rebuild on it himself. In slums, the building will be abandoned when profits are negative.

The many tax shelters together have helped to reduce both the progressiveness of the income tax (vertical equity) and to invalidate the principle of equal treatment of equals (horizontal equity).[45] If only the housing tax shelters were eliminated, the situation would probably change little. But the existence of a tax subsidy to one industry is often used to justify a subsidy to another "to reestablish equity." Thus it seems fair to say that the housing tax subsidies help contribute to the erosion of vertical and horizontal equity.

In a more general sense, the inequity arises because of the progressive tax rate schedule. As people invest in tax shelters, the before-tax return will adjust so that the after-tax rate of return on all assets—sheltered or not—is the same for the "marginal" investor. If this marginal investor were in the top tax bracket, the tax shelter would erode the tax base, but the top bracket person would lose in his before-tax "dividends" what he gains in tax savings; i.e., he would have the same after-tax return as another top tax bracket investor in a nonsheltered asset. But because there are so many tax shelters with such large subsidies, the tax bracket of the marginal investor in rental housing is probably less than 50 percent.[46] Since the market established an equilibrium for a tax-free asset A and another B in which $r_A = r_B(1-t)$, those in the tax brackets higher than that of the marginal investor receive substantial benefits from the tax sheltered asset A. That is, their after-tax return is the same as if they invested in B and paid the rate, t, of the marginal investor.

Next let us consider the cost effectiveness of these subsidies. As they are structured, these subsidies are available to all investors in new and used housing. If there were no subsidies, nearly as much housing would be built and maintained. That is, since available evidence as summarized in de Leeuw [16] would suggest a housing price elasticity between 0 and -2, a 10 percent subsidy would increase the quantity of housing no more than 20 percent.[47]

Because the subsidies are paid on all housing—including those that would have been built anyway—and because the supply response to price changes is limited, these subsidies are very expensive. A hypothetical example will best illustrate this. Suppose that without the subsidies there would be 1,000 houses costing $100 each. Next, suppose that tax subsidies of 5 percent are introduced and that this increases the supply of housing 10 percent to 1,100 units. For simplicity, assume that the construction cost remains at $100. The total cost of the subsidy is $5,500 ($5 times 1,100 units). Thus, the average effective subsidy cost for each of the 100 new houses produced by the subsidy is $55, or 55 percent of the construction cost of houses.[48] Thus, this tax subsidy, which is paid on all housing, will rate low on the cost effectiveness criteria (unless the price elasticity of demand is huge).

There are a number of different ways in which the housing market fails. These are discussed in detail in [4] and include imperfect competition in building trade unions and, among construction firms, lack of complete knowledge about prices and quality, the difference between the amount of private and social riskiness in investments, and on the costs and benefits that accrue to the owner or renter of a particular house, i.e., externalities. The riskiness problem has been attacked directly through loan guarantees. The remaining causes of market failure would justify some subsidy, although it is not clear how much.[49] In addition, this particular set of subsidies probably worsens rather than improves the situation with regard to knowledge of quality.

The final criterion we will consider is the impact on other goals such as educational equality and redevelopment or stabilization of the cities.[50] In principle, the accelerated depreciation subsidies should be neutral with respect to these goals, since all rental housing in any location is eligible. In practice, the importance of the capital gains provisions and of leverage seems to restrict the subsidy to at least moderately expensive housing. Thus, inner city slums or deteriorating neighborhoods will not be fixed up. Of

[45] See Pechman and Okner [16].

[46] Tax-free municipal bonds have generally yielded about 60 percent to 65 percent of comparable quality corporate bonds. Assuming no difference in transaction costs, the after-tax yield of the two assets should be equal for the marginal investor or r municipal = r corporate (1−t). Hence, the marginal tax bracket (t) for this tax shelter must be 35 percent to 40 percent.

[47] It is worth noting that houses were built in large number before these tax subsidies were given and continued to be built at a rapid rate after the tax subsidies were reduced in 1969.

[48] If instead the price elasticity of demand were -4, a 5% subsidy would cause 200 extra units to be built for an effective subsidy cost of $30 or 30% per new unit.

[49] Moreover, it is suggested in [4] that the markets for all other investments are affected more severely by these same problems and that housing may be receiving too large subsidies relative to other assets.

[50] The impacts on any national goal could be studied. These seem likely to be affected.

course, if the filter theory were correct, the subsidies might help disburse the poor through the city and equalize educational opportunity within a city, but subsidies have been paid for years and disbursement is far from a reality. More importantly, the flight of renters to the suburbs where it is easy to put up large complexes will hinder educational opportunity as long as political and tax boundaries are maintained. Similarly, the tax subsidies would seem to encourage urban sprawl and the using up of open space.

Section 167k

The 5-year writeoff provision of section 167k for rehabilitation expenditures is different from the other subsidies in that it is restricted to low income units and that it is not paid early in the asset's life. I have yet to see a study on how successful this tax subsidy has been in attracting investors, though I think it should be successful. Since investors can write off the costs of rehabilitation over 5 years, regardless of the useful life of the building, the subsidy will be more valuable for those types of rehabilitation that generate profits over long periods. Thus this subsidy should increase quality and useful life. Since the same limited recapture rules described previously apply, however, there will be a tendency for quick turnover in ownership and thus an emphasis on surface rehabilitation.

Once again, the wealthy investors benefit more from this subsidy than the nonwealthy, and there is erosion of the principle of equal treatment of equals. In terms of renters, however, the benefits of improved housing or lower rents for given quality go to low income people quickly. There are, however, certain administrative costs necessary to make sure that only low income units are rehabilitated.

This subsidy will have effects concentrated in low income, deteriorating, and slum neighborhoods. Thus, this subsidy should have beneficial consequences towards such goals as reviving the cities, checking urban sprawl, and saving open spaces. It is not clear what the effect, if any, would be on educational opportunity.

Since little in the way of rehabilitation occurred without the subsidy, section 167k is not paying people to do what they would have done anyway. That is, it shows up well on cost effectiveness. Thus the program can be justified on equity grounds (though a tax credit for rehabilitation may be better). There also may be an efficiency argument because there are special risks in long term investment in such areas, as well as externalities or neighborhood effects.

Other Tax Subsidies to Rental Housing

The other tax subsidies to rental housing are not as important and will be covered more briefly. First, the further deferment of capital gains tax beyond realization or complete forgiveness has the same type of impact as capital gains taxes.[51] The tax subsidies on equipment should be successful in inducing landlords to put in more and better equipment. Whether equipment is substituted for shell quality will depend on their relative subsidies.[52] It is worth noting that with a fixed pool of national saving, resources spent on equipment are diverted from all other forms of investment. Thus, more equipment per building may result in a reduction of the number of buildings. The equipment tax subsidy also is paid to people who would have purchased the items without the subsidy. This subsidy, however, probably does better than the accelerated depreciation on the cost effectiveness criterion because builders can more easily substitute items—such as refrigerators, air conditioners, etc.—that the renter could provide for himself but without receiving this subsidy.

The administration cost of ADR and the investment tax credit on housing equipment are not particularly large, especially since complicated tax problems are not involved. Tax credits —as opposed to deductions—have a value to the taxpayer that is independent of his tax bracket. Thus, ADR tends to benefit the wealthy tax shelter user more than the investment tax credit. The tax credit is not available on used equipment; hence, low income housing may benefit less. Because the other tax subsidies tend to favor luxury buildings which have to be equipped, and because such buildings have more equipment (including appliances), the equipment subsidies are shared by renters and owners of such buildings.

The previous arguments on life of buildings and short term ownership still hold. But the subsidy may induce owners to use equipment that will require less repairs. Hence, the average quality of part of the housing services may be increased. There is no obvious effect of this subsidy on other national goals.

[51] Except for the death provision, which will cause people expecting to die to hold on to an asset.

[52] However, equipment may be substituted for future labor and other operating costs, e.g., equipment that breaks down less frequently may be used.

The ability to expense some costs whose associated revenues are taxed as capital gains should encourage people to make these expenditures. The types of items generally included in this category are painting, decorating, and repairs to visible items. Thus this subsidy will tend to increase some parts of lifetime quality. In other respects, this subsidy's effectiveness is like accelerated depreciation, except that there is no obvious connection with other national goals.

The various subsidies to renters where the subsidy value is not included in taxable income should help the beneficiaries obtain more and better housing. By increasing the demand for quality, there is every reason to believe that the price of quality will rise and that buildings will be better maintained. With the possible exception of FHA and other mortgage guarantees, most of these subsidies do not reach all who are eligible or most of the poor; hence, these subsidies are horizontally inequitable. Indeed, since mortgage lenders tend to "redline" out certain areas as too risky to invest in, and to exclude poor people who are poor credit risks, many of the credit guarantees will not benefit the poor directly. The proposal may help filter the poor throughout a city and suburbs, thereby helping on educational opportunity but hindering attainment of open space goals. However, this tentative conclusion should be reexamined on a program-by-program basis—a task that is beyond the scope of this paper.

Owner-Occupied Housing

The tax exemption of income, but deductibility of interest and property taxes of owner-occupied housing, provide important incentives—which are partly offset by property taxes—for people to own their own homes.[53] It is difficult to determine, however, whether tax subsidies or lower mortgage costs arising from FHA programs and subsidies to mortgage companies have influenced people to become homeowners.

With our progressive income tax rate schedule, this tax subsidy conferred more of a benefit on the wealthy (when enacted). We would expect this subsidy to lead to increased home prices, and if the differentials can be attuned to income level, the wealthy person who buys currently need not obtain a bigger subsidy. But I know of no study which indicates the effect of such subsidies on differently priced houses.

The subsidy not only encourages people to buy a house but also to buy better houses. For the same reasons given before, these subsidies will reduce the useful life of a house for a given repair strategy. Repair costs are not treated in a neutral manner by these tax provisions. The cost of repairs is not deductible from taxable income, but the revenues are not taxed as ordinary income. The repairs should increase the selling price of the house which is subject to a (deferrable) capital gains tax, but the costs of any improvements in the house are fully deductible even if the improvements have depreciated since being made. All these provisions suggest that repairs are subsidized and housing quality will be maintained.[54] Moreover, the owner who expects to be living in the house for a long time has an incentive to institute the optimum repair plan.

These tax subsidies also pay a person for doing what he would have done anyway. Because the price elasticity of demand almost certainly does not fall outside of the 0 to -4 range discussed earlier, this subsidy is very costly.

These are some costs of administering this tax, since the taxpayer must keep records of property tax and interest payments. Moreover, nearly all homeowners itemize; thus they must also keep records on their other deductions.

These homeowner subsidies may make the attainment of the educational equality goal more difficult, especially because homeownership is more valuable to those with more income. In addition, these subsidies may lead to tract or neighborhood development of owned housing, i.e., spatially segmented markets. If these markets correspond to political entities, which are endowed with different tax base per student and different quality schools, equality of educational opportunity is weakened further. Moreover, since single family homes require more land per square foot of housing, there is a connection with urban sprawl, decay of the cities, etc.

About the only new complication introduced by capital gains taxes is that people should be less willing to move as their income, family size, or other determinants of housing size and location alter. The various deferral schemes remove this effect, and some of the "social stability" used to justify homeowners' subsidies.

Indirect Tax Subsidies

Tax subsidies given to suppliers of housing raw materials lower the cost of building and op-

[53] The subsidies to luxury buildings work in the opposite direction.

[54] However, the shift in the age price line as in figure 1 and the shortened life of houses will cause people to repair less.

erating owned and rented housing. As long as owners base their decisions on the after-tax rate of return on investments, or renters on the net rent they must pay, indirect subsidies that reduce costs are as effective in increasing housing as subsidies that raise revenues by the same amount. A problem with using indirect subsidies to stimulate housing, however, is that all users of the raw materials (including mortgages) also benefit from the subsidy and absorb part of the stimulation.

Indirect subsidies will benefit all types of housing, although some types of building materials or sources of mortgage are more heavily used by multi- than single family homes and vice versa. An unusual consequence of these subsidies is that the effects are more valuable for the less well off. For example, the lower interest rate on mortgages will mean smaller itemized deductions (for a given mortgage) on the 1040 form. A reduction of $1 reduces taxes by t dollars where t is the person's marginal tax rate. The larger the tax rate, the bigger the reduction in taxes for a given deduction. But each dollar decrease in deductions will increase taxes more for those with larger t's. This example should not be construed to mean that those with higher incomes do not benefit from a reduction in interest rates, since they and all investors will find their after tax profits increased when interest costs decline unless the marginal tax rate is 100 percent.

The tax subsidies to mortgagors may not directly increase housing for the poor, because mortgagors often will not extend credit to poor risk areas or poor risk persons at any feasible rate of interest. (Their extra supply of investible funds will either go into nonmortgages, reduction in downpayments, or be reduced by lowering the interest rates they pay to attract deposits.) Without going into much more detail than is possible in this paper, it is difficult to evaluate individual subsidies on the other criteria.

Manipulation and Expansion of Existing Subsidies

To my mind, most of the existing tax subsidies show up so poorly in the above evaluation that they should not be enlarged. (The one possible exception is Section 167k, which may prove successful, but which could probably be improved by substituting a tax credit for accelerated depreciation.) Serious consideration should be given instead to substituting either housing grants or other tax subsidies such as those described below. Earlier I argued that straight line depreciation is too rapid. Thus, I would favor eliminating accelerated methods, but Taubman-Rasche [4] suggest that disallowing capital gains treatment for apartment buildings may be more important, presuming that it is impossible to institute a depreciation system slower than straight line.

New and Improved Tax Subsidies to Housing

The above evaluation would indicate that most of the tax subsidies to housing are expensive given the extra housing they produce, that they provide a tax shelter for upper income persons, and that they tend to discriminate against proper maintenance and repair practices and lead to an artificial shortening of the useful life of a building. In addition, while in principle most of the subsidies apply to all housing, in practice moderately or very expensive housing has been produced by the tax subsidies. For several reasons, these changes may not filter down to the poor as increased quality or lower rents.

Criticisms such as these have led many commentators to conclude that other types of Government intervention would be better than the existing tax subsidies. Some of the criticisms may apply to all tax subsidies, but in this section I will try to propose and evaluate some additional tax subsidies to housing. But before doing that, I must mention that the single most important development in the tax subsidy field that would spur housing would be to eliminate all other tax shelters. If housing tax shelters were the only game in town, sophisticated investors would quickly pour money into them.

Tax Credits on New Houses

Perhaps the most obvious new subsidy would be a tax credit on rental building. Such a credit has a number of advantages as compared to accelerated depreciation, for which it is often considered to be a substitute. Since the credit need not artificially change the tax basis, the credit does not create capital gains, and thus avoids encouraging rapid turnover and the associated maintenance problems. And as shown in Taubman-Rasche [13], the tax credit will reduce useful lives less than will accelerated depreciation with a subsidy of the same (present discounted value. If the tax credit were claimable only against housing income, the credit could not be used by investors whose profit comes from tax losses arising from any remaining tax subsidies

such as excess depreciation, etc. The credit, moreover, would benefit taxpayers in all tax brackets equally. Thus, this subsidy would be of more value to the builders and owners who maintain and operate their own buildings than to the amateurs who are passive partners in tax shelters. The credit also could be designed to encourage long term ownership and thus better maintenance by spreading the credit over a 15- or 20-year period, with eligibility contingent on continued ownership.[55] If the credit can only be claimed against profits from housing, people would have an additional reason to maintain the building.

Even this credit would still pay people to do mostly what they would have done anyway. Thus, the credit would be expensive. It can be made more cost effective by restricting its use to housing erected in slum and other areas where little private building occurs or by tying the subsidy to the percentage of people receiving rent supplements, etc. Also, the credit could be given only to major improvements (for all or low income housing, and be a substitute for section 167k). This would increase quality and probably aid in filtering decent housing to the poor and maintaining neighborhoods. This, of course, would involve higher costs of administration and evaluation.

Given our earlier discussion on equipment, it is natural to examine the equivalent of ADR—that is, a shortening of tax lives. This is a much inferior subsidy, since it would accentuate the capital gains and short term ownership repair problems and would continue to concentrate its benefits on tax shelter investors rather than all taxpayers. Of course, the short tax lives might be extended only to certain types of housing, city areas, or improvements, but there is no reason why the same could not be done with a tax credit.

Mortgage Lenders

It is possible to design tax subsidies that keep the "amateurs" out of the operation of rental housing, strengthen long term ownership, and yet attract funds into housing from a wider spectrum of the public. For example, if the tax subsidies were given to the lenders of housing capital rather than to the owners, there would be lower mortgage rates; yet the incentives to rapid turnover of buildings could be avoided or muted, since no capital gains are created as the building ages.[56] Moreover, as argued earlier, the reduction in interest payments is more advantageous the lower the person's tax bracket; hence, there would be less of a competitive advantage for people in the top tax bracket. The tax subsidies could be structured to exempt all or part of the profits of housing mortgages from Federal income tax. (By encouraging an increase supply of housing mortgage funds, interest rates would be lowered.) Since there would be problems in determining the profits on housing mortgages in financial intermediaries such as life insurance companies that invest in many types of assets, an alternative approach of housing mortgage tax credits might be preferable.

There is no economic reason to restrict this type of operation to the existing direct lenders. Instead, FNMA and GNMA obligations could be made eligible for partial or total tax exemption or for tax credits. Because the credit reduces taxes equally for people in all brackets, the credit would be more attractive to people, in, say, the 25 percent to 40 percent tax bracket range. FNMA and GNMA could purchase all housing mortgages or home repair loans offered to them.[57] Alternatively, these agencies could restrict the use of such tax subsidized funds to low income housing, rehabilitation loans, etc. To determine how much funds were tax-subsidized, the agencies could have separate issues of taxable and tax-exempt (or eligible for credit) instruments.

The reduction in mortgage rates can be quite an effective tool. For example, Taubman-Rasche indicate that a change in the mortgage rate of 100 basis points is as powerful for rented housing as a change from double declining balance (150 on used buildings) to straight line depreciation. Among homeowners, the mortgage reduction will be more important for people in lower tax brackets and will be more conducive to long term ownership. The long term ownership could be made even more attractive if mortgage repayments were changed so that the interest portion either remained constant or increased as

[55] Corporations could get around this requirement by becoming a wholly owned subsidiary of another company. But corporations are not that important in this industry.

[56] There is less need to worry about rapid turnover of loan instruments.

[57] If it is desired that banks exercise discretion and not make and then sell to GNMA very risky mortgages that the banks would not normally have granted, GNMA need only buy 75 percent of each mortgage. However, given "redlining" practices of banks, it may be socially desirable to encourage lenders to invest in risk areas to improve housing for the poor.

the mortgage aged. These types of mortgages could be made a condition for tax subsidy.[58]

Tax Subsidies to Excess Rent

Another form of tax subsidy would allow either a deduction or tax credit for "excess rent." Under this plan, excess rent would be, say, any amount greater than 30 percent of adjusted gross income. A credit seems a better procedure for several reasons. First, many renters do not itemize and may not find it to their advantage to do so even with this new deduction. A credit, however, would be available to all renters. Second, as noted before, credits reduce tax payments equally in all tax brackets, while deductions are worth more the higher the tax bracket.

The credit plan could be adjusted so that the size of the credit was a function of income. For example, the total credit could be adjusted (multiplied) by a fraction whose level decreased continuously from 100 to 0 percent as income rose. Alternatively, there could be an income level above which the credit did not apply, although such features imply very high marginal rates for some level above the cutoff point or notch.

There is in existence a subsidy plan under which eligible persons pay 25 percent of their income for rent, with the government paying the remainder of the market determined rent. An objection that has been made to this plan is that the eligible renter has no incentive to economize on his rent payment (or search for another apartment), because once he spends 25 percent of his income, the rental price to him on any excess expenditures falls to zero. If the credit were 100 percent of the excess, the same objection would hold (although it is important to note that the same complaint would not hold for a tax deduction). As a response to this objection, the credit could be made only 50 percent of the total excess rent. A major advantage of this plan, as opposed to the existing rent supplement plan, is that many more people would benefit, and there would be no horizontal inequity. This plan also would reduce the cost effectiveness problem because the 30 percent of income restriction will eliminate much normal spending on housing from being eligible for the subsidy. Also, if saving rates increase with income, especially above, say, $20,000, the poor and middle class would be more likely to meet the criterion.

The tax credit plan may involve some administrative costs. For example, should rent include utilities, or be adjusted for furnishings supplied? In addition, what would happen if neighbors began to rent houses to one another at inflated rates? Also, a decision would have to be made about the treatment of those who owed no tax before subtracting the credit. Moreover, to keep millionaires who invest in tax-free assets from benefiting excessively from this provision, a stringent definition of income would be necessary.

Tax Subsidies to Increase Useful Life and Repair and Rehabilitation

Most of the existing and newly proposed subsidies tend to decrease useful life and decrease incentives for repair because the profits at all ages are reduced (because of increased supply) while the subsidies are largest early in the asset's life. More decent housing would filter down to, or be rehabilitated up to, the poor, if such negative incentives were lessened or positive subsidies were granted to repairs. As previous discussion has indicated, the negative subsidies can be lessened by spreading the subsidy throughout the asset's life or, better still, by having subsidies increase with the age of the building. This is one reason why it was suggested that subsidized mortgages be designed to have interest payments larger at the end of the asset's life. Another mechanism would be a tax credit, based on original cost, that is applicable only against the tax arising from profits made from each building—that is, paid at an increasing rate as a house ages, with no credit paid until the structure is 30 years old. Since this subsidy would only be applicable to buildings showing a taxable profit, it would encourage repairs. A variant of this would be to base the tax credit on the repair costs while having the credit paid annually and at an increasing rate.[59] It also would be possible to reduce continuously the tax rate on earnings on buildings beyond a certain age. This certainly would encourage repairs, especially if it were possible to write off the repairs during the earlier periods of higher tax rates; there may be high surveillance and recordkeeping costs, however, since taxpayers

[58] Series E bonds are a precedent for such a pattern. Since the debtor would be paying too little interest in the early years on the existing principle, there would have to be a provision that if the mortgage were repaid early a lump sum payment which would be equal to the difference that would have been paid on a conventional mortgage.

[59] A disadvantage of this variant is determining what are eligible repair costs.

would want to write off all expenses during high tax rate periods.

Finally, tax credits could be given to building companies on each housing unit sold. While encouraging more construction, this method would be neutral towards type of ownership. Because it would be partly passed along as a lower price and tax basis, capital gains problems could be created.

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Tax Incentives for Housing

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This memorandum discusses considerations applicable to a review of existing income tax incentives relating to housing. "Housing" covers rental housing with a direct HUD subsidy, unsubsidized rental housing, and owner-occupied homes (largely unsubsidized). All of these forms of housing presently obtain special benefits under the income tax, though the benefits differ in their characteristics and tax impact.[1]

Subsidized Rental Housing

Present Situation: Low income rental housing has been directly subsidized by HUD, though, at present, future projects are in abeyance. Essentially the subsidy pays to the developer the difference between the cost of amortizing the actual loan and the cost of amortizing a loan at a 1 percent interest rate, plus a guarantee to the lender. This subsidization of part of the cost of the housing permits the rents to be held below an actual cost level. There may also be an additional direct rent supplement subsidy payment. The HUD subsidy presumably indicates that totally unsubsidized rental housing would be priced at a rent structure beyond that which many low and moderate income tenants could afford. The amount of the HUD subsidy is significant, and essential to the construction of the housing. The existence of such a direct budget subsidy presumably reflects a policy decision that supplying such housing involves an important national priority.

This being so, the first question to ask, with respect to tax incentives for such housing, is why are there any tax incentives presently provided to such housing. The answer is clear—the amount and character of the direct subsidy and the accompanying 6 percent return limitation placed on the owner make it impossible for the direct subsidy by itself to do the job of getting the housing built. Hence, some additional inducement is needed. This inducement is found in present income tax benefits, e.g., mainly, deduction of construction-period interest and taxes, and rapid tax writeoff of full construction cost (accelerated depreciation or 5-year rehabilitation amortization) coupled with the cost being almost fully leveraged. But, clearly, the tax benefits themselves are likewise not enough alone to do the job of getting such low and moderate income housing built at an appropriate rent structure. Hence the duality of direct subsidy and tax benefits is presently needed.

But this duality of benefits only describes the present pattern—it does not justify it. Because the direct HUD subsidy is by far the larger of the two inputs and hence cannot really be supplanted by tax benefits, the question is whether an enlarged direct subsidy could supplant the tax benefits. This question should be asked for several reasons. The tax benefits were essentially unplanned; they just "grew up." As would be expected of such an accidental process, they are inefficient and wasteful. Essentially, the developer obtains his needed profit (above the construction costs covered by the loan and the HUD input) by "selling" these tax benefits to passive investors. This process of selling the tax benefits is the so-called "tax shelter syndication." The developer must sell the tax benefits because he has insufficient income, from the housing and other activities, to utilize the benefits. But this process requires keeping the value of the tax benefits large enough to cover a substantial profit to the investor-buyers of the tax benefits, a substantial profit to the merchandisers in the process (investment advisors, syndicators, lawyers, accountants) and, finally, the required residual profit for the developer.[2] The process is well understood by those familiar with the housing area, and further description here is

[1] Prof. Paul Taubman's paper, "Housing and Income Tax Subsidies: A Report to the Department of Housing and Urban Development," describes the various direct and indirect income tax benefits provided for housing. See also Stanley S. Surrey, "Federal Income Tax Reform: The Varied Approaches Necessary To Replace Tax Expenditures With Direct Governmental Assistance," 84 *Harvard Law Review* 352 (1970); Stanley S. Surrey, *Pathways to Tax Reform* (1973) 236.

[2] See the description of the process in Surrey, note 1 above; James E. Wallace, "Federal Income Tax Incentives In Low and Moderate Income Rental Housing," in *The Economics of Federal Subsidy Programs, Part 5—Housing Subsidies,* Joint Economic Committee, 92d Cong., 2d Sess. (1972) 679; Statement of Jerome Kurtz in Panel No. 4, "Tax Treatment of Real Estate," in *Panel Discussions on Tax Reform,* House Ways and Means Committee, 93d Cong., 1st Sess. (1973); Hugh Calkins and Kenneth E. Updegraft, Jr., "Tax Shelters," 26 *The Tax Lawyer* 493 (1973).

thus not necessary. The essential point is that, under this roundabout method of compensating the developer, a considerable part—perhaps 30 percent or more—of the revenue cost to the Treasury of the tax benefits is diverted to those in the chain. The investors get their "commission," the syndicators get their "commission," the lawyers and accountants get their "commission," all as part of the process of ultimately turning the Treasury revenue loss from the tax benefits into dollars in the developer's hands.

Clearly, if the developer could obtain his required profit directly from HUD, then the wastage now occurring through the Government's also paying profits (through the tax system) to investors and syndication merchandisers would be eliminated. The mechanics of the dual tax benefits and subsidy system indicate there is no other essential role to be played by the investors, since HUD—through its control over the direct subsidy—controls the basic decisional factors of location, amount of housing, etc.[3] Any conceivable advantages of private sector participation are therefore really lacking in view of the essential importance of the basic HUD subsidy. HUD therefore should complete the task of directly supplying the needed inducements to the developer.

There is another inherent defect in the present roundabout system of compensating the developer, and that is the "tax shelter" aspect of the process. The tax benefits now "sold" to the investors through syndication of the HUD-subsidized housing provide tax deductions far in excess of the rental income from the housing. Hence, the investor, to make tax use of the tax benefits he has purchased, must offset the excess deductions against his nonhousing income, such as dividends, professional income, executive salary, and the like. But this is a game to be played only by those in high income tax brackets, 50 percent or above, year-in, year-out. Hence it is a game only for the really well-to-do in our society, or large corporations. But the game for them is clearly worthwhile, for it can eliminate almost all income tax liability for these individuals if properly played.[4] Congress and the public, however, are beginning to understand this "tax shelter" game and the tax escapes which it provides. They are also beginning to see the essential immorality of the "tax shelter" process—the making of tax millionaires under the claim of providing housing for low income groups—and are asking why a better way cannot be found to meet our housing problems. As a result, the present method of using tax benefits and the "tax shelter" process to compensate the developer of subsidized housing is fast becoming too unstable—as a tax matter—to survive.[5]

The U.S. Treasury has now recognized this weakness in the present system and has made proposals for change.[6] As respects rental housing, these proposals (under the Limitation on Artificial Accounting Losses—LAL) would allow the

[3] In fact, the syndication process has its own site location selection bias that can work at cross-purposes with HUD's priorities. The tax benefits that can be sold are a function of the cost. But the price that the tax shelter investor will pay for those benefits varies with the locational risk; he will pay less for tax benefits attached to a risky site because of foreclosure possibilities, since with foreclosure the tax picture reverses itself and the deductions turn into ordinary income through recapture. If for "risky" we substitute inner city housing and for "less risky" substitute elderly, suburban, etc., housing, we can see the site bias at work in the tax subsidy system.

[4] See material in note 2 above.

[5] There are, of course, other tax shelters—e.g., oil, farming, equipment leasing—with the same tax defects. But the housing shelter is probably the easiest for the affluent passive investor seeking a tax shelter to find and comprehend.

[6] See Statement of Treasury Secretary George Schultz, in Hearings on General Tax Reform, House Ways and Means Committee, 93d Cong., 1st Sess. (Apr. 30, 1973) 6873. As to tax shelters generally, the statement says:

> A common characteristic of a tax shelter investment is that it produces deductions and exclusions—particularly in the early years—which may be be used against other income of the taxpayer. The result may be an outright reduction in taxes, an indefinite deferral of tax, or a conversion of ordinary income into capital gain.
>
> Sometimes these results are unintended and are caused by the exploitation of tax rules which are sound in normal situations. Other times the results flow from rules deliberately designed to provide tax incentives for particular activities. Where the rules were intended as incentives, the fact that taxpayers use them to erase their entire taxable incomes means that those incentives have been successful. But such a result has a dangerously demoralizing effect on the operation of our revenue system, as it appears to most taxpayers simply to provide a means by which the wealthy avoid the payment of income taxes.
>
> In addition, the widespread "tax shelter" market introduces significant distortions into our economy. Preoccupation with tax manipulations—particularly tax deductible "losses"—too often obscures the economic realities and can have the effect of discouraging profitable and efficient enterprise. Inefficient tax incentives available in the form of "artificial losses" to investors in preferred types of properties may benefit only the promoters of tax shelter schemes without contributing effectively to the social objectives of the incentives. . . .
>
> Our proposals will eliminate these situations. They will increase the fairness of the tax system and remove the spectacle of high income taxpayers who pay no tax by parlaying tax deductions and exclusions. Our proposals will reverse the economic inefficiencies inherent in tax shelters and shift the emphasis away from investments which produce tax losses and will put the premium where it belongs—on sound economic investments and efficient operations which produce income.
>
> Our proposals limit the use of some provisions that were intended as incentives. Where that is the case, the proposals should not be interpreted as necessarily foreclosing the possibility of providing other incentives or subsidies. We do mean, however, to foreclose the use of the tax system to provide incentives to a degree that impairs the confidence of the ordinary citizen in the fairness of the system.

deductions created by accelerated depreciation on new rental housing in excess of straight-line depreciation, by the 5-year amortization in excess of straight-line depreciation on rehabilitated housing, and by the deductions (such as interest and real estate taxes) allowed during the construction period, all to be used only against income from residential property held for rental or sale.[7] Essentially, this proposal would eliminate the passive investor who now buys in to one or two subsidized housing tax shelters,[8] since he could not use the "tax losses" created by these deductions—the typical housing tax shelter "losses"—to offset his nonhousing income. Because such an offset is under present law the whole point of this tax shelter game, the game would be over. A wealthy individual with a large portfolio of residential real estate investments might perhaps find the game worthwhile, since all his real residential real estate is regarded under the proposal as a single investment, and deductions on one item of residential real estate can be used against income from another item. (This is a defect of the proposal. This result is not allowed for commercial real estate under the proposal, where it is applied essentially building-by-building.) Also, the proposal does not apply to corporations. This last aspect is another defect of the proposal, for it is difficult to understand why corporations should still be permitted to play the tax shelter game to escape or reduce tax. And it is also hard to see why wealthy individuals with a large real estate portfolio should still be benefited. Moreover, they could benefit only if they had tax-loss housing to parlay with tax-profit housing. While gimmicky tax shelter packages might be arranged to promote these situations, such developments do not contribute to a healthy situation. But under this proposal, unless banks or other corporations are to take over all investment in HUD-subsidized rental housing, it would appear that the ability of present tax benefits to compensate the developer would be ended. The present passive investors in such housing would drop out, the syndications would end, and the developer no longer would secure his profit through the sale of the tax benefits. Conceivably, as indicated above, corporations and banks could take over.[9] Perhaps large organizations selling single houses or condominiums would combine these activities with rental housing, so that the tax losses on the latter could be offset against the tax profits from the former. But this substitution would only shift the target of tax reform to them, since the essential tax shelter inefficiencies and tax escape would remain. Moreover, such a situation would force individual developers and smaller organizations out of the housing industry and encourage concentration, which does not seem a desirable objective.

Direct Subsidy to Developer: The Treasury proposal, really made in response to the attacks by tax reformers on the tax shelter game and the consequent heightened understanding in Congress of that game and its consequences, underscores the instability of the present use of tax benefits to provide the necessary compensation to the developer. A substitute for the present mechanism must therefore be found. Indeed, a gap in the Treasury proposal is the failure to state that such substitute is needed—the developer under the present HUD direct subsidy and 6 percent return limit cannot otherwise be adequately compensated. (Perhaps the Treasury is willing to let corporations take over the tax shelter-subsidized housing investment and thus fill the gap, but, as stated above, this is both undesirable and unstable. More likely, the Treasury recognizes the need for a substitute and is seeking to encourage HUD to provide it.) Thus, whether one stresses the inefficiency and wastage of the present tax benefit system, the tax escapes and tax immorality it creates, or the consequences of the recent Treasury proposal made in response to the criticism of tax reformers, the message is the need for some new method of compensating the developer of subsidized rental housing.[10] Since HUD is already engaged in directly subsidizing that housing, and

[7] There is also a new form of minimum tax for individuals suggested, but since this does not affect the rate of tax on capital gains, it is not particularly relevant here. It may have a minor impact on the interest deduction on money borrowed to carry tax shelters.

[8] While the application of the proposal to HUD-subsidized housing is not wholly clear, since such housing is presently in a suspension stage, the implication in the proposal is that it would apply to a section 236 type subsidy program if such a program were reinstated.

In any event, if the proposal is not to be applied to such subsidized housing, then the proposal is subject to severe criticism since it would allow the tax unfairnesses created by tax shelters for subsidized housing to continue. The tax status of such a situation would be quite unstable.

[9] This takeover has happened in the leasing of equipment, as commercial banks have largely replaced individuals as the lessors in tax shelter equipment leasing, in part as a consequence in 1971 of not allowing individual lessors to obtain the investment credit but still allowing it to corporate lessors.

[10] Whatever may be the consequences for nonsubsidized housing, where a cutback in tax benefits could be offset by an increase in tenant-paid rents if that is the possible result (to be discussed later), by hypothesis that course is not available in subsidized housing where the rent level of tenant-paid rents requires a ceiling if the housing is to be available to groups sought to be assisted by HUD.

since the present direct subsidy is considerably larger than the tax subsidy to be replaced, the sensible course would be for HUD directly to provide the needed profit through a subsidy to the developer.

It should not be difficult for HUD to devise a direct subsidy to the developer to replace the residual funds he now obtains through selling tax benefits via tax shelter syndication. In that syndication process the developer now receives an amount equal to about 15 percent of the mortgage. Out of this he must pay about one-fifth (3 percentage points) to those handling the syndication. The balance, about 12 percent of the mortgage (about 11 percent of the development costs) covers any cash outlay he must make and his profit. Hence, HUD should seek a method to pay this 12 percent directly to the developer, and thus shortcut the present roundabout method. For example, the Builder Sponsor Profit and Risk Allowance could be increased to 22 percent or so. Perhaps the increase could be paid in annual installments over a period of years to encourage adequate management.[11] The present tax benefits for subsidized housing—accelerated depreciation, 5-year amortization for rehabilitation, deduction of construction-period interest and taxes, and inadequate recapture of excess depreciation on sale—would disappear. The government would gain through the substitution of direct subsidy for present tax benefits, since it would no longer be paying a "commission" to the investors and to the merchandisers of the tax shelters. Hence the amount to be paid directly to the developer would of necessity be less than the present revenue loss from the tax benefits for subsidized housing. The technique suggested above is one possibility. Housing experts may suggest others. But the point is that experts concentrating on a direct subsidy for the developer ought to be able to find one.

A Different Tax Subsidy: It may be said—arbitrarily, I think—that a direct subsidy is not acceptable, perhaps because it would show up as a budget item, whereas the present tax benefits are hidden, as are all such tax expenditures, in the total revenue figures.[12] If so, we still must look to the tax system to provide the developer with a profit. The task then, unappealing though it may be, is to see if a better set of tax benefits can be found. In other words, how would we structure a tax incentive system for subsidized housing that is aimed deliberately at supplementing the HUD direct subsidy to replace the present "accidental" tax benefit system?

Professor Taubman in his report has made several suggestions of new tax benefits to replace the present tax subsidy structure. Largely, those suggestions seem aimed at nonsubsidized housing. Thus, the suggestion of tax credits to mortgage lenders is not really relevant to subsidized housing where a direct subsidy already produces a 1 percent interest rate; tax credits to tenants for excess rents are not needed when a rent supplement program exists. These suggestions will therefore be considered later in the context of nonsubsidized housing. As for subsidized housing, his suggestion of a tax credit on rental housing to replace accelerated depreciation generally can be considered, however. Such a credit, presumably a percentage of the cost, is really the direct subsidy urged above, but dressed up in tax clothing. Speaking generally, if we wish to pay a developer $X, then we can give him a direct subsidy equal to $X or a credit against tax equal to $X.[13]

There are certainly advantages to such a tax credit as opposed to the present system. The credit would be separable from the basic income tax structure and not mixed up with (i.e. hidden within) the deductions for depreciation, interest, taxes, etc., all of which when properly used have a legitimate tax role apart from any incentive load they are today asked to bear. The credit can be varied to suit the needs of the market

[11] Today the developer's desire for a good track record and avoidance of foreclosure, so he can still be able to market future tax shelters, is the lever that affects management activity.

Under the present tax subsidy system, once cost figures are agreed on with HUD there is no incentive for the developer to reduce the cost since the tax benefits to be syndicated are a function of cost and increase with cost (i.e., the tax depreciation is greater as cost rises). Hence, within the range of workable rents, the tax subsidy system is biased toward the higher cost and against economies in building. Any direct subsidy should seek to avoid these problems.

[12] There are parallels between the tax incentive for housing and that for State and local capital projects (i.e., tax-exemption on State and local bonds). Both rely on passive investors as middlemen to achieve the desired social goal of giving government financial assistance to the activity to be benefited, and these middlemen get a "commission." But the commission is inordinately high and is wasteful; i.e., the Treasury pays out more in revenue lost than is reflected in the assistance received by the ultimate beneficiaries, the wastage being represented by the commission. The Treasury is beginning to recognize this problem in the tax-exempt obligation area, and in its recent tax reform recommendations (see note 6 above) is moving to supplant a hidden budgetary revenue loss with a visible direct subsidy—the 30 percent interest subsidy payment on elective taxable bonds. This new approach is on the right track, though the 30 percent figure is too low. The approach represents a shift from tax incentive to direct subsidy as the solution to existing expenditure inefficiency and tax inequity.

[13] This statement disregards, for the moment, whether the direct subsidy or the credit is includible itself in income. This point is discussed later.

and government policy as those needs are perceived. But there are problems with a tax credit. $X provided through a direct subsidy is different from $X provided through a tax credit, and the problems lie in the difference.

Credits against income tax are useful to the recipient of the credit only if an income tax of sufficient size exists to absorb the credit. If not, the credit is wasted and is no incentive. Hence, nonprofit tax-exempt developers (religious groups, colleges, pension plans, community groups, State and local organizations, etc.) cannot receive any incentive through the credit, though they could utilize a direct subsidy. Private developers with losses elsewhere or otherwise insufficient tax liabilities are also ruled out by the credit approach compared with a direct subsidy. Indeed, developers today sell their tax benefits precisely because they do not have sufficient income against which to utilize those benefits. A credit against tax presumably would leave such developers in the same position. Hence, to make use of the credit they would have to pass it through—sell it—to investors, and we would have tax shelter syndication all over again. If—as essentially is true under the recent Treasury LAL proposal—the developer would not be permitted to do so, then essentially all development of subsidized housing either would be turned over to corporations and a few wealthy individual developers; if they do not step in, the production of such housing would cease.

These difficulties with the credit could be overcome by making the credit "refundable," i.e., payable directly by the Treasury in those cases where the developer's tax liability was not large enough to absorb the credit, or it was a tax-exempt developer.

At this point, the tax credit is really a direct subsidy of $X paid through the tax system. But there still would be a difference. The tax credit would reduce a developer's income tax, and could, depending on its size, eliminate that tax entirely. This comes back to the unappealing aspect of having to devise a tax incentive. We must remember that there is an inherent tension involved in using a tax incentive to accomplish a national priority such as adequate rental housing. The tax incentive must be large enough to induce the private participation. But any such incentive will ipso facto materially reduce the tax paid by the person involved in relation to his actual economic income. Hence, the transaction will remain an inviting target for tax reformers. They will point to the escape from tax of the individuals involved—and such a situation is the best climate in which to urge tax reform. Yet the escape from tax is inherent in the reliance on the tax incentive—it is what such tax incentives are all about. Society may have to pay large profits to induce people to undertake otherwise risky tasks, but at least those profits are subject to our income tax system. Tax incentives undercut the entire equitable foundation of that system, and hence their inherent tension.

This tension inherent in the tax credit could be resolved by including the credit in income, and adjusting the amount of the credit to keep its incentive effect at the necessary level.[14] At this point we certainly have the full equivalent of a direct subsidy, which would also be includible in income. The choice between the two, then, shifts to other factors. Thus, for example, it would be desirable for the congressional committees directly concerned with housing—e.g., House Banking and Currency—to have jurisdiction over a subsidy to developers so as to coordinate it with the other HUD housing subsidies, rather than to split jurisdiction over housing subsidies between those committees and the tax committees. Equally, HUD and not the Internal Revenue Service should administer the subsidy system. The subsidy should appear in the budget.

All this points to a direct subsidy rather than the tax credit. If, however, a tax route is desired, then a tax credit of a refundable character available to the developer, and itself includible in income, seems the choice for initial exploration.

Nonsubsidized Rental Housing

Present Situation: Prima facie, it can be said that since middle income and luxury rental housing presently do not receive a direct budgetary subsidy, such housing simply does not have a national priority requiring governmental financial assistance. Hence, it should not receive any tax incentives and the present tax preferences should be eliminated. Indeed, one suspects that if low income HUD-subsidized rental housing ceased to receive tax benefits (because

[14] It should be noted that the proceeds presently received by the developer in the tax shelter syndication are today includible in his income for tax purposes. Hence it would be appropriate to include in income any credit devised as a substitute for the tax shelter fee. In any event, such inclusion should not cause a problem in structuring either the credit or its amount. Tax-exempt organizations might have to treat such an includible credit as unrelated business income and therefore also taxable.

the direct subsidies were enlarged) the Congress would look more skeptically at the tax incentives for the remaining rental housing. But perhaps it is possible to argue—though I doubt the historical foundation for the argument—that a direct subsidy is not here granted because Budget directors, HUD, and Congress, while believing some governmental assistance is needed, have left the furnishing of that assistance to the tax system. If so, that decision has also meant inefficiency and wastage, for the reasons earlier indicated and for additional reasons.

A good deal of tax assistance to non-HUD-subsidized rental housing operates through the same tax shelter syndication process as in the case of subsidized housing. This is because the developers of nonsubsidized housing, as in the case of subsidized housing, often do not have enough income of their own to absorb the tax benefit deductions accorded to rental housing. Their mortgages are pushed to as high a level as the proposed rent structure on the housing will permit. The consequent deductible interest component of the mortgage debt, plus accelerated depreciation and other tax benefits, total an amount larger than the rents, so "tax losses" result. Moreover, since the rents are needed to carry debt service and expenses, the developer must look to syndication of those tax losses for his profit. Hence, here also we have the waste and inefficiency of the roundabout method of compensating the developer. We also have the tax escape immorality of the tax shelter process.

But there is a crucial difference in the function of present tax benefits between subsidized and unsubsidized housing. Without the tax benefits, roundabout and wasteful though their assistance to the developer may be, the subsidized housing would not be built. The HUD 6 percent limit on the return to the developer is obviously inadequate. Because rents cannot be increased, the developer has nowhere else to turn for his profit except to sell the tax benefits. (This present sine qua non aspect of tax benefits for subsidized housing is, of course, as we have seen, no evidence of any inherent virtue in tax incentives, but rather a result of the HUD direct subsidy system and the national priority of setting rental ceilings for this housing.) But when we turn to non-HUD-subsidized housing, the picture is completely different. Here the government may be getting little or nothing in return from the financial assistance given through the tax benefits, be the assistance in any particular case roundabout via the tax shelter process or through direct use of the tax benefits by the developer. Indeed, the net result of such financial tax assistance may be harmful to the housing field.

Professor Taubman's paper contains the following conclusions about the effectiveness and consequences of the present tax benefits; the conclusions appear to be direced to non-HUD-subsidized housing: [15]

> To summarize this material, it seems likely that the tax subsidy being discussed has increased the quantity of buildings and, especially, expensive buildings. It may also have increased the surface luxuriousness of buildings. But partly because of market adjustments to subsidies and partly because of the incentives to rapid turnover and thus to shoddiness, the useful life and true quality are probably reduced. . . .
>
> Because the subsidies are paid on all housing including those that would have been built anyway and because the supply response to price changes is limited, these subsidies are very expensive. A hypothetical example will best illustrate this. Suppose that without the subsidies there would be 1,000 houses costing $100 each. Next, suppose that tax subsidies of 5 percent are introduced and that this increases the supply of housing 10 percent to 1,100 units. For simplicity assume that the construction cost remains at $100. The *total cost* of the subsidy is $5,500 ($5 times 1,100 units). Thus, the average effective subsidy cost for each of the 100 new houses produced by the subsidy is $55 or 55 percent of the construction cost of houses. Thus, this tax subsidy which is paid on all housing will rate low on the cost effectiveness criteria (unless the price elasticity of demand is huge). . . .
>
> The above evaluation would indicate that most of the tax subsidies to housing are expensive given the extra housing they produce, that they provide a tax shelter for upper-income persons, and that they tend to discriminate against proper maintenance and repair practices and lead to an artificial shortening of the useful life of a building. In addition, while in principle, most of the subsidies apply to all housing, in practice moderately or very expensive housing has been produced by the tax subsidies. For several reasons, these changes may not filter down to the poor as increased quality or lower rents.

Given these effects of the present tax benefits, the initial question is, simply: Why not eliminate those benefits and let the marketplace govern rental housing for middle and upper income groups? There would be no HUD subsidy, as there is none today, and no tax benefits.

Most of the trade associations in the housing field have expressed institutional dismay over such a proposed elimination of tax benefits for rental housing. They have voiced to the House Ways and Means Committee the customary pessimism about the prospects that immediately descend on any industry faced with the loss of its tax benefits.[16] Most of these Associations indi-

[15] See Taubman paper, note 1 above, at 29, 31-32, and 41 respectively.

[16] See Statements of these associations in Tax Reform Hearings before the House Ways and Means Committee, 93d Cong., 1st Sess. (Mar. 26, 1973).

cated that the basic result of a loss of tax benefits would be a rise in rents. But this contention by no means is so conclusive against such a change as the Associations seem to consider. First, it is not at all clear that rents in nonsubsidized housing would rise, or rise by much. One builder, in taking a contrary view and directly attacking the present tax benefits, stated that many builders today do not even use accelerated depreciation for tax purposes (presumably because straight-line depreciation itself provides a sufficient buffer against tax liability, and they do not desire to syndicate their buildings), and hence its elimination should not affect rents.[17] Professor Taubman elsewhere has indicated that any rise in rents if tax benefits were removed would be quite limited.[18] Second, if rents for such housing did rise somewhat, why should this be a national concern requiring government action? Certainly we do not have a national priority to support a low rent structure for luxury or semiluxury housing. If HUD became concerned about rent increases at the lower end of the present nonsubsidized housing scale, it should turn to providing a direct subsidy to meet that concern.

At any event, the burden of proof both for retaining governmental financial assistance for non-HUD-subsidized rental housing and for providing that assistance through tax benefits must be placed on those who urge continuance of the present tax benefits. Moreover, given the strong case against the present system, any proof made for its continuance must be solid indeed and not just unsupported pessimism.

A Direct Subsidy: As indicated above, perhaps the wisest course as to nonsubsidized rental housing would be to remove the present tax benefits, and then see what happens to housing starts and rents—and also see if the events have any relation to the tax changes. If rents begin to rise in the income area where such a rise may present a national concern, then HUD should be ready with a direct subsidy to meet the problem. Thus, if HUD is concerned about rent increases (or fewer housing starts because of rent problems) in, say, units now renting under $200 a month, one possibility is a direct grant to the builder for such units so that the rents are kept at proper limits. Another possibility is an interest subsidy on the financing for such units. Professor Taubman's paper points out that "a reduction in mortgage rates can be quite an effective tool," and can thus compensate for any detrimental effect from the elimination of tax benefits.[19] There undoubtedly are other possibilities, all of which would be less costly to the government than the present tax benefits.[20] The point here, as in the case of present HUD-subsidized housing, is that HUD experts should be able to devise any needed direct subsidies, if the need becomes evident and the focus is held on providing a direct subsidy.

A Different Tax Subsidy: Here, however, it may be ordained that if financial assistance were shown to be needed for nonsubsidized housing once present tax benefits were removed, the assistance still should be given through the tax system, albeit with a different type of tax subsidy, than through a direct subsidy. If so, the search must be for a new tax subsidy. Professor Taubman's paper suggests a number of alternatives. One of these alternatives—a tax credit to the developer (owner)—has already been discussed. One problem is to prevent such a credit from becoming another tax shelter. Any such credit should be aimed as far as possible at the marginal developer who, supposedly, needs governmental financial assistance to undertake the development. But if he cannot use the credit because of his tax posture and thus cannot obtain the financial assistance offered by the tax subsidy, he can do better by selling the tax subsidy to a passive investor who then takes his handsome "commission" on the purchase—and we still have a tax shelter.[21] If this consequence is blocked by making the credit refundable, as earlier suggested, then the benefits of the credit would be confined to the real estate industry. But then we face the other dilemma: Tax subsidies, such as credits, must offer signifi-

[17] Statement of George H. Deffet, president of Deffet Companies, Columbus, Ohio, in Tax Reform Hearings, note 16 above. This statement also indicates that any equity money now attracted because of tax benefits is not a significant factor in financing this housing.

[18] Paul Taubman and Robert Rasche, "Subsidies, Tax Law and Real Estate Investments," in *The Economics of Federal Subsidy Programs, Part 3—Tax Subsidies,* Joint Economic Committee, 92d Cong., 2d Sess. (1972) 343.

[19] See Taubman paper, note 1 above, at 44.

[20] Certainly, all nonsubsidized housing would not need a direct subsidy. Also, for that housing for which a subsidy might be needed its cost should, for reasons earlier stated, be less than the present wasteful tax subsidies. Overall, also, nonsubsidized housing constitutes about five-sixths of new rental units in structures of five or more units started in 1971 and 1972.

[21] Any housing tax subsidy that is targeted to passive investors must compete with tax incentives obtainable by such investors in other areas—e.g., oil, farming, some equipment leasing. (The Treasury LAL proposal in a sense recognizes this, and seeks to eliminate the passive investor from tax shelter investment.) Direct subsidies aimed at people in the operating field, as contrasted with tax incentives aimed at passive investors, would not have to run such a gauntlet.

cant tax reductions to be successful incentives. Hence, if the credit is significant, it automatically has the effect of allowing the real estate industry to escape a considerable part of its tax burden. In turn, the industry becomes a target for tax reform, and the situation is thus unstable because of this tension between desired effective subsidy and the tax escape consequence—an inevitable tension if tax subsidies are used.[22] A refundable credit itself includible in income is the best approach—which of course is a direct subsidy in tax disguise.[23]

Professor Taubman also suggests the possibility of moving through the mortgage lenders rather than the developers or owners and offers tax credits to the lenders of mortgage money. This, of course, is a tax alternative to a direct subsidy to lenders designed to lower mortgage rates. Here also one would have to consider the problems that may arise if the credit is nonrefundable, and the degree of tax escape that is inherent in the credit itself. Taubman, also, again using the credit device, suggests the route of aiding the tenant (rather than the owner or lender) through a credit for excess rents. He also points out the need for a refundable credit to aid the tenant whose tax liability is not high enough to absorb the credit. Finally, he suggests the possibility of a credit for repairs.

These suggestions, as Professor Taubman's paper indicates, have one thing in common. They are all untried, and each has many unsolved problems of structure and content.[24] Clearly, under these circumstances it would be desirable to preserve both maximum flexibility to make needed changes, and maximum coordination with direct housing programs. All this is a task in the first instance for housing experts and not tax experts. But tax subsidies lack both the required flexibility and coordination. Moreover, the tax experts take over to worry about the tax problems—which are likely to be numerous with such untried devices—and the housing problems become submerged or unseen. The proper course in experimenting with Professor Taubman's suggestions would therefore be to devise the direct subsidy counterparts of his alternatives and let HUD and the Housing Committees in Congress experiment rather than have the Tax Committees and the Internal Revenue Service undertake the task. There is no reason why HUD cannot disburse subsidy checks; it is essentially a direct subsidy agency to begin with. But if tax subsidies are required, the least dangerous course would appear to be consideration of the credit for the developer, refundable and includible in income as discussed above, or perhaps the credit for the lender, also so structured. The credit for the tenant and the credit for repairs appear to posses many novel structural problems, especially if they are designed to carry the tasks Professor Taubman, properly, seeks to assign to them in his paper.

Owner-Occupied Housing

Although there is some limited direct HUD budgetary aid, the present social goal of encouraging owner-occupied homes is left to the tax system. While the historical origin of the income tax deductions for mortgage interest and real estate taxes is murky, these deductions have at least for some time been defended as instruments of financial assistance to homeowners. But being originally untargeted as such, they are also wasteful and unfair. They assist not only a principal residence, but also one or more vacation homes. They assist the wealthy and the middle class—but not those too poor to pay an income tax. Moreover, they provide the greatest assistance to those well off, since the higher the individual's tax bracket, the larger the tax assistance from the deductions.[25]

The Treasury has come to recognize the inequitable tax preferences inherent in this tax subsidy system for owner-occupied homes. In its tax proposals[26], it recommended a new form of minimum tax for individuals that would treat deductions for home mortgage interest and real estate taxes (along with other itemized deductions such as those for charitable contributions and other State and local taxes and investment interest in excess of investment income) as tax preferences. These tax preferences, when added to certain exclusions—principally percentage depletion and one-half of capital gains—could in

[22] This is a defect of the recent Treasury LAL proposal (see note 6 above) which, while cutting out passive investors, essentially permits those in the real estate industry, such as wealthy investors with extensive interests and corporations, to continue to have their present tax escapes.

[23] The earlier discussion under HUD-subsidized housing of credits that are refundable and includible in income is here also relevant.

[24] A possible exception is the credit based on the cost of the building, which resembles the present 7 percent investment credit for machinery and equipment. But even here we do not know—because it is untried—what the problems are that may occur under a credit for residential housing.

[25] See, e.g., Surrey, note 1 above; Henry Aaron, *Shelter and Subsidies* (Brookings Institution, 1972).

[26] See note 6 above.

effect not exceed one-half of the individual's adjusted gross income.[27] The overall structure of the proposal is such, however, that it would be expected to have little impact on taxpayers in brackets below $50,000. It would not be likely, all in all, to affect appreciably the present tax treatment of home ownership.

No direct HUD program of assistance would have (or has) the bizarre, open-ended, upside-down structure inherent in the present tax assistance to home ownership. On the assumption—which seems proper—that national priorities require continued governmental financial assistance to home ownership, the task should be to see if HUD can devise direct programs that are better structured, fairer, and less wasteful than the present tax subsidies. HUD already has limited direct subsidy programs in the home ownership field (in addition to FHA) aimed at reducing mortgage interest rates by subsidizing a given interest level. Perhaps these programs could be expanded.[28] Perhaps direct aid might be given for a certain amount of mortgage interest and property taxes through HUD checks sent directly to the owners. Parenthetically, it is no answer to the search for such direct programs that they might in the end involve fewer strings or qualifications compared with other direct subsidy programs. It must be remembered that the present tax subsidies to home ownership have no strings or qualifications at all. As in the case of rental housing, presumably we could be confident that HUD, if it so desired, could devise direct subsidy programs better than the present defective tax benefits to assist home ownership.

One doubts, however, that the country is ready for such a large shift from tax assistance for home ownership to direct assistance. (We could be willing in this area to accept direct assistance in addition to tax assistance, e.g., the present HUD programs, since it is recognized that the present tax assistance is of limited aid to those in lower income brackets.) Nor is it likely that Congress would turn to wholly new forms of tax assistance for home ownership. Professor Taubman's recommendations in his paper appear aimed, on the whole, at rental housing rather than home ownership. His tax credit for lenders could perhaps apply, and of course it is a variant of HUD's present limited program of reducing interest rates for home owners.

The initial task in the case of home ownership would thus appear to be that of limiting, and thereby making fairer, the present tax assistance. Thus, the tax assistance could be restricted to the principal residence of the taxpayer and to a limited dollar amount of mortgage interest and property taxes.[29] Perhaps a larger step could be taken and the present deductions for mortgage interest and property taxes changed to credits against tax. Perhaps—a still larger step—such credits could be made refundable to some extent, i.e., payable directly if the individual's tax liability is insufficient to absorb the full credit.[30] This last step, of course, as explained earlier, is working back toward a direct subsidy. In this context it would be moving indirectly to a system of housing allowances. Such a refundable credit[31] may be too much for the present climate—as even more modest changes in the tax assistance may be. Perhaps the most viable approach is that first suggested, of placing ceilings on the present tax assistance. Any revenue so saved could be used for other housing programs, perhaps for expanded HUD direct programs in the home ownership area.

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[27] The technical structure, in general, would add the specifically designated exclusion items (e.g., percentage depletion and one-half of capital gains) to adjusted gross income (which itself includes the itemized deductions for mortgage interest, taxes, etc.) and then divide by 2. If the resulting amount is greater than the regularly computed taxable income, then the first figure would be used as the tax base to which the regular rates would be applied.

[28] Perhaps there are other ways of affecting lending institutions —but this is a matter for the experts in that area.

[29] In a very limited sense, the recent Treasury proposal is in that direction, but its effect in this regard because of its structure is indeed likely to be quite narrow.

[30] The recent Treasury proposal for property tax relief for elderly homeowners, see note 6 above, is in the form of refundable tax credits for a limited amount of tax. There are many defects with this proposal—e.g., why limit it to only the elderly poor—but at least it recognizes the need to make the credits refundable if the credit against tax form of tax assistance is to be used. On the advisability of such proposals in general, see Statement of Henry Aaron in Hearings on S1255, The Property Tax Relief and Reform Act of 1973, before the Subcommittee on Intergovernmental Relations, Senate Committee on Government Operations, 93d Cong., 1st Sess. (May 2, 1973).

[31] In theory, such a credit should be includable in income. This also is true for direct housing assistance, which is today not so includable.

Financing of California Redevelopment Projects

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Introduction

Large sections of American cities are physically deteriorated and economically obsolescent. Almost every central business district is or has been in economic difficulty. The worst residential areas are also overdense in population, and the best land is often under economic pressure to be used more intensely or densely, not always because of need for the use, but because of the need for property taxes or other taxes for municipal budgets.

With the deterioration of housing, commercial centers and industrial centers—those areas which were most important to cities—have become the least attractive and most economically depressed. Even some areas which are relatively attractive are economically obsolescent. The greatest struggle with physical blight is happening in the areas where the tax base is gradually declining or, at best, holding even in an inflationary period. Tax revenues have been declining or not meeting inflation because the department stores downtown started losing their customers to modern, new regional shopping centers in the suburbs. In recent years, few new department stores have been built downtown. Sales taxes have been declining sharply in the old regional shopping areas, particularly when adjustment is made for inflation. Often central area office space is not attractive. Outlying suburban areas have supplied cheap and plentiful land which has lured industry and business to the suburbs, not because they wanted to go there, but because modernization could not economically take place in the older areas.

The redevelopment laws were the result of society's seeking ways to make the older, deteriorated areas more socially and economically viable and livable. These laws have sought to put such land into a form and at a price that allow its use by private or public entities in a way consistent with the demands of society.

Legal History

State legislatures enacted such laws many years ago with little controversy. Those laws, however, were not widely used in the early years because of a lack of public finance to accomplish their goals. New York adopted a redevelopment law in 1941, and Pennsylvania a year or two later.

The California Legislature enacted the California Community Redevelopment Law in 1945. The act created a redevelopment agency in each city, city and county, and county of the State. It provided legal ways and means for the rehabilitation and redevelopment of blighted areas in urban, suburban, and rural communities in California. The law was enacted to assist public and private enterprises in the attainment of such purposes. It was not until 1949, however, that the Congress enacted a law relating to redevelopment and provided funding for redevelopment. Its primary emphasis was ostensibly for the removal of bad housing and/or for the providing of new housing. The emphasis was on total clearance. In 1954, Congress changed the name to urban renewal and provided for conservation, rehabilitation, and clearance. The Federal statutes gradually expanded Federal financial assistance.

The California statute was later codified in the California Health and Safety Code. The California law has always contemplated and permitted broader activities than the Federal laws that provided the Federal funds.

In 1951 and 1952, the California Community Redevelopment Law and the California constitution were amended to add the so-called tax increment or tax allocation provisions, which provided for the distribution of revenues from all property taxes collected in a redevelopment project area resulting from the increases in the value of property in the project area where such increases occur on the assessment rolls in the years subsequent to the last equalized assessment roll existing at the time the redevelopment plan is adopted. This process substantially increased the ability of redevelopment agencies to provide financing of redevelopment projects and has been widely used.

The Redevelopment Process in California

"Redevelopment" and "Urban Renewal" are almost synonymous terms. In California law, the word "redevelopment" is used; in the Federal

law it is "urban renewal." In many States, either or both terms are used.

The process involves the identification of a "blighted" area which needs clearance or rehabilitation; the preparation of a redevelopment plan to provide the legal authority and limitations for carrying out the project; the holding of a public hearing by the local governing body on the plan; the purchase of real property (by eminent domain if necessary) to carry out the plan; the management and operation of such property until it is resold; the relocation and rehousing of the occupants of such property; the demolition of the structures; the construction of new public improvements and public facilities; the sale of the land to developers for construction of new improvements; the agreement with existing owners and tenants desiring to remain in the project regarding the basis upon which they can stay or move to other locations in the project area. Owners can sell and leave the area completely, but in California owners and tenants often remain and participate in the project. They can sell merely their improvements and rebuild on the remaining land. They can remain in place and do nothing if the structures are of good quality and the area is not needed for new streets or for uses of greater importance to the area. They can rehabilitate and add to structures. They can sell and move to other locations in a project area. These and many other combinations have been permitted in redevelopment projects.

In some cases, full clearance is necessary and the existing owners do not have the financial capacity, experience, or desire to develop the new uses. In other projects, little or no clearance occurs, and many of the existing owners and tenants remain and participate in one manner or another. In some projects, the land and buildings are purchased and cleared and the land is resold at prices which result in a substantial public cost. In other projects, the land is resold at prices which result in a net positive return. In some projects, assistance to private development in public improvements and public parking is the only redevelopment activity, and no land is purchased and resold. Buildings can be moved from one site to another in or out of a project area. The law is very flexible and permits many legal solutions to meet the variety of factual situations that arise.

For many years, redevelopment agencies have been required to give relocation assistance to displaced project occupants. Broad financial assistance to those displaced by projects was available from the Federal Government in projects receiving Federal financial assistance. Many projects create priorities or preferences for occupants to move back into the project. A newly enacted law in California adopted substantially all of the provisions of the Federal Uniform Relocation Law, which strengthens the rights of occupants in this regard, as well as with regard to other rights concerning low and moderate income persons. The new law applies to all State and local governments' property acquisitions but does not supply any funds to meet the financial obligations of its provisions.

The California Redevelopment Law permits residential, commercial, industrial, public, and recreational projects. Residential uses can be changed to commercial, commercial to industrial, industrial to residential. From the beginning all combinations have been permitted by the California law.

A higher percentage of Federal urban renewal activity has involved projects dealing with commercial or central business districts. Many projects also provided middle and high income housing. This has helped to arrest some portion of the flight to the suburbs both commercially and residentially, but a comparable amount of low and moderate housing has not been provided.

A redevelopment agency is a public corporation separate from the city in legal contemplation. Since 1945, every community in California has had a redevelopment agency. That is, the law created a redevelopment agency in every city and city and county in California and—for purposes of the unincorporated areas—in every county in California. Such agencies have thus existed in legal contemplation, but they do not come into active operation until the city council in a city or a board of supervisors in a county enacts an ordinance declaring the need for that agency to be active.

After the legislative body enacts such an ordinance, a number of choices exist as to the methods which can be used to operate an agency. The California redevelopment agency has little power except as delegatd to it by the city or county.[1] A redevelopment agency is an administrative agency which is mandated to prepare redevelopment plans and submit them to the city council. The city council acts on the plan, together with any changes recommended,

[1] Hereafter, only cities will be referred to, since more California redevelopment agencies are operating in cities. The process is identical in California counties except that the county redevelopment agency jurisdiction is limited to the unincorporated (noncity) area of each county.

after a public hearing. If the city council adopts an ordinance adopting the plan and makes certain findings, then it is returned to the agency and the agency carries out the plan. The city council can have full control over the project as the board of directors of the agency, or the agency can operate as a relatively independent agency with a separate board of directors. Some agencies have the city council for a board and city personnel for staff. Others have city staff and a separate board. Others have separate staff and the city council for a board. Originally, and still in many agencies, the board is separate and the staff is separate.

If the city council has full control, it is not frustrated by a separate agency acting independently. On the other hand, there are other cities where the city council and separate board operate well together. In other cities the city council prefers not having to face redevelopment decisions every meeting. A city councilman runs the risk of alienating constituents in direct real estate transactions whenever he is serving, as an agency member. Many communities prefer to have a separate agency as a buffer and as an agency to carry the heavy time burdens. This depends on the local political and administrative situation. It has worked successfully both ways.

Consultants have been used extensively, particularly for economic and planning studies and advice. Full staffing has not been feasible, particularly in small cities, because many services are needed only once or periodically, and not regularly throughout the project activities.

After a redevelopment agency is made operative, the city council designates the survey areas in the community which it desires to have considered for redevelopment. The city council can then either direct the planning commission to establish certain project areas or leave it up to the planning commission to select project areas. The legal action of selecting a project area must be made by the city planning commission, whether directed by the city council or selected by the planning commission on its own motion. The legal act of establishing a preliminary plan takes place in the planning commission. That can be mandated by the city council if they desire, or it can be left up to the planning commission working cooperatively with the redevelopment agency.

The project boundaries and preliminary plan then are transmitted to the redevelopment agency for preparation of a redevelopment plan. The plan provides for the use of eminent domain or for not using eminent domain. It establishes the processes to be used; the uses (residential, commercial, etc.) proposed for the area; and controls to be applied to the land. The plan establishes the powers and limitations of the redevelopment agency in the project area.

Redevelopment operates with legal authority from State law, subject to the decisionmaking power of the city (primarily through the city council) and is funded in many ways, but for many years primarily by the Federal Government. The Federal Government does not in any way establish the legal authority of a redevelopment agency, nor make the ultimate decisions regarding a project. California State government has not been involved in redevelopment, except by enacting the law and in a few ministerial duties such as registering each agency. City councils have the ultimate power over the creation and operation of a redevelopment project. The involvement of the Federal Government is similar to that of a lending institution to a private developer. HUD is involved in a city only if a city agrees. It is like choosing to go to a bank, a savings and loan company, or an insurance company for financing of private land development. Most of the relationship with the Federal Government over the years has been through the filing of one or another application for financial assistance, usually in narrowly defined categories. This assistance has been obtained by public entities in the form of loans and grants. Private entities have obtained loans from HUD under some circumstances. Particularly, grants to private persons have been available for rehabilitation of property. HUD also has guaranteed or insured private loans to private entities.

Usually under HUD urban renewal, large sums of money were borrowed at the early stages of a project, and all or most of the land was purchased by the agency long before there was any certainty or even any probability that a developer would be interested in purchasing and developing the land. Non-Federal redevelopment projects in California rarely involve land purchased without a binding contract with a developer or participant. Also, bonds normally are not sold without reasonable certainty that the expenditures will result in development.

California Redevelopment Projects seek to establish boundaries which will maximize the tax increment and permit strong tax-producing developments to assist in the development of weak or non-tax-producing development.

Financing Methods Available in California

General

Redevelopment projects may be financed in California in many ways from many sources, both public and private. The California Community Redevelopment Law provides the legal and financial tools for assembling land, making it available for purchase and development and for the necessary public facilities and public improvements. This is true even though street vacation, subdivision, zoning, and other laws are needed to supplement the Redevelopment Law. The financial tools involve city loans, redevelopment tax increments, revenues from the Project, Federal advances, loans, and grants, and advances and loans from other public and private sources.

The California Redevelopment Law provides that a redevelopment agency may borrow money or accept any financial or other assistance from any public or private source for the agency's purposes and activities. This includes the issuance and sale of bonds, preliminary loan notes, promissory notes, etc.

Tax increments can be used to pay for public land and public improvements of benefit to the project. Even operating funds can be supplied to school districts under certain circumstances. Redevelopment agencies have many powers also in other public agencies; for instance, a redevelopment agency can do anything that can be done by a parking authority.

Community Redevelopment Administrative Fund

The Redevelopment Law provides for the establishment of a "Community Redevelopment Administrative Fund" by the city after an agency is created and authorized to transact business in the community. These funds may be appropriated to the agency as a loan or as a grant to defray administrative overhead and expenses of the agency. These expenses may include planning for redevelopment. Generally, these funds are appropriated as a loan to be repaid to the city when and if the agency later receives revenues from a project. If a project does not develop, then the Agency does not have to repay the funds. This administrative fund is usually supplied from a city's general fund by the same procedure by which city departments obtain their budgets.

Redevelopment Revolving Fund

The law further provides for the establishment of a "Redevelopment Revolving Fund" by a city council, to be used by the agency to acquire property in a project area, to demolish and clear buildings and improvements, to aid in the relocation of project area occupants, to prepare the project area for redevelopment, and for any expenses necessary or incidental to the carrying out of an adopted redevelopment plan. This fund may be established by a direct appropriation of money or by the issuance and sale by the city of general obligation bonds. Again, monies deposited into this fund by a city are generally on the basis of a loan to the agency, whether made by direct appropriation or by the sale of general obligation bonds. Usually such funds are supplied from the city's general fund on a special appropriation. In either case, the agency pledges repayment from land sale proceeds, from tax increments, or any other funds that may become available to the agency for this purpose.

Agency Bonds

It should be noted here that the California Constitution prohibits the incurrence of any indebtedness (including the issuance and sale of general obligation bonds) by any city, county, town, etc., without the approval of two-thirds of the voters, and unless at the time of incurrence of such indebtedness sufficient annual tax funds will be available to pay the interest when due and to pay the principal on or before maturity. Redevelopment agencies, housing authorities, parking authorities, and other similar public entities are not subject to this prohibition.

Under California law, without the approval of the voters a redevelopment agency may issue bonds and pay the principal and interest obligations of such bonds:

- Exclusively from the incomes and revenues of the redevelopment projects financed with the proceeds of the bonds, or with such proceeds together with financial assistance from the State or Federal government.
- Exclusively from the income and revenues of designated projects, whether or not they were financed in whole or in part with the proceeds of the bonds.
- From tax revenue allocated to the agency pursuant to tax increment provisions described below.
- From agency revenues generally.

• From contributions or other financial assistance received from the State or Federal Government.

• By any combination of the above methods.

Generally, agency bonds are issued to finance all or any portion of project costs. Usually the agency pledges its tax increments to the payment of principal and interest obligations of its bonded indebtedness. Of major significance is the fact that—unlike general obligation and revenue bonds of cities, counties, and special districts—tax allocation bonds can be issued and refunded without voter approval. In addition, such bonds are not a debt of the city, the State, or any political subdivision; nor do they constitute an indebtedness within the meaning of any constitutional or statutory limit or restriction. Bondholders must rely on the generation of adequate tax increments from private construction and improvements in the project area, although, as stated above, bonds can be made payable from other sources in addition to tax increments, such as land sales proceeds.

The bonds and other issuance documents prohibit any amendment of the redevelopment plan which would decrease the tax increments and substantially impair the security of the bonds or the rights of the bondholders. Other safeguards are also provided which include, among others, covenants by the redevelopment agency:

1. To carry out diligently the project in accordance with the law and the redevelopment plan in a sound and economical manner;

2. Not to issue any other obligations payable from tax increment revenues which have, or purport to have, any lien upon the portion of the tax increments pledged superior to or on parity with the bond lien;

3. To pay promptly and punctually the principal, interest, and premium of each bond as provided;

4. To pay and discharge promptly all lawful claims which might become a lien on agency property or the tax revenues; and

5. Not to dispose of any project area property for any uses which would substantially impair the security of the bonds or the rights of bondholders.

The maximum interest rate on tax allocation bonds is 7 percent, but the bonds may be sold at a discount not exceeding 5 percent of par value. The State, municipal corporations, political subdivisions, and public bodies, as well as banks, trust companies, insurance companies, and other financial institutions, may legally invest in agency bonds. Interest on the bonds is also exempt from Federal and State income taxes.

Tax Increments

From the mid-1950's until 1965 in California, there were a few small redevelopment projects successfully carried out without Federal funding. But starting in 1965, and expanding with startling rapidity, there currently are many such projects. (See Table 1 for a list of many of such projects.) These projects are being carried out by using tax increments as the major source of funding for the redevelopment activities of the project. Under this method, on the date of adoption of the redevelopment plan, that portion of property taxes which would thereafter be produced from the amount of the assessed valuation shown on the last equalized assessment roll continues to be allocated in future years to the respective taxing agencies. That portion of the taxes collected on increases in assessed valuation in excess of that amount of assessed valuation is allocated to the redevelopment agency. The term "frozen base" refers to the total assessed valuation of the property within the project as shown upon the assessment roll last equalized prior to the effective date of the adoption of the redevelopment plan. Thus, tax receipts that result from an increase in the assessed valuation can legally flow to the redevelopment agency and can be used for project debts. This includes all property taxes, real and personal, and all property taxing agencies, cities, counties, school districts, and other districts except special assessment districts. Tax increments are allocated to the redevelopment agency only to the extent that project indebtedness has been incurred. That is, if tax increment receipts amount to $4 million, and project indebtedness is only $2 million, then only $2 million can be allocated to the redevelopment agency. This division of the taxes can continue until all project indebtedness including interest is paid. Thereafter, all taxes produced by property within the project area, including those produced from new developments, are allocated to the respective taxing agencies in the normal manner. The tax increments can be retained, but

need not be unless they have been pledged to bondholders or other debtors.

For illustration, assume the following facts:

A redevelopment plan is adopted by ordinance after mid-August 1971, but prior to mid-August 1972. Assume that the assessment valuation of all property within the project area as of March 1, 1972, was $10 million higher than such assessed valuation for March 1, 1971. Assume that the assessed valuation as of March 1, 1971, is $2 million and as of March 1, 1972, is $12 million. Assume a tax levy rate of $10 per $100 of assessed valuation, of which $4 goes to the school districts, $3 to the county, $1 to the city, and $2 to all other taxing agencies. Assume the agency has debts in excess of $10 million.

In the absence of a redevelopment project, the property taxes paid for the fiscal year 1972–73 would be distributed as follows: School districts—$480,000; county—$360,000; city—$120,000; and other taxing agencies—$240,000—for a total of $1,200,000. With a redevelopment plan adopted within the time indicated above, the property taxes paid for the fiscal year 1972–73 would be allocated and distributed as follows: School districts—$80,000; county—$60,000; city—$20,000; other taxing agencies—$40,000—for a total of $1,200,000. Each year this allocation is repeated by taking each year's assessed valuation, subtracting the 1971–72 base year assessed valuation, and applying the tax rates for each year.

If a project produces the magnitude of tax increment shown in the illustration, then the project can proceed quickly and at less cost for funding interest while awaiting development to produce an increase in assessed valuation. This creates some conflict with the other taxing agencies, particularly school districts and particularly if the project is producing new pupil loads. If all increases in assessed valuation are the result of redevelopment activity, then the taxing agencies normally have no objection, particularly if the project does not create additional costs for services by those taxing entities.

Under this method, tax increments flow to the redevelopment agency only up to the amount of indebtedness incurred in project activities. Local control can regulate the amount of project expenditures each year. The objective of the redevelopment plan should be kept in mind. If public improvements of benefit to all agencies can be financed through tax increments and if the private sector can be encouraged and assisted in developing and revitalizing the project area, the use of tax increments achieves this purpose and often increases assessed valuations in surrounding areas not in the project.

Tax Increment Financing Techniques Employed in California

Initially, California redevelopment projects were undertaken with Federal financial assistance, which required local contributions to be paid or to be certain in the early stages of the projects. This would have created problems had it not been for the availability of tax increments. This process worked very well in Federally assisted projects by enabling communities to provide the required ⅓ or ¼ local share of net project costs when needed. Some of the most successful projects in California have used combined Federal and tax increment financing techniques.

California projects have been highly successful using the tax increment process with and without Federal assistance. Perhaps the most important aspect of Federal assistance is the guaranteed availability to agencies of working capital in the initial stages of project execution. Without Federal assistance, this requires an agency to obtain working capital in a quantity sufficient to purchase land and carry out other activities in a project until such time as tax increments are available or sufficiently assured to support the project. Without working capital there can be no project.

Generally, the early "seed" money to explore the feasibility of and to commence a project comes from the city through advances in varying amounts. This has been the case whether the project was federally assisted or a tax increment-financed project. Such advances are usually in the form of loans through the administrative and revolving funds rather than grants, since if the activity results in a project, the loans can be repaid from tax increment or other funding that might accrue to the agency. Provision for adequate working capital, however, presents a major problem because funds must be available to the agency to carry out substantive project activities until long term financing is available.

A few cities have supplied interim working capital until development is assured and working capital can be borrowed. This method cannot be used where there is a need for expensive land

purchases, unless the city has a huge fund available to loan to the agency.

Agency bonds at times have been sold early in the process, before development, assuring tax increment funds for working capital. However, the marketability of the bonds and the bondholders is dependent upon the generation of tax increments by increased property values resulting from private development constructed in the project area. Thus, working capital may not be available to an agency unless there is development or a precommitted guarantee of development sufficient to satisfy the bond market. Agencies generally do not incur costs and expend funds on behalf of a project until the availability of working capital is assured. At such time as working capital is obtained, the agency begins to acquire property, relocate occupants, clear land, make necessary public improvements, and incur other necessary project costs.

In the past with Federal financing, it was beneficial but not essential for an agency to obtain a land developer early. Without Federal working capital, a committed land developer or existing development increasing the assessed values without redevelopment expenditures is absolutely essential in most projects as early as possible. In such instances, no detailed or extensive planning is done. Agencies prepare and adopt redevelopment plans for as little as $2,500 to $5,000 in addition to minimal staff costs. In each instance, a major developer is obtained, precommitments made, and agreements negotiated and entered into as early as possible. Such agreements are conditioned upon the adoption of the redevelopment plan and/or upon the availability of short term loans for operating capital until the land is conveyed, and long term loans for operating capital to cover the net loss between costs and land proceeds until tax increments from the increase of assessed values can repay the net loss. Unless a city is willing and able to make large loans (in the millions) from existing funds or from the proceeds of a general obligation bond issue, there appears to be no source of operating capital unless there are binding, legally enforceable development agreements that would assure both short term and long term lenders and tax increment bondholders that there will be sales proceeds and increased assessed valuations to produce tax increments. Thus, in the plan preparation stage, without Federal assistance the redevelopment plan and the purchase and development agreements must be created as a unit—an organic whole.

Some cities have provided additional assistance through loans and grants for various public facilities. Agencies again repay such advances and loans made by the cities from tax increments and other revenues if and when such increments and other revenues accrue. In some instances, gas tax funds as available from the State or county have been used for street system improvements and been repaid from tax increments.

Necessary working capital for projects has also been obtained by some agencies through advances, grants, and loans from private developers. After adoption of the redevelopment plan for the project area, and execution of a disposition and development agreement with the developer, the developer made loans to the agency in amounts sufficient for the agency to proceed with land acquisition and other activities until such time as agency tax increment bonds could be sold. In such instances, agency bond issues are more apt to be successful because there is assurance of immediate sales proceeds and increased assessed valuations to produce adequate tax increments. These loans are repayable to the developer as credits against land purchase prices or from tax increments.

It should be stressed that the financing of a project through tax increments requires close cooperation of effort by the redevelopment agency, the city, and the private developers with common purposes and goals. Most projects have employed a different combination of various financing tools to achieve their goals, but the backbone of each project has been the use of tax increments.

Method of Establishing Land Prices and Offering Redevelopment Land for Sale and Development

In some instances, disposition and development contracts are entered into between developers and redevelopment agencies prior to adoption of the redevelopment plan. Such contracts are entered into subject to adoption of the redevelopment plan and subject to the obtaining of public financing for the project. In other instances, such contracts are entered into after adoption of the redevelopment plan but subject to a redevelopment plan amendment necessitated by the desire of the developer to develop in a manner different from the adopted redevelopment plan.

Some redevelopment land is offered for sale pursuant to competitive bid by sealed bid or by auction. Generally, this is possible only where design and all other elements except land price are settled, or where the development is to be within standard limits subject to a precise declaration of restrictions such as might exist in a redevelopment project to be developed for single family homes. Some State laws require competitive bidding, thus precluding any reasonable method for sale of land for major developments.

Most redevelopment land is offered for sale through negotiated open competitive conditions, with land price established by the agency as a settled matter. This process will be described in detail below.

Some redevelopment land is offered for sale through negotiation without open competitive conditions. This method is necessary under some conditions, particularly when a major user wants a site but is not willing to be known publicly either with regard to a private site or to a redevelopment site.

Land prices should be established with regard to the precise conditions, controls, and restrictions which will be applied to the land. Thus, assuming there is a market for all uses to a high intensity, land generally would be priced higher if it is useable for commercial and lower if for residential; higher if a high percentage of the land can be covered with buildings and lower if land coverage is limited; higher if the buildings can be tall, lower if there is a limit on the height of buildings; higher if the floor area permitted or the site is large, lower if the floor area is small.

A city and a redevelopment agency are generally not primarily interested inland price but in a balanced community. Thus a city seeks not the highest and best economic use, but the highest and best community and social use, pricing the land according to the controls to be established. Thus, in offering land for sale, an agency cannot charge $50 a square foot for land if the controls will be geared to require only 30 dwelling units per acre at rents to meet low income demand. Thus the developer might be willing to pay only 50¢ to $1.50 a square foot, depending on location, number of units permitted, and availability of Federal subsidy programs. On the other hand, the developer might be willing to pay $30–$100 a square foot for land if he can build a 50-story building with 100,000 to 2 million square feet of commercial office space.

Thus, while the redevelopment plan contains general land use controls, the redevelopment agency in marketing the land must decide on more precise controls either before, during, or after obtaining a developer. It is best if the agency spends only a modest sum for precise planning controls prior to adoption of the redevelopment plan, since precise controls are more valid the more they can be tested against the marketplace at a time when a contract with a developer is imminent.

Successful marketing requires that agencies having large amounts of land to sell be prepared to know the planning limits within which they will let a developer develop in the absence of a basis to develop outside those limits. Thus agencies prepare proposed controls—referred to variously as designs, design objectives and criteria, illustrative site plans, etc.—to guide developers prior to entering into a contract. Hopefully, these are flexible and not dogmatic.

Experience has shown that developers do not know with any precision what the development will be until they have had an opportunity to expend large sums of money on obtaining financing, and schematic plans. But developers will not expend large sums for these purposes until they have the land tied up legally. Thus agencies which require precision in planning by a developer prior to entering into a contract will lose the developer or be faced with the sometimes embarrassing alternative of permitting the developer to change his designs completely after he has spent adequate time and money to plan the site properly.

In earlier years, some redevelopment agencies offered land for sale by requiring developers to compete on price and architectural design. Those two factors sometimes work against each other, for rarely could the best design afford to pay the highest price for the land. Moreover, the developer offering the highest price for land often had to maximize the economics of the project at the expense of design. Moreover, developers no longer appear prepared to enter into expensive design competitions with other developers.

For major developments, the best method would appear to be one in which the land is broadly exposed to the market by advertisements in the Wall Street Journal and the local newspapers, and by mailings and talks with potential developers. The developers are asked to submit offers for the agency to enter into exclusive negotiations with the developer for a given site for a period of 60–90 days with possible extensions. Land price, or a method of mathematically computing land price, is established by the agency

at an amount that would be attractive to developers. Design objectives and criteria are sent to the developers together with the description of the process and all pertinent information. The developer should not be permitted to submit designs at this time, because they are generally meaningless until he is satisfied he will have the contract, if he performs, or until he has the contract. Unfortunately, designs submitted at this time are inordinately influential in the agency's decisionmaking process, considering their ultimate uselessness.

It is important for major development that the agency choose a developer on its past record, quality of its present officers, employees, professional consultants, and partners. The architect is particularly significant, since he will develop the environment through his architecture consistent with the urban design for the area and the community, as interpreted to the architect through the agency administrator and design staff and consultants.

The agency board chooses for negotiation the developer best suited to the agency's and community's need after:

- Staff and consultant's review, comments, and reports.
- Meetings with each qualified developer for personal appraisal.
- Checking developers' backgrounds.

The agency then enters into an exclusive negotiation contract with the selected developer.

At all stages, it is essential that the redevelopment agency have an experienced land economics and land marketing consultant on staff or under contract for advice and assistance.

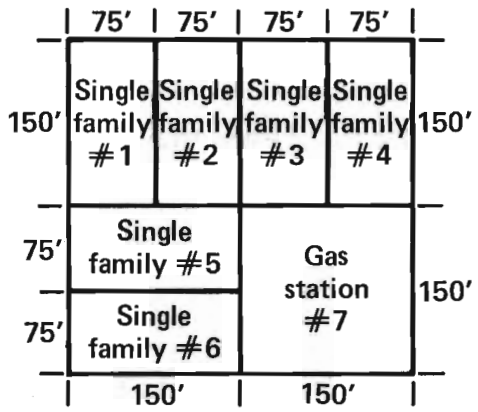
Precise procedures and timing are designed to fit Federal, State, and local laws and procedures. The proper meshing of these requirements is somewhat complex because the requirements are developed independently by the three levels of government. For instance, the Federal Government requires that a 10-day notice be published prior to entering into any agreement or undertaking regarding the sale of project land. State laws sometimes require public hearings on the sale after published notice 2 weeks before the hearing. Some cities require that disposition and development agreements be subject to the approval of the city council. The United States Department of Housing and Urban Development requires that such contracts be subject to HUD approval. These various requirements require a careful scheduling of the process to obtain approvals expeditiously.

Table 1. California Cities with Redevelopment Projects Unassisted by Federal Funds

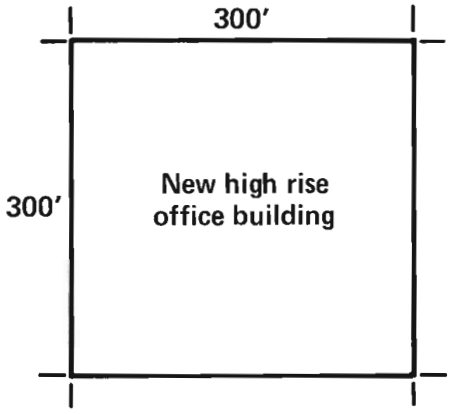
City	No. of Projects
1. Anaheim, Calif.	1
2. Arcadia,Calif.	1
3. Alhambra, Calif.	1
4. Bakersfield, Calif.	1
5. Brea, Calif.	1
6. Burbank, Calif.	2
7. Cerritos, Calif.	1
8. Claremont, Calif.	1
9. Colton, Calif.	1
10. Covina, Calif.	1
11. Carson, Calif.	1
12. Culver City, Calif.	2
13. Foster City, Calif.	1
14. Fullerton, Calif.	1
15. Glendale, Calif.	1
16. Huntington Park, Calif.	1
17. Industry, Calif.	1
18. Inglewood, Calif.	3
19. Los Angeles, Calif.	3
20. Long Beach, Calif.	1
21. Pasadena, Calif.	3
22. Pinole, Calif.	1
23. San Diego, Calif.	2
24. San Dimas, Calif.	1
25. San Fernando, Calif.	3
26. San Pablo, Calif.	2
27. San Rafael, Calif.	1
28. Santa Barbara, Calif.	1
29. Santa Monica, Calif.	1
30. Seal Beach, Calif.	1
31. South Pasadena, Calif.	1
32. Temple City, Calif.	1
33. Torrance, Calif.	1
34. Thousand Oaks, Calif.	1
35. West Covina, Calif.	1
36. Pomona, Calif.	1

Example of Tax Increments Created by Redevelopment

Land Uses Before Redevelopment



Land Uses After Redevelopment



Assessed Values*

Lot No.	Land	Imp.	Total
#1	$1,250	$5,000	$6,250
#2	1,250	6,000	7,250
#3	1,250	6,000	7,250
#4	1,250	5,000	6,250
#5	1,400	5,600	7,000
#6	1,400	5,800	7,200
#7	5,000	12,000	17,000
Total	$12,800	$45,400	$58,200

Assessed Values*

	Land	Imp.	Total
Office	$60,000	$800,000	$860,000
	—	—	—
	—	—	—
	—	—	—
	—	—	—
	—	—	—
	—	—	—
	$60,000	$800,000	$860,000

Increase in assessed value = $860,000 - $58,200 = $801,800

Yearly taxes generated on incremental assessed value @ a combined tax rate of $10/$100 of assessed value = $80,180

Tax allocation bond capacity @ 1.3 coverage ratio and a 6.5 percent interest rate ≅ $950,000 ←

* Assessed value in California is based on 25 percent of market value.

Tax Credits as a Housing Assistance System

By Don S. Samuelson
Manager, Planning, Inland Steel Urban Development Corporation

Federal Tax Credits as a Housing Assistance System

This paper discusses a proposal to distribute housing subsidies by means of Federal tax credit. To facilitate review of the proposal, I have attempted to be as brief as possible. I have purposely omitted discussions or calculations of those issues which are generally applicable to other demand strategies. These include definitions of household, income, and housing expenditures; discussions of adequacy levels and contribution rates; analysis of the methods to be used for coordination with other forms of special category income assistance; calculations of detailed program costs based upon different choices among cost variables and assumptions as to the housing circumstances of the target constituency. Each of these areas is sufficiently complex in itself to warrant concentrated study. Moreover, the work done in these areas by others analyzing the potential of demand strategies can be easily adapted into the analysis of tax credits. To attempt to duplicate it in this memorandum would be unproductive and wasteful.

The tax credit proposal can be viewed at two levels. Viewed narrowly, it is a variation of the traditional housing allowance, substituting the Internal Revenue Service and tax credits (including refunds) for allowances distributed by a social service agency. Some of its substantive suggestions have since been adopted, or independently developed, by other analysts.

In a broader view, however, it is an effort to integrate into a single system all governmental monetary assistance to consumers of housing. Because most present assistance—itemized and standard deductions—occurs within the tax system, it was chosen as the most logical of the possible single systems.

Since my earlier outline, the Administration has proposed a property tax credit for the elderly. Although it is restricted to redressing excessive property tax payments made by low and middle income elderly, it is similar in basic concept to the proposal advanced in this memorandum.

The memorandum consists of three parts. The first is a brief summary of the proposal. The second is an enlarged discussion of some of its key elements. The third is an evaluation.

Summary of Proposal

The basic proposal is to distribute housing subsidy funds through the Federal tax system in the form of tax credits. The funds to be used would be those which would have been distributed through the former direct subsidy programs: Public Housing, 235, 236, Rent Supplement, and the Farmer's Home programs.

The credit would be used to offset taxes due. In the event the amount of the credit exceeded the taxpayer's taxable income, the credit would be refundable. That is, a taxpayer would be entitled to a payment in the amount by which the credit exceeded the tax due.

The proposed tax credit is designed to assist those who do not presently receive housing benefits from itemized deduction, standard deductions, governmental housing programs, or housing payments provided by other than housing programs. It would act as a complement to these existing forms of housing assistance. The proposal is an effort to fill in the gaps in assistance converage, to begin to assist those who have to this point been largely ignored by the housing assistance system.

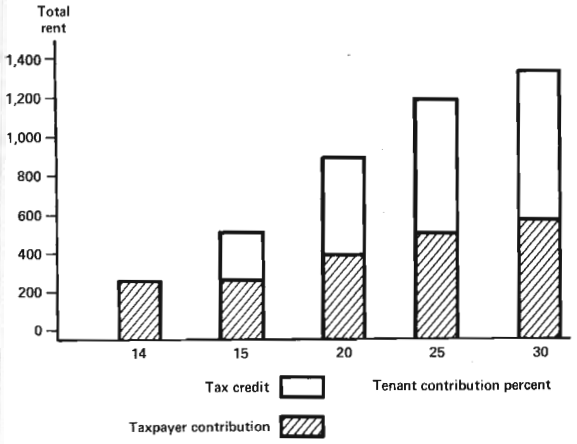
The tax credits are intended to enable all individuals to be able to afford decent housing. The housing adequacy level used in this proposal is defined in financial rather than physical terms. It is the cost necessary to obtain minimally decent housing. It is not defined in terms of the physical quality of the unit. Whether or not the tax credit is claimed, and the housing type and quality for which it is used, are decisions left to the discretion of the individual.

The cost of minimally decent housing—or the housing adequacy level—will vary by family size and geographical area. It will not vary by the income level of recipient. Variations in income levels, of course, will result in different benefit schedules. It will "cost" different

amounts to raise families with different income levels up to the financial ability to afford adequate housing.

An explicit strategy of the proposal is to create incentives for individuals to spend up to the amount necessary to obtain decent housing. Whether they do so or not is a matter of individual choice. The benefit schedule provides varying credit amounts to match varying percentages of taxpayer income spent upon housing. The thrust of this incentive system can be seen from the following graph of subsidy amounts accompanying various percentages of tenant income spent upon housing.

Paying less than 15 percent of income generates no subsidy. Increasing the tenant effort from 14 percent to 25 percent ($280–$500) generates $700 of subsidy. The benefits resulting



from paying more than 25 percent of income for housing are sharply reduced. The objective is to induce expenditures up to, but not beyond, the housing adequacy level.

Apart from providing incentives to spend up to the cost of decent housing, the proposal is also progressive. All of the benefit schedules reflect greater taxpayer contributions—and lesser governmental contributions—as incomes increase.

The existing itemized and standard deductions for housing expenses are retained. However, they are transferred to a new housing schedule prior to being incorporated in Form 1040. That portion of the standard deduction which is intended as assistance for housing is separated out of the standard deduction and becomes, in effect, a "standard housing deduction."

All individuals are given the choice to claim their housing assistance either through the itemized or standard housing deduction, or through the tax credit. They would be viewed as alternative housing support programs.

Table 1. Housing Assistance Schedule

Choose only one of the three alternatives		
1. Itemized deductions		
Mortgage interest	_____	
Property tax	_____	
(Enter on Schedule A)		_____
2. Standard housing deduction	_____	
Deduct other housing assistance *	_____	
(Enter on Line 52(b)(1) as addition to other portion of standard deduction)		_____
3. Housing tax credit		
Gross income (Line 15)	_____	
All other income	_____	
Housing adequacy level	_____	
Housing expenditure	_____	
4. Credit	_____	
Deduct other housing assistance	_____	
Credit due—Enter in Part IV		_____

* This deduction must be translated into the value of a credit prior to the deduction of other housing assistance benefits.

In order to prevent the duplication of housing assistance benefits, any housing assistance obtained through the former direct subsidy programs or through nonhousing assistance programs must be used to offset any benefit resulting from the claim of either a deduction or a credit.

The system of claiming itemized deductions provides an administrative model for the tax credit proposal. There is no check upon the quality of the housing, the expenditure for which has generated the deductions. There is no check upon the equivalence of housing cost and housing value. The amount of the housing expenditures which can be claimed as deductions or credits is a function of the income level and family circumstances of the taxpayer, the housing adequacy level, the percentage of income spent upon housing, and the housing expenditure level. This housing expense partnership between taxpayer and government is at the control of the taxpayer. The taxpayer chooses the type and location of his housing. He chooses his expenditure level. The government assistance follows.

The proposed housing tax credit system is similar in concept to the housing assistance

provided by itemized deductions. The areas of similarity are these:

- The tax credit can be claimed by all of those who are eligible, and not rationed to only a few among a much larger eligible group.
- There is no check or control upon the type, physical quality, or value of the housing unit secured, only that the housing expenditure is in fact made.
- The amount of the governmental assistance is a function of the housing expenditure level and the income level of the individual. The individual can control—within marketplace, not government constraints—the amount of the government assistance.
- The individual receives his assistance by reimbursement from the government after he has made his housing expenditures.
- The transactional cost is minimized. There are no middlemen involved. The assistance flows directly from the government to the taxpayer.

The benefit schedules reflect an assumption as to the cost of adequate housing in a region. The taxpayer selects that rent level which optimizes that distribution of rent between himself and the government. Tables will show these divisions based upon variations in income level, percentage of income spent upon rent, family size and geographical area.

It is assumed that the tax system would be used for determining eligibility, calculating benefits, processing applications for credits, verifying (through traditional selective post audit procedures) the declarations made by the applicant, and distributing the benefits (through modification of withholding practices, credits against taxes owed, or refunds). As such, an administrative structure similar to that proposed for the Administration's proposed property tax credit for the elderly is assumed for purposes of the tax credit proposal.

Discussion of Proposal

Purposes

The proposed housing tax credit is designed to correct the deficiencies in our current system of income assistance for housing. The first objective is to begin to provide assistance to those who have been ignored under the present system—the poor who do not live in Public Housing or other governmentally assisted housing, and who do not receive welfare.[1] They receive no direct housing assistance. They receive little, if any, indirect housing assistance through tax deductions. In effect, they have been left out of the system of governmental income support for housing.

The second is to create public awareness of the fact that there are, at present, a wide variety of ways in which government provides monetary assistance to consumers of housing. Most people do think of Public Housing as a form of governmental assistance for housing. Most people do not think of itemized deductions for mortgage interest and real estate taxes in this way.

These are the short term goals. They are met by modifying the method by which housing assistance is claimed on the tax forms, and by distributing former direct subsidy funds (those used to fund 235, 236, etc.) through the tax system as refundable tax credits. The only substantive change involves the addition of the tax credit as an alternative means for claiming governmental housing assistance.

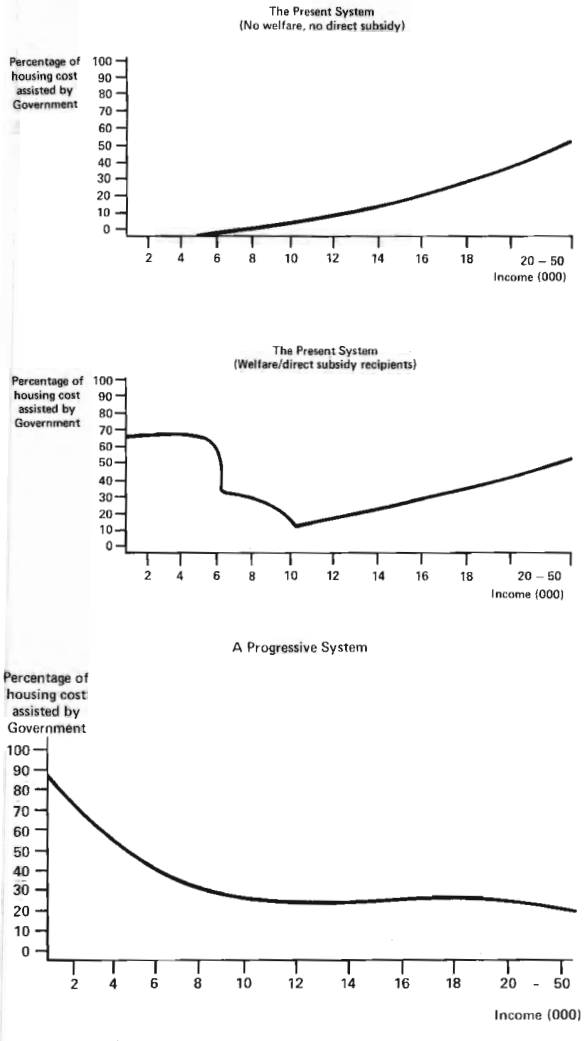
In the long term, when the diverse forms of income assistance for housing have been identified, collected, and made visible within a single system, it will be natural to begin to examine the system's distribution of benefits. At present, such an analysis is impossible because of the diversity of programs through which housing assistance payments are made, and their varying degrees of visibility.

The placement of the housing assistance program for low incomes (the tax credit) within the tax system framework of housing assistance would put all governmental assistance to housing in a single explicit income maintenance system—so that there would be public recognition of the various ways in which government assistance lowers the cost of the consumption of housing.

The shape of the benefit distribution curve is another matter. Some have suggested that such a system should have the percentage of housing assistance contributed by the government decrease as income increases. Some have also suggested—using the Charitable contribution model—an absolute dollar limit on the amount of housing expenditures that could be claimed through itemized deductions. This would put a limit on the dollar amount upon which the government percentage contribution could be applied. At the present—except for the small percentage who receive welfare contributions or

[1] The assumption is that a portion of the welfare payment is intended to be used for housing.

who are beneficiaries under the direct subsidy programs—the curve is essentially regressive. No assistance is received until tax payments are made. At that time some housing benefits are achieved through the standard deduction. The



benefit is proportional to increases in income until the standard deduction limit is reached, when the percentage of assistance decreases with increased income. When it becomes economical to itemize deductions, the net and percentage amount of government assistance increases with increased income.

This type of holistic benefit analysis can only be achieved after recognition is given of the various tax and housing programs through which this assistance is currently being provided. The introduction of the tax credit as part of a single system of income assistance for the consumption of housing tends to move the analysis in this direction.

Policy Premises

It is appropriate that explicit policy considerations underlay such structural change. The policies supporting the proposal are grounded in equity. The first is compensatory, to provide housing assistance to those who have not previously received assistance under our tax and housing programs. The second is to make the assistance available to all of those within the eligible class. This involves horizontal equity—the treating of persons in like circumstances in like ways. It also involves reducing the level of benefits received by a single person, so that more can share in the assistance. The third is to limit the assistance to the provision of adequate housing, not to the provision of superior housing. In fact, technically, it is the provision of financial resources to secure adequate housing, and not the adequate housing itself.

By now traditional lines of arguments have been developed for and against these proportions. It is unnecessary to restate them here. The tax credit proposal—in terms of its short term purposes—is premised on these three policies.

For the long term objective to integrate all forms of housing assistance into a single system —providing the opportunity for an adjustment of the distribution of benefits—a fourth policy would be added. The system should be progressive. The percentage at government contribution to the cost of an individual's housing should decrease as the individual's income increases. That is, the bulk of the government's housing assistance should be directed to the poor.

There is one other policy. The objectives of the proposal are limited to income assistance per se. The other historical objectives of government housing programs—production, economic stimulation, social engineering—are worthwhile objectives. These objectives—and methods for achieving them—should be analyzed independently from the issue of housing assistance.

Adequacy Level

Each of the national housing acts since 1949 has advanced as its objective the provision of "a decent home for every American family." "Decency" was defined in physical terms. Dilapidated homes were not decent. Neither were homes without plumbing facilities.

New housing units were needed. How many? The methodology was straightforward. One counted households and added a percentage for vacancy. Decent homes were subtracted. The result was housing need.

Analysts added to the concept of adequacy. First, the unit should not be crowded. Second, the decent home should be in a decent neighborhood.

There has been a subtle shift. The earliest needs studies looked only to the unit. It was plumbing-deficient or dilapidated, or it was not. The issue of crowding, however, went to the appropriateness of the match between household and housing, and not to the condition of the unit. Standard units in substandard neighborhoods presented a similar problem.

Finally, analysts began to include in their calculations of "need" households paying too great a percentage of their income on housing, despite the fact that they were living in uncrowded conditions in standard units.

The development of the methodology of the needs analysis is important because it illustrates what housing policy analysts have thought of—and counted—as the nation's housing problem. This type of analysis underlies the concept of housing adequacy. In this connection, the concept of the physically decent home as the object of national housing policy has grown over the years to include the financial ability of the individual to afford the decent home.

The accomplishment of both ideals has proven expensive. The cost of constructing physically adequate housing has risen sharply. The incomes of the poor have not. The cost problem is particularly troublesome when the decent home provided by the system—although not required by the earlier physical definition of adequacy—involved new construction, rather than the use of the existing housing stock. Our direct subsidy programs have been creating units which are much more than adequate, in the earlier "minimally adequate" sense. Understandably, such a strategy is most expensive.

One technique for lessening the cost of achieving adequacy would be to utilize more of the existing housing stock. Because the cost base is reduced, the per unit subsidy cost is reduced, and more households can be assisted with a given level of national financial commitment to housing. Many suggestions to modify the old categorical subsidy programs proceed on this premise.

A quite different strategy would be to price the cost of adequate housing in a region and to use that price as the proxy for housing adequacy. There would no longer be two determinations—the approval of the physical quality of the unit, and the calculations of subsidy. Instead there would be one—the calculation of subsidy. The assistance would be calculated by the difference between the cost of purchasing adequate housing in a community and the appropriate percentage of income that could be spent upon rent.

The proposal follows this strategy. The housing adequacy level is defined as that amount of money which is necessary to purchase a minimally acceptable level of housing. Housing adequacy is defined in financial rather than physical terms. The objective of the program is merely to provide people with the means to purchase adequate housing, and not to compel them to do so nor to restrict them by substituting a governmental standard of physical adequacy other than that imposed by local government.

Incentive Provision [2]

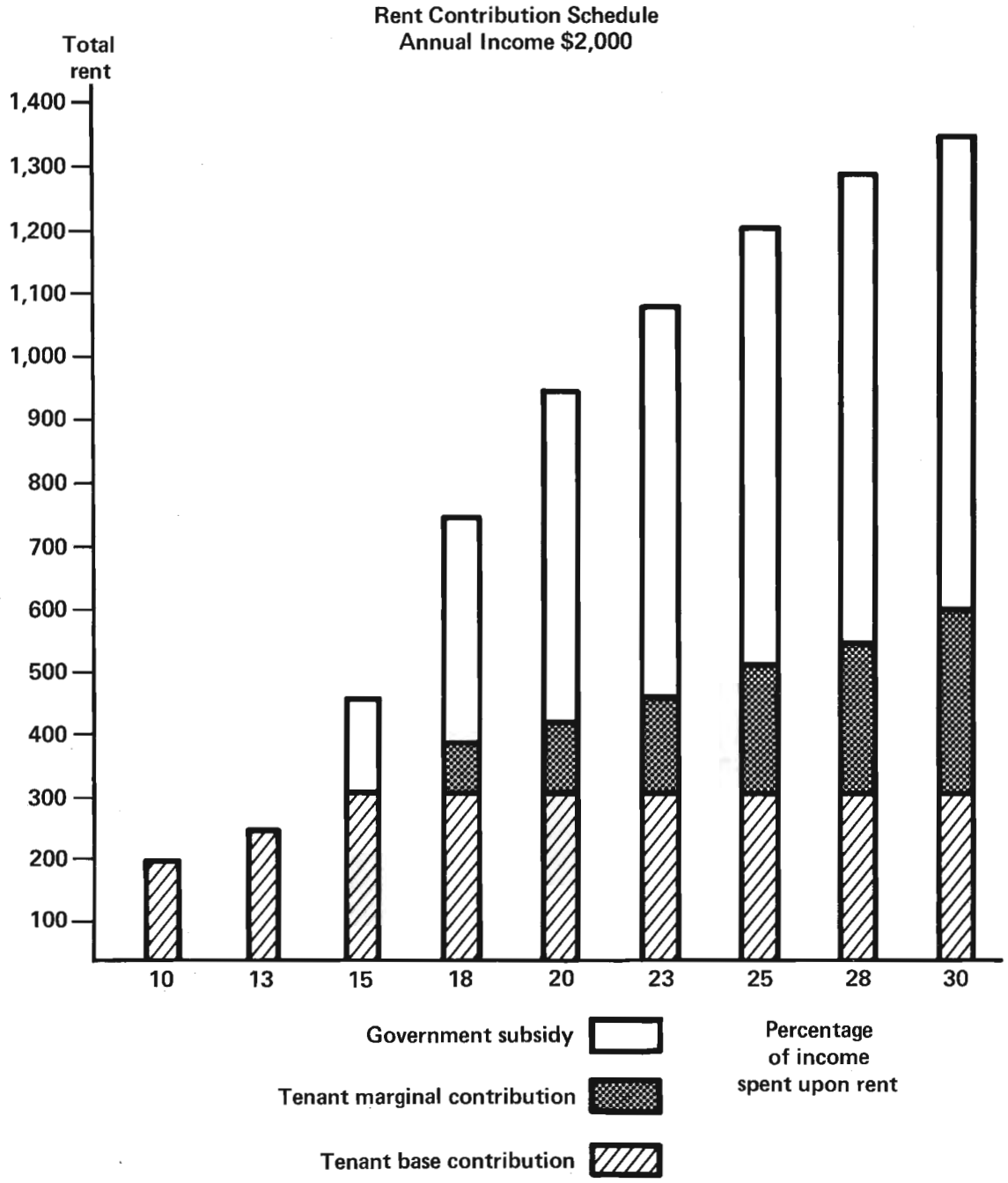
A very important ingredient of the proposal is the incentive it provides to its recipients to spend up to the housing adequacy level. The subsidy schedules are structured to reward families that choose to spend more than a minimal percentage of their income on housing. The assumption is that every family should be expected to spend a certain percentage of its income on housing. They would not be required to do so. However, because of the structure of the benefit system it would be in their interest to do so.

Consider as an example a family of four earning $2,000, and spending $500 per year upon housing. Assume, the cost of adequate housing for such a family to be $100 per month, or $1,200 per year. Assume the base contribution rate to be 15 percent, that is a family would have to spend 15 percent of its income on housing to qualify for the subsidy. An expenditure of 15 percent of income is $300 per year. The policy objective of the tax credit proposal is to enable them to spend $1,200 per year on housing, while retaining the same amount of money as before to spend on other than housing items.

This clearly involves subsidy. Traditional allowance theory would establish the housing defi-

[2] Since I submitted my outline, Irving Welfeld has submitted materials which deal comprehensively with the ways in which incentives can be worked into various allowance strategies. In reviewing his materials it appears that our concepts are essentially the same. In fact, the major difference between the proposals is in the mechanism for distribution.

ciency as the difference between the adequacy level ($1,200) and the amount spent ($500), or which should have been spent ($300), upon housing. The need in the first case would be $700, in the second $900. The allowance would fund the need in whole, or in part. The individual would use the allowance to purchase housing in an approved list of locations, or in the general marketplace. Under the voucher system, the recipient would use his $300 or $500 to buy rent vouchers worth $1,200. The point is that traditional allowance theory assumes a single ade-



quacy level, which, after subtracting an appropriate tenant contribution, can be funded at some percentage level.

The incentive approach, on the other hand, varies the amount of the government contribution dependent upon the effort (percentage of income) made by the family to make expenditures upon housing. In the previous example, no subsidy would be made unless the family is willing to spend 15 percent of its income on housing ($300).[3] If they are they receive a subsidy of $175. If they spend 20 percent ($400) the subsidy amount increases to $525. If they spend 25 percent ($500), they receive $700. For an expenditure of 30 percent ($600), they receive a subsidy of $788.

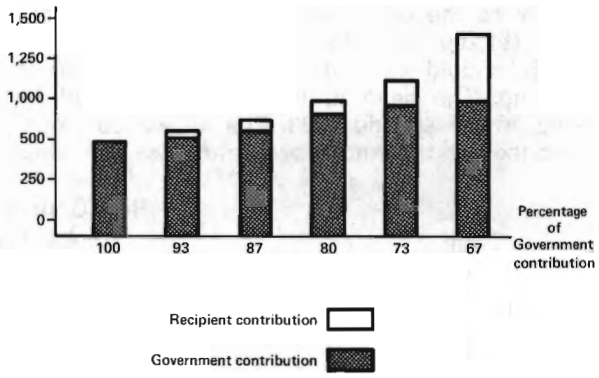
Notice the marginal utility of the additional percentage of income spent upon housing. The additional $20 to bring housing expenditures from 14 percent to 15 percent generates $175 in subsidy. Each successive $20 from 16 percent to 20 percent generates an additional $70 in subsidy. Each additional $20 from 21 percent to 25 percent generates $35 in subsidy. Additional $20 expenditures bringing the expenditure effort from 26 percent to 30 percent achieve only $18 in subsidy.

The greatest government contributions are intended to induce expenditure patterns which move toward, but not beyond, the housing adequacy level. The following chart represents the incentive system in more graphic form.

The graph reveals clearly the policy implicit in the subsidy schedule. It is to induce individuals to spend up to the "housing adequacy" level, and to spend between 15 percent and 25 percent of their income on housing. The recipient, in effect, controls his own subsidy amount by selecting that combination of expenditure effort and total rent which most nearly meets his own requirements.

One major alternative in the schedule would be to eliminate the base contribution required of the recipient. The recipient would receive a minimal amount of government assistance without any contribution on his part. He would have to begin to contribute to achieve the larger governmental contributions. Under this alternative, the net contribution of the government would increase—although the percentage of government contribution would decrease—until the total available for housing reached the adequacy level.

[3] For purposes of consistency in your review, I am using the numbers provided by Irving Welfeld.



The goal is to create incentives—based upon matching requirements of the recipient—to get expenditures *up to* the housing adequacy line, and then sharply to lessen the incentives for expenditures beyond the housing adequacy line.

An incentive system, of sorts, is already built into the system by which itemized deductions are claimed. Individuals claiming itemized deductions have the option of selecting—with reality-inducing credit constraints imposed by banks—any expenditure level for housing they choose. The incentives work the wrong way, however. There are increased governmental contributions associated with increases in expenditures. There is no reduction in benefit for housing expenditures made beyond the level necessary to achieve a public interest. In other words, unlike the areas of charitable contributions and political contributions, there is no recognized level of "expenditure excess." Moreover, the percentage of housing expense assumed by the government increases with increased income. This is a function of the graduated marginal rates of taxation. Both the net and the percentage level of government housing assistance increase with increases in income. At any given income level, there is no disincentive for additional housing expenditures. The percentage remains constant—unless the deductions move the taxpayer into a lesser tax bracket, in which case the government's contribution is increased—while the absolute amount of the subsidy increases, again without a limit that is either absolute or induced through progressively smaller subsidy.

The point is that there are possibilities for using tax credits as incentives to induce housing expenditure patterns in the marketplace. The tax system historically has been used for such purposes. Itemized deductions already are performing this function. Because of the greater marginal

utility of the low income dollar, it is arguable that incentives at low income levels would generate greater response than those used at upper income levels.[4]

The first step is to articulate explicitly the policy objectives that the incentives are to achieve. A policy to spend up to the adequacy level is one; there are certainly others. The next is to iterate the principal alternative combinations of base and marginal recipient contributions, governmental match, slope of the incentive curve, and adequacy levels, so that their cost and effectiveness in achieving the policy objectives can be evaluated.

The Subsidy Schedule

There are two points to be made with respect to the subsidy schedules. They are essentially mechanical considerations which have policy implications. First, they should be progressive. Second, they should be smooth.

It is possible to create a progressiveness within the tax credit portion of the total housing assistance system, or within the total assistance system itself. The progressiveness is distinct from the incentive feature discussed earlier. Within a given income level, the incentive feature attempts to induce expenditures up to an adequacy level. The progressiveness feature reduces the entire schedule of benefits as income increases. Because the adequacy level remains relatively constant as income increases, the size of the gap to be made up by the credit decreases. For each income level's benefit schedule, there is the same type of incentive—although achieved at a smaller governmental cost—to spend up to the adequacy level.

A major policy issue is whether the system of income assistance as a whole should demonstrate this same progressiveness. Achieving such a progressiveness also poses substantial mechanical problems. Substantial adjustments would have to be made in the present method for calculating itemized and standard deductions to reflect such a policy. At present, housing benefits increase proportionately under the standard deduction until the dollar limit is reached, at which point they remain the same in dollar terms, and decrease as a percentage of income. These benefits occur independently of the actual expenditure level. The value of itemized deductions—which must be certified—increase with increases in either income or expenditures, or both.

The subsidy schedule also should be smooth. One of the problems with the design of the former direct subsidy programs was their sharp breaks at the margins. This was particularly true of the income limits and other eligibility requirements in Public Housing and 236, and with tenure change and the financial implications of changing from standard deductions to itemized deductions.

These are somewhat general statements of subsidy schedule design goals. They are not at all developed. However, my assumption is that if a "Housing Czar" aggregated all of the diverse forms of housing assistance and was required to distribute them rationally and visibly as actual payments, to individuals, such subsidy principles would likely emerge. The long term objective of the tax credit proposal is to create the same distribution of subsidy benefits through a system of deductions and credits (offsets or refunds to taxes) that would be developed by a Housing Czar charged with the responsibility of rationally distributing housing assistance in the form of direct cash payments.

Calculation of Subsidy

The amount of the subsidy is a function of several independent variables: The housing adequacy level, the definition of taxpayer income, the base contribution rate required of the taxpayer, the matching requirements between taxpayer and government (the marginal contribution rate), and offsets to the calculated credit resulting from other forms of housing assistance.[5]

There are a wide variety of possible adequacy levels. They can be defined nationally, by a State, or locally. They can be based upon criteria of existing housing costs, or based upon formula. They can be determined by a variety of different sources, and for varying lengths of time. The adequacy level issue is present in all allowance strategies. It is not unique to this proposal.

There is one slight caveat. Because of the incentive provision, there are a variety of housing expenditure levels that can be chosen while retaining eligibility for the credit. It is somewhat more difficult, therefore, to project the cost of

[4] On the other hand, it might be argued that low income dollars are more inflexibly committed to other essentials, and are therefore less "discretionary." In this area, as with most other elements of the tax credit proposal, little is known. All is speculation.

[5] Similar offsets should be applied to housing assistance received through deductions. This is essentially an effort to avoid "double sloping" in housing assistance.

the program. It not only involves comparisons of adequacy levels and income levels, with approximations of participation levels in the program; it also involves projections as to the percentage of the maximum subsidy amount individuals will decide to purchase. Again, this is a problem which is not unique to the tax credit proposal. It is present in all allowance programs with incentive features.

The definition of "income" used also affects the cost of the program. Most allowance theory includes the Federal tax definition of income and other forms of income that are not includable in the tax definition. The fact that several deductions have been made from income in determining itemized and standard deductions should not complicate the calculation of the tax credit. They could be added back prior to the calculation of the credit. In fact, the proposal assumes that there will be offsets to the calculated credit equal to that housing assistance which is obtained through public housing, direct subsidy programs or housing assistance from welfare.

The offset to the credit resulting from other forms of housing assistance is critical. The objective is to avoid double payment of housing assistance. This can be achieved by requiring individuals to choose benefits under one of three alternatives—itemized deductions, standard deductions, and credit—and to offset the after-tax savings resulting from such calculations to reflect any dollar-for-dollar benefits achieved under other housing assistance.

Program Costs

Most of the cost calculations done for other allowance programs are applicable to a costing of the tax credit proposal. A data bank and computer capability are necessary for costing in the detail necessary for even moderately close analysis.

One of the advantages of the proposal is that it is possible to implement the program with almost any level of funding. Adjustments in any of the variables in the subsidy calculation formula will generate different program costs. For example, the following adjustments will reduce total program costs:

- Lowering of adequacy level.
- Increasing the percentage of the base contribution required of the recipient.
- Funding less than 100 percent of the resulting governmental match.

These are only suggestive of the almost infinite number of variations in assumptions that can be made.

I have been using the following gross numbers for my own analytical purposes. I assume 60 million households. It is roughly the division of the total population (200 million) by the average household size (3.3 persons). I then assume that one-fourth (15 million) are possible candidates for the credit. I assume 15 percent of income to be the base housing contribution required of the recipient and $100 per month as a national housing adequacy level. Families earning $8,000 per year would generate $100 per month on the basis of the minimum contribution requirement. I assume roughly 25 percent of the households earn less than $8,000 and do not receive substantial housing assistance under the direct subsidy programs or welfare.

Assuming a funding unit of $1 billion per year, the division of households into funds results in $66 per family per year, or roughly $5 per month. Assuming $5 billion of funding per year, the results would be $330 per year, or $27 per month. The $5 billion is not unreasonable. It is a fairly conservative estimate of the projected costs of the 236 program, and within the general estimates advanced for the costs of the allowance program.

The $27 per month figure would be available for one quarter of the population, not necessarily the bottom quarter (because of the other housing assistance offsets to the credit). If that quarter were divided into thirds, with some skewing of the average subsidy, the following subsidy distribution might be achieved:

Population Group	Monthly Subsidy	Yearly Subsidy
low 8 percent	32	390
second 8 percent	27	330
third 8 percent	22	270

These costs are not unreasonable. One quarter of the population could be assisted. The benefits to be obtained are not insubstantial. The subsidy would be in addition to a required recipient contribution rate of 15 percent of income. The $2,000 income family would have available to it for housing expenditures its own $300 contribution, approximately a $400 subsidy, and any marginal contribution rate it might incur pursuant to the incentive nature of the subsidy schedule.

As discussed earlier, one of the attractions of viewing housing assistance within a systemwide perspective is the opportunity it provides

for ultimately examining the distribution of benefits. There is probably some fat in some quarters of the demographic distribution of itemized deductions to generate additional revenue with which to fund tax credits. It is difficult to estimate our current commitment to assistance for the consumption of housing. If one totals all the diverse forms of income assistance presently available to consumers of housing, I suspect it would be an impressive total. Itemized deductions are estimated to contribute between $6 billion and $8 billion. The contributions through standard deductions are obviously large. So is welfare. There is probably at present an adequate total commitment for assistance to housing. It probably needs to be rearranged. Without the facts as to the present distribution of benefits, it is difficult to say how much should be, or could be, shifted from whom. I have the feeling, however, that some distributions could be made to areas of greater need, without substantial conflict.

Apart from the possibilities for shifting present housing assistance funds into the funding of the tax credit, there are other opportunities for reducing the cost of the program. Increasing the base contribution rate from 15 percent to 20 percent would create substantial savings. Having the gap between the contribution rate and the adequacy level funded at only a percentage of its total amount would create other gaps. Having the marginal contribution of the recipient increased—thereby reducing directly the amount of the government contribution—would be still another. In fact, there are sufficient variables capable of adjustment so that almost any level of funding could be accommodated without doing substantial harm to the progressiveness, universality of coverage, or incentive provisions which represent the basic policies of the proposal.

Administration

One of the assumed benefits of the proposal is that it utilizes an existing system of administration. The proposal does not require that there be an inspection of the unit, to verify its physical adequacy. The proposal essentially involves the determination of eligibility and benefits. These determinations are made largely on the same type of information submitted on the income tax forms. The tax system—and its forms—seem ideal to the basic needs of an allowance system. The prestige of the tax system would ease problems of compliance. The verification of the accuracy of declarations could be monitored by sample postaudits. So the proposal—in its use of the tax system—was designed to avoid one of the problems associated with most allowance systems, the need for the design, creation, and legitimization of an administering vehicle.

A second problem of most housing allowance programs involves "leakage," the use of the allowance for other than housing purposes. Again, the tax proposal provides an answer. The credit is in the form of a refund after the expenditure has been made. Under this ideal system, a separate schedule—with appropriate tables—would be filled out in the same way, and at the same time, that other tax calculations are made.

The problem, of course, is that families with low incomes, who are the intended beneficiaries of the program, are usually not in the cash surplus situation to fund increased expenditures until the refund is available. This is particularly true when it includes the assumption of the additional transactional costs involved in a move—the move is assumed as a necessity in achieving the improved—and more costly—housing conditions.

This point is a difficult one. It is not discussed in the proposed elderly tax credit. But the objective there is to reduce present housing costs, not to induce increased housing expenditures. Most of the discussion of the Family Assistance Plan—which presented a similar problem—went to issues of adequacy levels, contribution rates, work requirements, and other elements of substantive design, and not to the mechanical questions of administration.

There are a variety of possible responses to this need for interim funding. None of them seems adequate:

- Reliance upon consumer initiative to solve the problem. The benefit schedules provide incentives to try.
- Payments made a year in advance of their being earned (prefunding).
- Interim payment mechanisms: adjustment of withholding or social security deductions, interim year payments on the basis of declarations of income and housing expenditure levels with settlement made at the end of the tax year.
- Utilization of other public (Federal or State) institutions for interim funding with liens upon tax credit.
- Allowing private commercial lenders to make loans to prospective credit recipients with the collateral being the prospective tax credit rebate (i.e. a form of tax anticipation note). If the

commercial lender were also responsible for making the eligibility calculations that would, at once, tend to increase the security for the loan and the accuracy of the application for the rebate, the loans could be given to the beneficiary in a lump sum and deposited in a checking account, or distributed on a monthly basis by the bank. The use of the funds by the bank, for those funds in checking accounts, might be sufficient benefit to the banks to cover the costs of the service.

It is also possible to separate the functions of application and processing from the function of payment. In the social security model, there is an organizational division between the collection and disbursement of funds. It is possible that organizations involved in other income maintenance programs could assist in the filling out of the basic tax forms, and then utilize the tax (or social security) systems for payment. It is also possible that the tax system could be used for eligibility determinations and calculations of benefits (achieving the educational benefits of the public perception of a single system) with the physical distribution of payments being made by social security or welfare.

Assuming the need for periodic funding, and the inability of the tax system to accommodate this need by an adjustment of withholding schedules, or other methods of periodic distribution, the most obvious vehicles for administering the system would be: social security (because of the size, amount, and frequency of the payments), welfare (because they are already performing a similar function for other categories of income maintenance) and local housing authorities (because they are already serving the basic target constituency).

The chief arguments for the tax credit concept have been: 1) the possibility it affords for developing a vertically integrated system of income assistance for housing, 2) its ability to function with a minimum of administrative cost (the year end settlement). Assuming the need for interim funding, it appears doubtful, on balance, whether the tax credit proposal has material advantages over other distribution mechanisms.

Coordination

My February 11, 1973, proposal advanced the notion of the tax credit as a part of a coordinated housing effort.

Production involves:

1. Essential reliance upon private sector.

2. Monitor of private sector performance. Standby State lending capacity utilizing tax-exempt municipal bonds, thereby generating new production at the lowest level of the unassisted market (or use of taxable municipals with Federal interest subsidy).

3. Limited utilization of new construction—deep subsidy. Not major production initiative. Used for precedent-setting, experimental, or other generalizable purposes, or as part of neighborhood redevelopment or maintenance efforts.

Assistance involves:

1. Reliance upon income tax deductions and credits. Both would be used—on a matching basis of a graduated type—to induce more optimal expenditures upon housing. The "credit" program would have graduated individual matching requirements up to expenditure levels necessary for the acquisition of decent housing. An effort would be made to include all of the direct and indirect subsidies provided for housing on a single additional form to be attached to the itemized deductions and credit sections of Form 1040.

2. Limited effort will be made to utilize new construction—deep subsidy, not as a production or assistance mechanism, but to achieve other social objectives—economic integration, population dispersal, acceleration or simplification of trickle-down.

Efficient Working of Housing Marketplace involves:

1. Aggressive enforcement of open housing laws and other constitutional obligations.

2. Direct attack upon all artificial barriers to free consumer mobility in the housing marketplace.

3. Provision of information to eliminate any artificial barriers to exercise of demand based upon informational deficiencies.

Neighborhood Maintenance and Redevelopment involves:

1. Interdisciplinary, intergovernmental approach to target geographical areas. The target areas would be those in advance of, rather than in the terminal stages of, neighborhood blight. The effort would be to save and rebuild neighborhoods in the path of deterioration, rather than concentrating efforts upon neighborhoods the

saving of which would be relatively uneconomic. Once again, in community development as with the provision of shelter, the objective should be to maximize the use of the scarce resources available.

2. Much of this effort would involve more than housing efforts. The Abolition-of-the-Problems-of-Poverty and Community Development Czars would be expected to join forces with the Housing Czar in such efforts. The housing production, assistance, or social objectives strategies we have discussed earlier could be used as part of neighborhood redevelopment efforts.

3. Demolition: prompt removal of dilapidated and abandoned structures.

4. Property value insurance.

The tax credit proposal is assumed to be only one part of a more varied housing strategy. It therefore requires coordination with the other housing efforts engaged in by various layers of government. There seems to be agreement that an effective demand strategy can work only in conjunction with other housing initiatives: monitoring of supply, information dispensing, and removal of old units. This necessary linkage is clearly recognized.

Evaluation

The tax credit proposal is in the nature of a future dream. It is something of interest—to be worked on—rather than something of near term relevance.

The analysis is not without merit. The proposal generates some useful insights:

1. It restricts itself to the objective of providing income assistance to consumers of housing, and expressly rejects—or more accurately, leaves to other programs—the other objectives which have been merged in our former subsidy programs.

2. By focusing upon housing assistance, it draws into the analysis those other housing and tax provisions that are serving similar objectives.

3. By aggregating all forms of housing assistance overlaps and duplications can be seen and presumably eliminated.

4. One soon starts to think of a "system" of income assistance for consumers of housing. The system has varying funding sources and levels and a surprising distribution of benefits. The tax credit proposal begins to stimulate this type of consideration by virtue of its physical placement within the mainstream housing assistance system. It tends to break down the housing myths of "them" and "us."

5. To consider an ideal, systemwide distribution of benefits, one is forced to examine the present distribution of benefits, to seek out problems and inequities, and to avoid the duplication of benefits. For example, who benefits from the tax deductions available to owners of rental property—the investors, the tenants? Unfortunately, little is known.

6. It raises the question of whether a portion of the standard deduction should be viewed as, in effect, a housing subsidy. Most discussion of housing policy has assumed that those who claim standard deductions are disadvantaged—vis-a-vis those who itemize—because they receive no housing assistance. The same question of fact is present in welfare and other general purpose forms of income maintenance.

7. The way in which subsidies are distributed through itemized deductions provides an interesting model to consider in developing a distribution system for tax credits. There is no concern with the quality of the unit, or its value with respect to cost. There is flexibility provided the taxpayer in the amount which he will pay for housing. The amount of the government contribution can be anticipated, and there is a yearend settlement on the taxpayer's certification that the payments in fact were made.

8. The itemized deduction model also shows that particular benefit schedules can create incentives that can influence behavior in the marketplace. The proposal to use the tax credit to induce housing expenditures up to the adequacy level is an amplification of this principle.

9. There is also the recognition that there must be coordination between the design of any income maintenance program for housing and other special category or general income maintenance programs so that the aggregate recipient contribution rate is not confiscatory.

Unfortunately, most of these "insights" raise more questions than they solve. It is readily apparent that a collection of insights does not make a program. The problem is compounded because there is no established body of litera-

ture or precedent to fall back on, unlike the situation in the modification of established programs, or in shifting the problem to the States.

The tax credit proposal as a type of demand strategy carries the same uncertainties as the other allowance programs which HUD has engaged in a 3- to 5-year period of experimentation to resolve. Will supply be responsive? Will there be demand-push inflation? How much of the allowance will be spent upon housing? Will filtration be accelerated? What is the most efficient means of administration? The fact is that no one knows.

To be fair, the same arguments could be asked of the results of income assistance provided through itemized deductions. Again, the results would not be clear. The predictability of demand-push inflation with respect to Medicare and Medicaid did not stop those legislative efforts.

In addition, most of the issues in the tax credit proposal are technical—the guarantee level or levels, the definition of household eligibility, the definition of "income," the calculation of the contribution rates, the calculation of the overall housing assistance schedule, the determination of existing amounts of housing assistance, the way in which housing income assistance programs would relate to the other forms of income assistance and the possibility of demand-push inflation. The state-of-the-art in analyzing them is not terribly advanced at present. However, they are still essentially empirical or technical. They can be done.

Given the "technical" nature of many of the problems and the strong compensating equities argument to provide housing assistance for those who have done without, why do I conclude the tax credit proposal to be a future dream? There are several lines of reasoning:

1. The real thrust of the tax credit proposal is structural change—the creation of a single, understandable system of income assistance for housing, with an internally consistent, progressive schedule of benefits. In terms of requisite policy analysis, legislation, and political climate, such a proposal is too much, too soon. This is an order of difference in magnitude from the modification of categorical programs, or revenue sharing (at least from the Federal perspective).

2. The more modest attractions of the proposal—the benefit theory, incentives, lack of concern with the physical quality of the unit, adequacy level in financial terms, etc.—can be accomplished as well through Federal allowance programs, or through revenue sharing. The tax credit mechanism is not essential to the achievement of changes in program design.

3. The need to fund projected credits during the tax year in which they are being earned, so that low income families can pay for the increased housing quality they are being encouraged to seek, substantially reduces one of the contemplated advantages of the proposal. Many of the recipients would qualify for refunds as opposed to tax reductions. To enable them to improve their conditions would require some mechanism—frequently more than an adjustment of the withholding tables—for getting cash to them during the year. This assumption of fact materially reduces the attractiveness of the proposal.

4. If it is not possible to create a vertically integrated housing assistance system, it would probably be better to create a horizontally consistent income maintenance system, combining housing assistance with health, food, and other forms of income maintenance. The elements of this system are administered principally through the States and local government.

5. Presently, we are at a very primitive level of understanding of the appropriate role of the government in housing or of the principles to be followed in designing a benefit schedule of income assistance in housing. Given such a condition, it is probably prudent to experiment through revenue sharing rather than to engage in major structural reform at this time.

This is my evaluation on balance:

1. The tax credit proposal—as a particularized type of demand-side strategy—ultimately rests on the importance attached to the development of a sound, vertically integrated program of income maintenance for housing.

2. The horizontal linkages with other categories of income maintenance can probably be done better outside of the tax system, since they are outside already and possess existing capacities to make various types of eligibility and benefit calculations.

3. Most of the nonstructural change elements of the proposal can be achieved by modification of existing allowance theory.

4. It is prudent to experiment—with allowance theory credits, with mixes of credits, allow-

ances, and production oriented strategies, with complementary housing programs—at the State level through revenue sharing before embarking upon a national demand strategy utilizing tax credits. It is too much, too soon, about which too little is known.

8 Rehabilitation and Preservation

Rehabilitation Versus Redevelopment: Cost-Benefit Analyses

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Introduction

In the past when the public pocketbook was viewed as almost boundless, calculating and comparing social programs' costs and benefits was often almost solely the preoccupation of economists. Today this situation has changed; the need to stabilize public expenditures has sensitized public officials to the need for detailed cost-benefit analyses of public social welfare programs. Such analysis is especially needed in the area of housing where conjecture and even myth has sometimes taken the place of fact.

One supposed truism in housing is that housing rehabilitation is cheaper than new construction. This premise has led public officials to increase greatly the expenditures for housing rehabilitation, especially in urban areas. But this premise has increasingly been questioned in recent years. H. Clarke Wells, the senior editor of *House and Home,* for example, stated that, "The time has come to get information (on rehabilitation costs) in depth so as to be able to make some choices among alternatives . . . [As the situation now stands] we have no proof of [rehabilitation's supposed superior cost] performance."[1] Similarly Robert Whittlesey concluded that in rehabilitation we have a community and national interest that can be no better served than getting the facts (about costs).[2]

Study Objectives and Overview

To get at the "facts" of rehabilitation's costs versus redevelopment's costs is precisely this study's objective. (In this study we use the term redevelopment synonymously with new construction.) We shall evaluate the costs and benefits of these strategies and then consider what is the optimal housing strategy—rehabilitation or redevelopment—given the relative costs-benefits. To guide the reader through our study we shall briefly describe its outline.

The first section discusses the advantages and disadvantages of cost-benefit analysis, especially in utilizing this analytic method in comparing housing programs. The second, third, and fourth sections are three cost-benefit analyses of rehabilitation versus redevelopment, which differ in scope, both in terms of the number of different costs examined as well as the duration of time over which these costs are calculated (see Exhibit 1). The second section, comparing the initial (project) costs of rehabilitation versus redevelopment, is the least extensive analysis. The third section, comparing the long-term costs of rehabilitation versus redevelopment, is the most comprehensive. The fourth section's scope can be described as middle range—between the initial and long-term costs methodologies. We utilize these three approaches as each has advantages and disadvantages. (We shall discuss this in depth later.)

Summary of Findings and Implications for Policy

Each of our chapters has a detailed summary of findings and implications for policy. We shall not list all of our summaries here but our major findings are included below. (See also Exhibit 1.)

(In this study we use these terms as follows:

- Development Cost: Initial expenses incurred on a project not directly related to the construction process. They typically include land acquisition, design and engineering, interim financing, miscellaneous fees, and demolition expenses.
- Construction Cost: Initial expenses incurred on a project and directly related to the construction process. They include site preparation, utility installation, residential construction, and finally landscaping and paving. Included in these are onsite wages, building and materials, and construction overhead.
- Initial or Project Cost: Development cost plus construction cost.
- Occupancy Cost: The recurring direct monthly carrying expense, which includes not

[1] H. Clarke Wells, speech given at Boston University, Boston, January 25, 1969. Cited in Bagby, *Housing Rehabilitation Costs* (Lexington, Mass.: Lexington Books, 1973).
[2] Robert Whittlesey, speech given at Boston University, Boston, January 1969.

only initial costs but also subsequent operating maintenance and replacement costs.

• Monthly Full Economic Cost: Occupancy cost plus indirect governmental expenditures, e.g., tax losses, and housing program administrative costs not included in the monthly rental expense.)

Major Findings

1. Cost-benefit analysis looking at rehabilitation-redevelopment initial costs reveals that:

a. Rehabilitation's initial costs are usually at least 20 percent cheaper than new construction's project cost outlay.

b. Based on the above finding, a strong emphasis on rehabilitation is warranted.

2. Cost-benefit analysis looking at rehabilitation-redevelopment long-term costs reveals that:

a. In general redevelopment is cheaper than rehabilitation, but redevelopment's cost advantage varies by neighborhood and the level of rehabilitation effected.

b. Specifically redevelopment has the largest cost advantage when compared to an extensive level of rehabilitation ("gut" rehab) effected in blighted neighborhoods. (For a definition of "gut" as well as light and moderate rehabilitation, see below.) Redevelopment's cost advantage declines when compared to moderate rehabilitation effected in transition neighborhoods. Redevelopment has the least cost advantage when compared to light rehabilitation effected in stable neighborhoods.

c. Based on the above findings, redevelopment is less costly than a rehabilitation strategy. Therefore, the former strategy should be stressed over the latter housing approach. If rehabilitation programs are to be continued, there should be a stress on lighter forms of modernization effected in better neighborhoods because, under such conditions, redevelopment has only a slight cost advantage as compared to rehabilitation.

3. Analysis of rehabilitation-redevelopment relative cost-benefit following a mid-range cost-benefit analysis reveals that:

a. Rehabilitation is slightly cheaper than redevelopment.

b. Based on the above conclusion, stressing rehabilitation over redevelopment would help reduce housing costs. However, because of the frequent large difference between the amenities of new versus rehabilitated units, there is some question whether a policy of stressing rehabilitation should be effected if only small savings will result.

4. The above conclusions are based solely on the objective of minimizing the cost of producing housing (especially low and moderate income units) with acceptable benefits, e.g., longevity, acceptable maintenance costs, etc. We have ignored other possible rehabilitation benefits—e.g., that it can be effected quickly, that it could reduce urban sprawl, that it can serve as a valuable manpower training vehicle—that may overide cost considerations in determining housing policy. We have also ignored other factors such as that rehabilitation may serve as a valuable saver of housing capital value and we have also assumed that certain tax provisions favorable to rehabilitation (Section 167(k)) will be continued in the future.

Cost-Benefit Analysis of Housing Rehabilitation Versus Redevelopment: Overview

Introduction

Before actually proceeding on a cost-benefit analysis of rehabilitation versus redevelopment, it is important that we examine the cost-benefit analytic method and its advantages and disadvantages. Such discussion is imperative because both rehabilitation's costs and benefits are difficult to measure. This chapter sets the stage for our subsequent analyses by discussing the problems of cost-benefit analysis and showing how we have countered these difficulties.

Cost-Benefit Analysis: Evaluation of the Method

Definition: Cost benefit analysis has been described as operating in the following manner [3]:

> In theory, say in a simple nondimensional world of no time, no space, no uncertainties, one merely decides what he wants (specifies ends), measures them (quantifies benefits), and then uses his limited means to achieve the greatest possible value of his wants (benefits). In a more complex world the means becomes budgets so that one merely has to maximize the benefits (once specified and

[3] Harley Hinrichs, "Government Decision Making and the Theory of Benefit-Cost Analysis," in Harley Hinrichs and Graeme Taylor (eds.) *Program Budgeting and Cost Benefit Analysis*, p. 1. (Pacific Palisades, Calif.: Goodyear Publishing Co., 1969), pp. 9–10.

Exhibit 1. Summary of the Three: Rehabilitation—Redevelopment Cost-Benefit Analyses

Section	Housing Strategies Compared	Cost-Benefit Methodology Utilized [1]	Benefit Considered	Cost(s) Considered [1] (examples)	Timespan of Analysis [1]	Conclusions [1]	Policy Implications [1]
TWO	Rehabilitation vs. Redevelopment	Initial cost-benefit analysis	Housing production at cheapest cost	Project cost	Short	Rehab is 15% + cheaper than redevelopment	Rehab should be stressed over redevelopment
THREE	Rehabilitation vs. Redevelopment	Long term cost-benefit analysis	Housing production at cheapest cost	Project, replacement, maintenance, forgone, Federal revenue, dislocation, housing amenity difference	Long	Redevelopment is generally cheaper than rehab, but, this cost advantage depends upon neighborhood and level of rehab effected	In general redevelopment should be stressed over rehabilitation
FOUR	Rehabilitation vs. Redevelopment	Mid-range cost-benefit analysis	Housing production at cheapest cost	Project, maintenance, forgone Federal revenue	Mid-range	Rehab is only slightly cheaper than redevelopment	Questionable whether rehab should be stressed over redevelopment since the former strategy produces units with inferior amenities as compared to the latter strategy and produces only a slight cost saving

[1] For further explanation see text.

quantified) for any given set of inputs (specified and quantified costs). This may be called Problem Type I: maximize benefits, given costs, e.g., build the highest pyramid with a given number of bricks . . . . A different allocation problem is Problem Type II: minimize costs to achieve any given level of benefits.

In this study our cost-benefit analysis focus is of the second type; we examine whether rehabilitation or redevelopment can minimize costs in producing low and moderate income housing units.

Background: Cost-benefit analysis was orignally conceived during the 1930's and 1940's for the evaluation of alternative courses of action in the design of water resources projects serving the single goal of economic efficiency. Cost-benefit analysis was conceptually derived from the theory of the firm and the endeavor of the firm to maximize its profits. Faced with the need to choose among a number of projects, the profit-maximizing entrepreneur compared the profitability of alternative projects by determining the profits of each project, calculated on the basis of the monetary revenues and cost occuring to the entrepreneur and relating this to the capital invested. He then chose the most profitable project.

Benefits and Weaknesses of the Cost-Benefit Analytic Method: The major benefit of cost-benefit analysis is that if accurately applied it can enable policymakers to make decisions that will most efficiently utilize resources. Such analysis is invaluable in the governmental decision making process for public resources are often limited (considering the demands placed upon them) and governmental programs rarely have an automatic regulator (such as the market for private firms) to tell us when an activity has ceased

to be productive or should be made more efficient or should be displaced by another activity.[4]

But costs-benefit analysis has often been difficult to apply accurately in practice. Specifically many cost-benefit analyses have had the following deficiencies:

1. Although lip service is generally paid to the consideration of intangibles, they do not really enter into the analysis. In fact, the intangible cost and benefits may indeed be the most important. (Cost-benefit analysis can show the marginal costs attached to less than economic optimum strategies and therefore show the fiscal burden offset to the intangible benefits attendant to the decision.)

2. The conversion of some consequences into monetary terms and the restriction of the evaluation process to an economic analysis may lead to deficient decisions.

3. Costs may also be difficult to measure, i.e., do we measure just initial and direct costs or should long-term and ancillary costs also be included.

The problem of measuring costs and benefits is especially critical in examining the relative costs and benefits of rehabilitation versus redevelopment. We shall now examine why such problems exist in measuring both benefits and costs and how we have countered these difficulties.

The Problem of Measuring Housing Benefits

One problem in measuring the relative cost benefits of rehabilitation versus redevelopment is that rehabilitation, in addition to its supposed benefit of usually producing housing at a lower cost then redevelopment, allegedly has other social and related benefits as well. We shall briefly review some of these benefits and then discuss how we approached these benefits in our analysis.

Supposed Benefits of Rehabilitation Versus New Construction: Advantages and disadvantages of urban rehabilitation strategies are discussed below.

Time Benefits: One advantage of a rehabilitation strategy is that it often can provide housing in less time than new construction. In Boston, for example, a large rehabilitation effort called the Boston Urban Rehabilitation Program (BURP) rehabilitated approximately 2,000 existing units [5] in less than a year. Their replacement by a like number of new units would have taken at least twice as long. Similarly in Camden, Camden Housing Improvement Projects (CHIP), a nonprofit organization regularly rehabilited one-family dwellings in 10 weeks, which is far shorter than the time span needed for new construction.[6]

Minimal Dislocation Benefit: One of the major criticisms of the urban renewal program was that it caused extensive dislocation of moderate income families.[7] In contrast, because of its alleged time advantage, as well as other characteristics, rehabilitation was viewed as a strategy that would minimize family and community displacement. Hopefully then the neighborhood opposition that often arose when urban renewal was planned would not arise when rehabilitation would be effected.[8] (This minimal dislocation benefit has not always materialized in practice. For an excellent study on the dislocation problems that can be caused by urban housing rehabilitation, see Langley Keyes, *The Boston Rehabilitation Program: An Independent Analysis* (Joint Center for Urban Studies of the Massachusetts Institute of Technology and Harvard University, 1970).)

Manpower Training Benefit: Urban housing rehabilitation has been viewed by many as being particularly well suited for training inner city residents in construction skills. For example, Robert Coard, the executive director of Action for Boston Community, Inc., has stated that rehabilitation could and should not only provide housing, but could also be used for training purposes and for "creating new jobs for people who need jobs." [9] Others have expressed similar beliefs.

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[4] Charles Schultze, "Why Benefit Cost Analysis," in Hinrichs and Taylor, *Program Budgeting and Cost Benefit Analysis*, p. 1.

[5] See Langley Keyes, *The Boston Rehabilitation Program: An Independent Analysis* (Joint Center for Urban Studies of the Massachusetts Institute of Technology and Harvard University, 1970); and the *Rehabilitation Planning Game: A Study in the Diversity of Neighborhood* (Cambridge, Mass.: M.I.T. Press, 1969).

[6] David Listokin, *The Dynamics of Housing Rehabilitation: Macro and Micro Analyses* (New Brunswick, N.J.: Center for Urban Policy Research, 1973).

[7] See M. Carter McFarland, "Residential Rehabilitation: An Overview," in M. Carter McFarland and Walter K. Vivret, *Residential Rehabilitation* (School of Architecture, University of Minnesota, 1966); Martin Anderson, *The Federal Bulldozer: A Critical Analysis of Urban Renewal, 1949-1962* (Cambridge, Mass.: M.I.T. Press, 1964); James Wilson (ed.), *Urban Renewal: The Record and the Controversy* (Cambridge, Mass.: The M.I.T. Press, 1966).

[8] David Gergen, "Renewal in the Ghetto: A Study of Residential Rehabilitation in Boston's Washington Park," *Harvard Civil Rights—Civil Liberties Law Review* Vol. 3, No. 2, Spring 1968, p. 245.

[9] Robert Coard, "BRP as an Opportunity for Training and New Careers," in Melvin Levin (ed.), *Innovations in Housing Rehabilitation* (Boston, Mass.: Boston University Urban Institute, 1969), p. 34.

(This benefit has also been difficult to achieve. See Robert Whittlesey, *The South End Row House and Its Rehabilitation for Low Income Residents* (Boston: 1969), pp. 3–9, 3–11; George Sternlieb, Robert Burchell, and James Hughes, *Housing Costs and Housing Restraints, Newark, New Jersey* (New Brunswick: Center for Urban Social Science Research, Rutgers University, 1970), p. 86+; "Can Slum Labor Be Used to Rehabilitate the Slums?" *House and Home,* Vol. 33, No. 6, June 1968, pp. 76–82.)

Other Benefits: Rehabilitation allegedly has other benefits as well. It has been viewed as a strategy that could disperse low income housing units throughout a number of neighborhoods, rather than concentrating such units in a single area.[10] It has also been viewed as a powerful tool for preserving architecturally historic neighborhoods.[11] And it is also seen as a housing strategy that could help reduce urban sprawl (we shall examine this last advantage later).

Including Rehabilitation's Alleged Advantages in a Cost-Benefit Analysis: We could assign dollar values to some of rehabilitation's supposed benefits described above and then include these values in our cost-benefit analysis. However we shall instead consider only one benefit in our cost-benefit analysis of rehabilitation versus redevelopment—the efficient production of housing. We disregard rehabilitation's alleged social benefits for the following reasons:

1. These benefits are considered by many to be ancillary to rehabilitation's cost advantage in producing housing.

2. The alleged benefits we have described above need deeper analysis, which is presently unavailable, to determine whether these benefits have in fact materialized in practice. This analysis is critical for some of rehabilitation's alleged advantages; e.g., causing minimal relocation problems has often been more myth than fact.

3. Even if rehabilitation's alleged social benefits are indeed real, attempting to assign dollar values to some of these benefits—the training of inner city workers, etc.—would open a Pandora's box of questions of how this could be accurately effected. A similar difficulty was described by a previous study as follows:[12]

> Our final consideration is how to compare the heterogeneous bundle of differences between redevelopment and rehabilitation. Some of the differences are expressed in money terms, others in terms of other quantitative indices, still others in qualitative terms. Moreover the analytic status of these differences in different dimensions itself differs. . . .
>
> The comparability, the trade-offs, the rules of choices between such a variety of effects do not objectively exist. The ability to make choices in the situation depends critically on the set of values, bases, and priorities of the agent who is to choose or in whose behalf choice is to be made.

We feel that our omission of rehabilitation's social benefit does not invalidate our analysis because a clear-eyed costing of the housing cost variable is the essential first step of reviewing our housing programs. A less than "most efficient" housing approach may then be chosen but this decision should be based on knowledge of the additional housing expenditure that will result.

The Problem of Measuring Housing Program Costs

In measuring the cost of rehabilitation versus redevelopment, a number of possible strategies could be followed. We could measure and compare the initial per unit or per-square-foot project cost of the two different housing strategies. This strategy appears straightforward and has the advantage that project data is often readily available.

But a strategy of focusing on only initial costs, while sometimes illuminating, can also be misleading: it can lead to the implementation of erroneous strategies, either opting for rehabilitation when such a policy can in the long run prove more costly than new construction or choosing redevelopment when in fact rehabilitation could have provided housing at a cheaper cost. As an illustration, if a rehabilitated unit has an initial $25,000 project cost while a comparable new unit costs $35,000, we might be tempted to effect a rehabilitation strategy. However, if the former unit had a 25-year economic life and would then be rehabilitated at an additional $25,000 expenditure, and the latter unit had a 50-year life, the rehabilitation strategy would

[10] Department of Housing and Urban Development, "Housing for Low-Income Families," (Washington, D.C.: Government Printing Office, 1967), p. 7.

[11] See James Biddle, "Historic Preservation," *Journal of Housing* No. 5, May 1971, pp. 219–223.

[12] Resource Management Corporation, *Benefit Cost Applications in Urban Renewal: Summary of the Feasibility Study,* August 1968 (Report Prepared for the Office of Economic and Market Analysis, Office of Deputy Undersecretary for Policy Analysis and Program Evaluation, Department of Housing and Urban Development).

cost $50,000 ($25,000 initial rehabilitation expenditure plus $25,000 for the future replacement cost), considerably more than the new ($35,000) unit cost. Our original decision, then, to effect rehabilitation because of its initial lower cost (if we disregard present value concepts) would have proved shortsighted, causing an unnecessary $15,000 per unit ($50,000 rehabilitation cost vs. $35,000 new unit cost) housing expenditure.

We can avoid forming such misleading conclusions by comparing the long term costs of various housing strategies. In illustration, we might calculate replacement cost and other costs such as the long term differences in maintenance costs between two different types of units, e.g., rehabilitated versus new units. If the long term costs of one housing strategy was higher than another, we would then opt for the more efficient strategy.

A third approach for measuring housing costs can be termed as a mid-range approach. The latter usually considers fewer cost components over a shorter time span than the long term cost approach but focuses on more cost components over a longer time span than the initial cost method. For example, the initial cost method may consider only project costs when construction is completed, the mid-range approach may consider both project costs and maintenance outlays calculated for a number of years, while the long term approach may consider initial project costs, maintenance costs for the lifetime of the unit, and the replacement cost at the end of the unit's economic life.

The mid-range approach has the following advantages and disadvantages: As compared to the initial cost approach, it affords a better insight into the total cost of housing programs. The reverse is true, however, when we compare the mid-range methodology to the long term approach. But counterbalancing this drawback is the fact that the mid-range methodology requires data that is more readily obtained, e.g., the economic life of the rehabilitated unit.

We shall not answer which of the three approaches discussed above "truly" measures housing cost. As we stated, each has advantages and disadvantages. Instead we shall utilize all three approaches: The next section of this study analyzes the cost-benefits of rehabilitation versus redevelopment and uses the initial cost approach. The third section utilizes the long term cost approach and the fourth section relies on the mid-range methodology.

Rehabilitation—Redevelopment Cost-Benefit Analysis: The Initial Cost Approach

Introduction

This section considers rehabilitation versus redevelopment cost-benefits by looking at the initial (project) costs of these two housing strategies. Initially it discusses the problem of getting accurate rehabilitation-redevelopment cost data and then chooses reliable and objective cost analyses. Next it examines these cost studies and divides them into two groups; those showing rehabilitation being 25 percent cheaper than redevelopment and those showing rehabilitation having a lesser cost advantage. Based on these empirical studies, we then decide whether a policy of rehabilitation or new construction should be stressed.

Initial Costs of Rehabilitation Versus Redevelopment: Overview

Our inquiry into rehabilitation costs and the conclusions we come to can only be as accurate as our sources of data. Because the rehabilitation cost literature often is misleading, it is important that we be extremely careful about our data sources. Accordingly we shall first describe some of the existing rehabilitation cost studies, discuss some of their shortcomings and then select data sources untinged by these deficiencies.

Existing Rehabilitation Cost Studies: Numerous studies have explored the subject of rehabilitation costs. In 1960 Albert Schaaf [13] formulated a multiple regression equation ($C = -89 + 21.1V$, where C = total cost of rehabilitation/per room, and V = total APHA violation penalty points/per room) for estimating rehabilitation expenditures based upon a structure's deteriorated condition, specifically its American Public Health Association (APHA) penalty score. (The APHA has assigned different penalty scores for different housing deficiencies, e.g., 6 penalty points for inadequate sewer connections, 8 penalty points for inadequate washing facilities. According to the APHA a house can have a maximum penalty score of 600. See APHA, Committee on the Hygiene of Housing, *An Appraisal Method for*

[13] A. H. Schaaf, *Economic Aspects of Urban Renewal: Theory Policy and Area Analysis* (Berkeley, Calif.: Real Estate Research Program Institute of Business and Economic Research, 1960), p. 47.

Measuring the Quality of Housing, Part I: the Nature and Uses of the Method (New York, 1948), p. 66.) Also in 1960, William Nash concluded that "the rehabilitation of sound structures is usually less costly to achieve than new construction on the same site." [14]

More recent studies have come to similar conclusions. A 1967 analysis cited that the Community Improvement Corporation of Manhattan was rehabilitating houses at an $11,000 unit cost, supposedly about half the cost of new lower middle income units.[15] This study also reported that in New York City's West Side, public housing units were being rehabilitated at a cost of $14,000 versus a $20,000 new construction cost.[16] De Grazia has discussed how in Chicago the Kate Maremount Foundation was rehabilitating units for $10,000—about two-thirds the cost of new construction.[17] A year later Wilbur Shorts, the former chairman of the National Association of Home Builders Rehabilitation Institute, concluded that "because of the high cost of new construction, rehabilitation rather than wholesale clearance and rebuilding is the logical solution to urban decay." [18]

Still other studies have come to similar conclusions. The Philadelphia Housing Authority (PHA) reported that each unit rehabilitated under its "used house" program cost between $14,000 and $16,000, substantially less than the $17,000 to $23,000 cost of its new housing units.[19] (See Exhibit 2. For a detailed analysis of the PHA redevelopment-rehabilitation costs, see Exhibit A–1 in Appendix A.) A 1969 study reported a $12,000 rehabilitation cost for the full renovation of an intown apartment versus a $17,000 to $18,000 cost for a newly constructed suburban house.[20] A participant in one rehabilitation study concluded that "in theory" rehabilitation should cost one-fifth less than redevelopment.[21] Looking toward the future, the Second Annual Report on Housing Goals projected a significant rehabilitation construction cost saving for many Federal housing programs (see Exhibits 3 and 4). And there have been numerous other references to rehabilitation's potential and actual cost saving ability as opposed to a strategy of new construction.[22]

Exhibit 2. Philadelphia Housing Authority New Construction-Rehabilitation Costs

Housing Stage	New Construction Cost (unit) Total	Rehabilitation Cost (unit) Total	Total as % of New
Development[1]	$6,234	$2,709	43.5
Construction[2]	13,391	12,568	93.9
Project[3]	19,625	15,277	77.8

Notes:
[1] Initial expenses incurred on a project not directly related to the construction process. They typically include land acquisition, design and engineering, interim financing, miscellaneous fees, and demolition expenses.
[2] Initial expenses incurred on a project and directly related to the construction process. They include site preparation, utility installation, residential construction, and finally landscaping and paving. Included in these are onsite wages, building and materials, and construction overhead.
[3] Equals development plus construction costs.
Source: Derived from National Commission on Urban Problems, *Hearings, Vol. 4* (Washington, D.C.: Government Printing Office, 1968), p. 14–18.

Existing Rehabilitation Cost Studies: Deficiencies: Based on the above studies, rehabilitation appears to have a clear initial cost advantage, saving 20 to 50 percent of the initial cost of redevelopment. But many of these analyses cannot be considered as authoritative since they are characterized by the following defects: Comparing dissimilar housing units, i.e., new units to often inferior rehabilitated units; reporting estimated instead of actual rehabilitation costs; not even reporting new costs; not reporting all the costs associated with rehabilitation; etc.[23]

Comparing Dissimilar Housing Units: In comparing the costs of different housing units, it is important that the units examined be comparable in size, amenities, etc. This is especially true in comparing new and rehabilitated housing units since there is a wide spectrum of what constitutes rehabilitation. (The diversity and range of what constitutes rehabilitation is reflected in the

[14] William Nash, *Residential Rehabilitation: Private Profits and Public Purposes* (New York: McGraw-Hill, 1959), p. 163.
[15] Joan Ash, "Residential Rehabilitation in the U.S.A.," *Urban Studies* Vol. 4, No. 1, February 1967, p. 31.
[16] Ibid., p. 32.
[17] Victor DeGrazia, "Rehabilitation Is Not Working as a Resource for Community Development," *Journal of Housing* No. 11, December 1967, p. 624.
[18] Wilbur Shorts, "The Hot Markets: Renewal, Rehabilitation, Remodeling," NAHB *Journal of Homebuilding* Vol. 22, No. 5, May 1968, p. 42.
[19] See National Commission on Urban Problems, *Hearings Vol. 4* (Washington, D.C.: Government Printing Office, 1967), pp. 476–479.
[20] See *Analysis of the Boston Massachusetts Housing Market as of January 1, 1969.* A Report by the Department of Housing and Urban Development, Federal Housing Administration, June 1969.
[21] Levin, *Innovations in Housing Rehabilitation,* p. 6.
[22] See Listokin, *The Dynamics of Housing Rehabilitation,* pp. 10–12; National Commission on Urban Problems, *Hearings Vol. 12,* p. 336; *Journal of Housing,* May 1967, pp. 216, 223.
[23] For a discussion of the deficiencies in rehabilitation cost analyses see Bagby, *Housing Rehabilitation Costs,* pp. 14–15.

Exhibit 3. Federal Housing Programs' Redevelopment Projected Unit Construction Cost (Per Unit)

	Subsidized Housing				
Fiscal Years	Low Rent Public Housing	Sec. 235	Sec. 236	Sec. 502	Sec. 515
1969	$15,810	$11,380	$14,510	$ 9,020	$ 7,730
1970	16,890	12,090	15,490	9,610	8,250
1971	17,900	12,730	16,420	10,170	8,750
1972	18,760	13,270	17,210	10,630	9,170
1973	19,380	13,620	17,780	10,950	9,480
1974	19,860	13,870	18,230	11,200	9,720
1975	20,360	14,120	18,690	11,460	9,950
1976	20,870	14,390	19,150	11,720	10,200
1977	21,390	14,650	19,630	11,990	10,460
1978	21,920	14,900	20,120	12,260	10,720

Source: U.S. Congress, *Second Annual Report on National Housing Goals*, 91st Congress, 2d session, House Document No. 91–292 (Washington, D.C.: Government Printing Office, 1970), p. 66.

Exhibit 4. Federal Housing Programs' Rehabilitation Projected Unit Construction Cost (Per Unit)

	Subsidized Housing				
Fiscal Years	Low Rent Public Housing	Sec. 235	Sec. 263	Sec. 502	Sec. 515
1969	$ 7,220	$ 8,640	$ 9,460	$ 5,880	$ 5,040
1970	7,710	9,230	10,100	6,280	5,380
1971	8,170	8,560	10,250	6,660	5,710
1972	8,560	10,250	11,230	6,980	5,980
1973	8,840	10,580	11,600	7,210	6,180
1974	9,070	10,850	11,890	7,390	6,340
1975	9,290	11,120	12,190	7,570	6,490
1976	9,530	11,390	12,490	7,760	6,650
1977	9,770	11,680	12,800	7,960	6,830
1978	10,010	11,970	13,120	8,150	6,990

Source: Ibid.

numerous definitions given to this term. H. N. Osgood and A. H. Zwerner have defined it as the elementation of environmental and structural deficiencies that, if not adequately and timely corrected would result in neighborhood blight.[24] Other definitions have viewed it as making a rundown, uninhabitable building habitable;[25] the extensive rebuilding of a property to remove decayed or worn-out parts, complete installation of modern mechanical services and floor plans, and rebuilding within the shell; and residential rebuilding to prevent obsolescence or diminishing utility and to restore safe, sound, and sanitary standards.[26]

(In order to standardize rehabilitation's denotation, some have defined this activity in terms of a specific dollar expenditure spent on housing remodeling. The Annual Housing Goals report, for example, defines rehabilitation as a home improvement cost of $2,500 or more.[27] But, there is some doubt about the viability of such expenditure definitions of rehabilitation since construction costs to achieve even the same remodeling standards differ widely in different areas of the country. For example, the costs of rehabilitation under similar governmental rehabilitation programs, e.g., 221 (d)(3) BMIR have widely differed, e.g., $11,603 per unit in Boston, $8,582 per unit in St. Louis, and $5,487 in Omaha.[28] (1968 figures))

The New York State Housing Rent Commission for example, differentiated between four different levels of rehabilitation—code compliance, minimal rehabilitation, modernization, and remodeling.[29] These are defined as follows: (1) *Code compliance*—Such work as is necessary to restore the structure to safe and sanitary maintenance and repair. In general, this means the building would be in compliance with all building, housing, fire, and sanitary codes of the city, and the landlord would be providing all customary services in accordance with rent control requirements. (2) *Minimal rehabilitation*—In addition to all work called for under code compliance, modest measures to upgrade the housing would include improvement in the outside appearance of the building and an increase in electrical capacity within the apartments. (3) *Modernization*—In addition to the work of minimal rehabilitation, outmoded mechanical equipment and fixtures would be replaced and all public areas of the building would be redecorated. No change in floor plans is included. (4) *Remodeling*—Floor layouts would be functionally rearranged to pro-

[24] H. N. Osgood and A. H. Zwerner, "Rehabilitation and Conservation," *Law and Contemporary Problems* Vol. 25, No. 4, Autumn 1960, p. 706. Osgood and Zwerner were defining urban renewal rehabilitation.

[25] William Hendy, "Good Business In Rehab," *Journal of Homebuilding* Vol. 25, No. 12, December 1970, p. 64.

[26] Jerome Weinstein, *Study Materials on Rehabilitation* (New Jersey: 1972), p. 6 (mimeo).

[27] See U.S. Congress, *Third Annual Report on National Housing Goals*, 92nd Congress, 1st Session, House Document No. 92–136 (Washington, D.C.: Government Printing Office 1971).

[28] The President's Committee on Urban Housing, *A Decent Home* (Washington, D.C.: Government Printing Office, 1969), p. 101, listed the following variations in rehabilitation costs:

[29] New York State Temporary State Housing Rent Commission, *Prospects for Rehabilitation* (New York, 1960), Chapter Four.

duce a large number of separate apartments than presently exist. Outmoded mechanical equipment would be replaced and the interior and exterior of the building would also be cleaned and painted as with modernization.

Operation Rehab discussed four different standards: [30] (1) The *cosmetic* or paint-and-fix-up approach, which involves making minor repairs and replacing fixtures, but which involved mostly painting and resurfacing. This would be appropriate for standard units that provide modern design and space amenities. (2) *Renovation,* which includes, in addition to painting and patching, the replacement of most of the mechanical systems—heating, electrical, and plumbing—the replacement of doors and/or windows when necessary, roof repairs, and minor adjustments to the layout. (3) The "*gut*" rehabilitation approach, which involves, in addition to the elements of restoration, major changes in the layout of the unit, the resurfacing of most walls, ceilings, and floors, and replacement of the roof. (4) *Reconstruction,* which, in addition to the elements of gut rehabilitation, includes structural repairs to the walls, foundations, or structural members. Nearly all building elements are replaced. This technique is extremely expensive and would probably only be used in unique situations or with buildings of historic or cultural interest and value.

HUD Review Task Force No. 3 considers three different levels of rehabilitation:

- Light—painting, plastering, and deferred maintenance.
- Moderate—repair of structural, mechanical or electrical deficiencies.
- Gut—major structural changes and/or replacement of mechanical or electrical components.

(In this study, to facilitate the employment of our findings by the HUD Review Task Force, we utilize these three levels of rehabilitation in our analysis and policy discussions. These are similar to Frank Kristof's definitions as follows: (1) *Minimal rehabilitation*—Elimination of code violations and/or minor repairs, improving the facade of the building, and other cosmetic treatment. (2) *Moderate rehabilitation*—All of the above work plus minor changes in the layout, general interior and exterior repairs, modernization of heating, plumbing and electrical systems, and replacement of outmoded fixtures. (3) *Extensive rehabilitation*—Complete remodeling or redesigning of layouts (including gutting and installation of elevators in some cases), major interior and exterior repairs, installation of new heating, plumbing, and electrical systems, and replacement of outmoded fixtures.) [31]

Given the range of what constitutes rehabilitation, great care must be taken to insure that the new and rehabilitated units whose costs are compared are comparable, e.g., only comparing "gut" or extensively modernized units and not cosmetically rehabilitated units to new apartments. Units rehabilitated to a less than "gut" standard can be compared to new units if the differences in these units' amenities, such as indicated by rental differences, are considered. (This assumes that unit amenity differences are reflected in rental differences.)

But while caution in comparing new and rehabilitated units is warranted, it has not always been followed. We find numerous instances of rehabilitation cost studies unfairly comparing the costs of new housing to grossly inferior rehabilitated units. As an illustration, we previously described the PHA's considerably lower cost for its "used houses" as compared to its new apartments. The former program, however, is not comparable to the latter; the "used house" amenity standards were, in theory, and even more so in practice,[32] far below the standards found in new construction. To summarize, while we previously mentioned studies alluding to rehabilitation's 20 to 50 percent cost saving, if the rehabilitated units' amenities were concomitantly lower than those of the new units used in the comparisons, then the finding of a rehabilitation cost saving is practically meaningless.

Reporting Estimated Instead of Actual Rehabilitation Costs: Another defect of some of the rehabilitation cost studies is that they sometimes compare estimated or projected rehabilitation cost figures to actual new construction expenditures. Peter Abeles, for example, followed such an approach in his study in *Building Research* [33] as did the Second Annual Housing Goals Report. Such an approach would be adequate if rehabilitation costs could be accurately estimated. But empirical studies have shown that projections of rehabilitation cost are frequently inaccurate,

[30] U.S. Department of Housing and Urban Development, *Project Rehab Monitoring Report* HUD–F–22, p. 206.

[31] See Frank Kristof, *A Large Scale Rehabilitation Program for New York City* (New York Housing and Redevelopment Administration Bureau and Program Research, 1967); see also Weinstein, *Study Materials on Rehabilitation.*

[32] Comptroller General of the United States, *Problems in the Programs for Rehabilitating Housing to Provide Homes for Low-Income Families in Philadelphia, Pa.,* March 19, 1971.

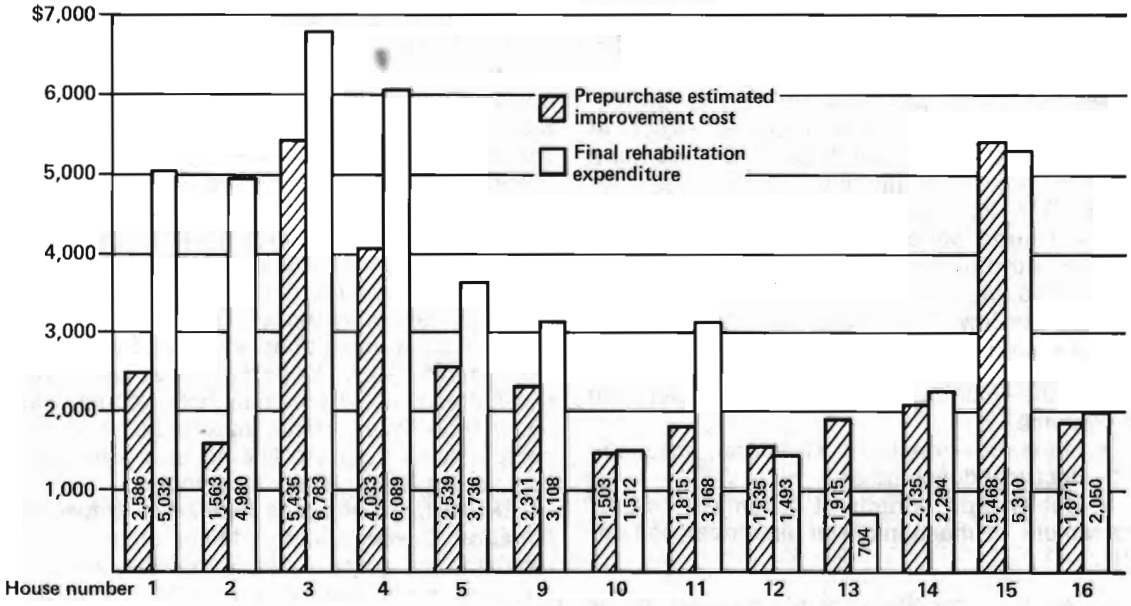
[33] Peter Abeles, "The Cost of Construction," *Building Research* Vol. 5, No. 1, pp. 60–64.

Exhibit 5. New York City Estimated and Actual Rehabilitation Costs (Per Square Foot)

	Estimated Cost	Actual Cost	Discrepancy (%)
134 W. 15th St.	$ 8.21	$13.59	+65.5
221 W. 16th St.	11.80	15.45	+30.9
100th Street	10.33	10.68	+ 3.3
102nd Street	11.40	12.70	+11.4
114th Street	12.17	11.66	– 4.2
635 E. 5th St.	14.46	21.38	+47.8

Source: Building Systems Development Incorporated, *Cost Study of Experimental Rehabilitation,* May 26, 1967.

Exhibit 6
Micah Providence: Estimated and Actual Rehabilitation Costs 1/ (per house)



1/ Estimated and actual costs for houses 6 through 8 were not available.

Source: John Kenower, Micah: A Case Study in Housing Rehabilitation Through Non-Profit Sponsorship, (Providence: 1969) pp. 44–75.

often being far less than the later actual cost. A study of six New York City rehabilitation projects, for example, revealed that estimations of rehabilitation costs ranged from being 4 percent more to 66 percent below the actual rehabilitation cost.[34] (See Exhibit 5.) Similarly Micah, a rehabilitation effort in Providence, R.I., also frequently underestimated rehabilitation expenditures.[35] (See Exhibit 6.) Given these frequent projection inaccuracies, estimated rehabilitation costs that are lower than actual new construction costs have little significance.

Not Reporting New Construction Costs:[36] A third defect of some of the rehabilitation cost studies we have mentioned is that they sometimes do not even list new construction costs. Instead they describe a rehabilitation cost estimate that is presumably lower than the redevelopment costs. Such an unexacting approach tells us very little, however; it is not enough to note that rehabilitation is cheaper than new construction because it is precisely the magnitude of the supposed cost difference that we are interested in.

Not Reporting All of Rehabilitation's Costs: In a recent publication D. Gordon Bagby, in addition to discussing some of the criticisms listed above, also charged that rehabilitation's expenditures were often understated because of omissions of corruption, bureaucracy, and administra-

[34] Building Systems Development Incorporated, *Cost Study of Experimental Rehabilitation,* May 26, 1967.

[35] John Kenower, *Micah, A Case Study in Housing Rehabilitation through Non-Profit Sponsorship* (Providence, R.I., 1969), pp. 44–75.

[36] See Bagby, *Housing Rehabilitation Costs,* p. 14.

tion costs.[37] Corruption costs in the building industry need no elaboration here. (These same costs may also be present in new construction, however.) Bureaucracy costs are the paperwork and other administrative expenses of the organization(s) effecting rehabilitation. The complexity of rehabilitation, especially when federally subsidized, (see Exhibit 7) often results in high bureaucracy costs.[38] These costs, however, may often be hidden—e.g., they will not be incorporated in the mortgage—because of the nonprofit nature of the rehabilitation developer or because his bureaucracy costs are subsidized by State or local governments (CHIP's (Camden Housing Improvement Projects) administrative expenses, for example, were paid by the State of New Jersey) [39] or by private corporations. (Numerous

Exhibit 7. Mortgage Processing Costs in the SECD Rehabilitation Effort Per Project

	Legal Costs[1]		Other Processing Costs		
Project	Allowed in Loan	Additional Amount Expended	Allowed in Loan	Additional Amount Expended	Total Processing Costs
1	$235	$807	—	$12,900	$13,942
2	230	737	—	12,900	13,867
3	234	837	—	12,900	13,965
4	300	834	—	12,900	14,034
5	600	281	—	12,900	13,781
6	530	45	—	12,900	13,475
7	994	—	$2,006	10,894	13,894

[1] Does not include title and recording costs.
Source: Robert Whittlesey, *The South End Row House and Its Rehabilitation for Low Income Residents* (Boston: 1969) p. 5–4.

private corporations, e.g., Armstrong Cork, U.S. Plywood, have sponsored rehabilitation efforts and have absorbed the administrative expenses of these efforts.) [40] Similarly rehabilitation's administration costs—the FHA's or other administrating agency's in-house costs for running a rehabilitation program—are supposedly higher than for new construction (because of the frequent small size and inexperience of both the rehabilitation sponsoring agency, e.g., nonprofit church group and/or his contractors as compared to comparable groups involved in new construction), and are also hidden costs, usually not calculated in rehabilitation-redevelopment costs estimates.

[37] Ibid., pp. 14–15.
[38] See Robert Whittlesey, *The South End Row House and Its Rehabilitation for Low Income Residents* (Boston, 1969).
[39] Listokin, *The Dynamics of Housing Rehabilitation,* pp. 147–148.
[40] See Rehabilitation section, *Journal of Housing* No. 4, May 1967, pp. 199+; *Journal of Housing* No. 2, February 1970, pp. 76+.

There are also other defects in some of the rehabilitation cost studies. Many of them have been written by the principals, e.g., the developer(s) involved, and one must be wary of the objectivity of such authors. Furthermore, some of the studies describe how rehabilitation costs were inflated primarily because of archaic building codes and other restrictions against innovative building techniques. One Chicago study, for example, described how this city's building codes appreciably inflated rehabilitation expenditures and in fact were a major restraint to property improvement.[41] These and similar assertions are often misleading and, as examined in Appendix C, have little empirical underpinning. In summary, because of errors of omission, commission, and faulty reasoning, one must be wary of relying on many of the rehabilitation cost analyses.

Studies Used in This Analysis: It would be erroneous, however, to conclude that no attempt can be made at a rehabilitation-redevelopment cost comparison until we have "perfect" data, nor, that all the rehabilitation cost studies cannot be used. This study employs the following rehabilitation cost analyses, which we shall label as McGraw-Hill,[42] HUD New York City,[43] Robert O'Block and Robert Kuehn,[44] George Sternlieb,[45] D. Bagby,[46] Robert Whittlesey,[47] and HUD Task Force.[48] (Another excellent rehabilitation-redevelopment cost study by Arthur Solomon is examined in the fourth section.) The first three studies concluded that rehabilitation is considerably cheaper than new construction, while the latter four analyses came to an opposite conclusion. We chose these studies not because of their conclusions, but rather because they have the following merits:

[41] See Warren Lehman, "Building Codes, Housing Codes, and Conversion of Chicago's Housing Supply," *University of Chicago Law Review* Vol. 31, No. 1, Fall 1963, pp. 180–193.
[42] The President's Committee on Urban Housing (Kaiser Commission), *Technical Studies Vol. II* (Washington, D.C.: Government Printing Office, 1968).
[43] U.S. Department of Housing and Urban Development, Office of Urban Technology and Research, *Cost and Time Associated with Tenement Rehabilitation In Manhattan, New York City* (April 1968); and *Cost and Time Associated with New Multifamily Housing Construction in New York City* (1969).
[44] Robert O'Block and Robert Kuehn, *An Economic Analysis of the Housing and Urban Development Act of 1968* (Boston, Mass.: Division of Research, Graduate School of Business Administration, 1970).
[45] George Sternlieb, Robert Burchell, and James Hughes, *Housing Costs and Housing Restraints: Newark, New Jersey* (New Brunswick, N.J.: Center for Urban Social Science Research, 1970).
[46] Bagby, *Housing Rehabilitation Costs.*
[47] Whittlesey, *The South End Row House.*
[48] Data supplied by HUD Task Force No. 3, May 1973.

1. They generally are careful in comparing new units only to comparable rehabilitated, e.g., "gut" rehabilitated units.

2. They almost invariably report actual rehabilitation cost figures instead of using estimated rehabilitation cost projections.

3. They all report new construction cost figures so we are not left with a rehabilitation cost outlay that only presumably is less than for redevelopment.

4. With the exception of one study, they were all effected by investigators who were not directly involved in the rehabilitation; hence we can have greater confidence in the objectivity of their findings.

5. Many of the studies include bureaucracy (housing sponsor's administrative expenditures) costs. They do not include corruption or administrative costs but neither do any other studies and it is unclear exactly how these latter two costs could be accurately estimated (especially because these two costs for new construction projects would have to be calculated as well).

Initial Costs of Rehabilitation Versus Redevelopment: Specifics

This section examines the seven studies previously mentioned. Specifically, we shall first describe each analysis and then present each study's findings and conclusions regarding rehabilitation versus redevelopment's cost. (These studies' detailed cost findings are presented in Appendix A.) We first present those studies showing that rehabilitation is at least 25 percent less costly than new construction. We have chosen this one-fourth cost saving as defining a significant cost advantage. (We chose this 25 percent figure for the following reasons: there have been numerous references in the rehabilitation literature stating that this strategy should theoretically afford at least a 20 to 25 percent cost survey over redevelopment (see footnote 21). Additionally, we feel that due to a rehabilitated unit's greater maintenance and other operating cost, a rehabilitation project cost that is not about 25 percent cheaper than redevelopment may be insignificant.) We then describe analyses concluding that rehabilitation is not at least one-quarter cheaper than new construction.

Studies Indicating a Considerable Rehabilitation Cost Advantage

McGraw-Hill Study: The technical studies of the President's Committee on Urban Housing (Kaiser Commission) concerning the time and costs of housing construction was conducted by McGraw-Hill. Among the units examined were a three bedroom, 850-square-foot new unit in a medium size apartment building and a three bedroom, 1000-square-foot rehabilitated unit in a two-story walk up structure.[49] In comparing the time and costs of providing these two housing units McGraw-Hill made the following assumptions.[50]

1. No labor disputes that result in a strike or slowdown will occur during the construction stage.

2. Material shortages or delay in delivery are not factors.

3. Adverse weather is not a factor.

4. Work on the job site is organized in a manner that promotes reasonable work efficiencies.

5. Financing is conventional. (This affects the monthly occupancy cost, a cost we shall examine later.)

6. Mortgage funds are available at "reasonable rates". (See comment for 5 above.)

Development Costs: McGraw-Hill compared the development costs of the new and rehabilitated units. To gather this information it interviewed knowledgeable individuals and also obtained data from available secondary data sources. The components of development expenditures were broken down on a time sequential basis following a PERT methodology. These cost components for both the new and rehabilitated housing units are listed in Exhibits A–2 and A–3 respectively in Appendix A. (All exhibits numbered with a letter designation are found in the appendix labeled with the same letter.)

The units analyzed by McGraw-Hill were chosen according to specifications set by the President's Committee on Urban Housing (i.e. low cost privately built, three bedroom accommodations for occupancy by low income families). As a result, they are not necessarily representative for low income housing, which is typically smaller in size and is usually publicly subsidized. (See the President's Committee on

[49] Kaiser Commission, *Technical Studies, Vol. II*, pp. 28, 35.
[50] Ibid., p. 35.

Urban Housing, *Technical Studies, Vol. II* (Washington, D.C.: Government Printing Office, 1969), pp. 7–8.)

McGraw-Hill calculated that the total development cost of a new three bedroom unit was $5,000 or $5.88 per square foot. Both the three bedroom rehabilitated units total development cost of $3,505 as well as its $3.50 per square foot development expenditure were considerably lower than that for the new housing unit (see Exhibit 8). The land acquisition cost for both types of units were about the same, but the new unit's demolition and miscellaneous fees and expenses as well as other outlays were considerably higher than for the rehabilitated unit (see Exhibits A–2 and A–3).

Construction Costs: McGraw-Hill similarly compared the construction costs of the new and remodeled units. The construction process was broken down into different components (see Exhibits A–4 and A–5), and the costs of these different components were then estimated. As with development costs McGraw-Hill found that the rehabilitation construction cost ($9,600) [51] was considerably lower than the new unit's construction cost ($15,000).[52]

Where were there construction savings? As we can see from Exhibits A–4 and A–5 certain construction costs for the new unit—e.g., piling, concrete foundation, structural frame—were simply not needed for the rehabilitated unit. Other cost components were considerably cheaper for the rehabilitated unit compared to the new unit. The new unit's cost for brickwork for example was $1,200—200 percent more than for rehabilitated unit's brickwork. And we find similar cost savings in other construction components.

Project Cost: Totaling the new and rehabilitated units development and construction costs McGraw-Hill found that the new unit cost $20,000 while the rehab cost $13,100, or approximately 35 percent less. On a per square foot cost basis there was an even greater disparity, a $24-per-square-foot cost for the new unit versus a $13-per-square-foot cost for the remodeled unit—a difference of more than 50 percent.

HUD New York City Rehabilitation-Redevelopment Studies: In 1968 HUD published a research report entitled, *Cost and Time Associated with Tenement Rehabilitation in Manhattan, New York City,*[53] which examined the time and costs involved in a 48-hour instant rehabilitation effort in Manhattan and in conventional rehabilitation projects in the same borough. A year later HUD published a report focusing on new construction entitled, *Cost and Time Associated with New Multifamily Housing Construction in New York City.*[54]

Exhibit 8. McGraw-Hill New Construction-Rehabilitation Costs

	Housing Strategy					
	New Construction Cost[1]		Rehabilitation Cost[1]			
Housing Stage	Total (unit)	Per Square Foot	Total (unit)	Total as % of New	Per Square Foot	Per Square Foot as % of New
Development	$ 5,000	$ 5.88	$3,500	70.0	$ 3.50	59.5
Construction	15,000	17.65	9,600	64.0	9.60	54.4
Total Project	20,000	23.53	13,100	65.5	13.10	55.7

[1] Rounded to nearest hundred (for units) and nearest cent (for per square foot costs).
Source: Derived from President's Committee on Urban Housing, *Technical Studies, Vol. II.* (Washington, D.C.: Government Printing Office, 1969), pp. 7–52.

These two studies are invaluable for comparing rehabilitation versus redevelopment costs for the following reasons: Both analyses followed a similar format of evaluating construction outlays; both considered the costs of units in many different buildings, not just the units in one building; and both were conducted by objective investigators. It is true that in numerous instances both studies either estimated new or rehabilitation costs, a practice we previously criticized. Still, we can have greater confidence in these projections because they were made by FHA personnel knowledgable about New York City new and rehabilitation costs.

Buildings Examined: Exhibits A–6 and A–7 list the redevelopment and rehabilitation projects examined by HUD. They also describe the reha-

[51] Ibid., p. 38.
[52] Ibid., p. 31.
[53] See supra, fn. 43.
[54] Ibid.

bilitated and new units examined. As we can see by comparing the average figures in column M of Exhibit A–6 to the data presented in column J of Exhibit A–7, the building characteristics in the HUD New York City studies differ between the rehabilitated and new structures, e.g., the new units are larger than the rehabilitated units. Despite these differences HUD chose the new buildings in its 1969 study precisely because they were the best available for "permitting comparison to be made with similar data for (the 1968) rehabilitation (study)." [55] Additionally many of the rehabilitation-redevelopment cost comparisons were made in terms of costs per square foot, thus neutralizing one of the major discrepancies, the size difference between the new and rehabilitated units, which possibly could have skewed our cost findings.

bilitated units examined by HUD. These exhibits show that the construction costs of rehabilitated units, no matter how they are broken down—by living unit, by bedroom, by square foot of living area, etc.—are considerably less—between 40 and 50 percent lower than the new units' construction expenditure. Overall the rehabilitated units' construction cost was one-half the construction outlay for new units (see Exhibit 9). We see then that rehabilitation's construction cost advantage, as indicated by the HUD New York City studies, is even more pronounced than its development cost advantage.

Project Costs: Given rehabilitation's lower development and construction costs as compared to redevelopment it is no wonder that its total project cost is considerably less than redevelopment's total project outlay. Specifically, rehabilitation's total project cost was $13,500, 45 percent less than for new construction, and its $17 per gross square foot cost was about one-third less than redevelopment's $25 per gross square foot outlay. (See Exhibit 9.) And there are the similar cost disparities when we look at other cost comparisons, e.g., outlay per net square foot or per bedroom (see Exhibits A–12 and A–13). We can conclude, then, from the HUD New York City analyses that the initial costs of housing development, construction, and project outlays are approximately 30 to 50 percent lower for rehabilitation as compared to new construction.

Exhibit 9. HUD New York City New Construction-Rehabilitation Costs

	Housing Strategies					
	New Construction Cost[1]		Rehabilitation Cost[1]			
Housing Stage	Total (unit)	Gross Per Square Foot	Total (unit)	Total as % of New	Gross Per Square Foot	Per Square Foot as % of New
Development	$ 6,200	$ 6.33	$4,300	69.4	$ 5.41	85.5
Construction	18,400	18.78	9,200	50.0	11.58	61.7
Project	24,600	25.11	13,500	54.9	16.99	67.7

[1] See Exhibit 8.

Note: Our unit project costs, as well as our per square cost figures, differ slightly from those reported in Exhibit A–8 through A–13, because we rounded figures and used unweighted averages.

Source: Derived from U.S. Department of Housing, Office of Urban Technology and Research. *Cost and Time Associated with Tenement Rehabilitation in Manhattan, New York City (1968)* and *Cost and Time Associated with New Multifamily Housing Construction in New York City (1969).*

Development Costs: Exhibit A–8 lists the development costs of the new units studied by HUD; Exhibit A–9 lists those costs for the rehabilitated units examined. As these exhibits show most development costs components were lower for the rehabilitated units; e.g., architectural fees (per unit) were approximately one-quarter less and legal and organizational fees were about half those of the new units. There were some interesting exceptions such as the average financing and relocation costs being higher for the rehabilitated as compared to the new units. Overall, however, the rehabilitated units' average development costs were approximately 30 percent lower than the new units' development outlay (see Exhibit 9).

Construction Costs: Exhibits A–10 and A–11 list the construction costs of the new and rehabilitated units examined by HUD. These exhibits show that the construction costs of rehabilitated units, no matter how they are broken down—by living unit, by bedroom, by square foot of living area, etc.—are considerably less—between 40 and 50 percent lower than the new units' construction expenditure. Overall the rehabilitated units' construction cost was one-half the construction outlay for new units (see Exhibit 9). We see then that rehabilitation's construction cost advantage, as indicated by the HUD New York City studies, is even more pronounced than its development cost advantage.

One stipulation is necessary to modify the above conclusion, however. While HUD structured its New York City rehabilitation-redevelopment studies in order that comparisons could be made between these two major forms of housing strategies, the amenities of the units it studied were not identical; in general the new units had

[55] HUD, *Cost and Time Associated with New Multifamily Construction*, p. VI.

more and better amenities than the rehabilitated apartments. HUD recognized this problem in the introduction to its new construction study, noting that "there is not a 'one to one' correspondence between the information contained in the rehabilitation report and in this report." [56]

HUD, however, did try to pick new and rehabilitated units that were generally comparable. Additionally, even if the modernized and new units chosen were not precisely comparable, HUD's finding of a large rehabilitation cost advantage is still significant for it is unlikely that this large cost disparity could be merely explained away by differences in unit amenities.

O'Block and Kuehn Study: In 1970 Harvard University published a report entitled *An Economic Analysis of the Housing and Urban Development Act of 1968* [57] by Robert O'Block and Robert Kuehn. These two authors, in their research, utilized four base cases of housing development; new construction effected by either nonprofit or limited profit corporations and rehabilitation effected by either of the two groups just mentioned. O'Block and Kuehn attributed costs to these four base cases that were based on "typical" conditions. O'Block and Kuehn admitted that their typical costs were accurate for only one specific (Boston?) area and that project types, material costs, labor rates, and operating expenses would vary from place to place.

Development and Construction Costs: According to O'Block and Kuehn the difference in development costs for rehabilitation and redevelopment is practically negligible; the rehabilitation development outlay, notwithstanding whether construction is effected by either nonprofit or limited profit entities, is about 90 percent the new construction development expenditure (see Exhibit 10 and Exhibit A–14).
(A detailed breakdown of the O'Block and Kuehn rehabilitation-redevelopment cost components is found in Exhibits A–15 to A–18.)

For construction outlays, rehabilitation costs are much smaller, about forty percent less than new construction costs (see Exhibit 10). As an illustration, new three and four bedroom units cost $17,900 and $20,900 for construction versus a $10,900 and $12,750 per unit construction cost for comparable rehabilitated units (see Exhibits A–15 and A–16).

Project Cost: Total project costs, according to O'Block and Kuehn, were considerably lower for rehabilitated as compared to new units (see Exhibit 10). And the total monthly occupancy cost of the former units were also considerably less than for the latter units (see Exhibit A–14). In summary then, if the O'Block and Kuehn, as well as the McGraw-Hill and HUD New York City cost figures are indeed typical, then rehabilitation appears to have a significant cost advantage over redevelopment.

Studies Showing Rehabilitation Having a Moderate Cost Advantage Over Redevelopment

But not all studies have concluded that rehabilitation has a substantial (here defined as being at least 25 percent lower) cost advantage as compared to redevelopment. Numerous analyses have concluded that rehabilitation, while cheaper than new construction, is not substantially less costly. This section describes and presents the findings of these latter studies.

Exhibit 10. O'Block and Kuehn New Construction-Rehabilitation Cost Comparisons (All-Size Units)

	Housing Strategies and Sponsors					
	New Construction Non Profit Sponsor	Rehabilitation Non Profit Sponsor		New Construction Limited Profit Sponsor	Rehabilitation Limited Profit Sponsor	
Housing Stage	Total (unit)	Total (unit)	Total as % of New	Total (unit)	Total (unit)	Total as % of New
Development	$ 5,800	$ 5,300	91.4	$ 6,100	$ 5,500	90.2
Construction	16,400	10,000	61.0	16,400	10,000	61.0
Total Project	22,200	15,300	68.9	22,500	15,500	68.9

Source: Robert O'Block and Robert Kuehn, Jr., *An Economic Analysis of the Housing and Urban Development Act of 1968* (Boston, Mass.: Harvard University, Graduate School of Business Administration, 1970).

[56] Ibid.
[57] See supra, fn. 44.

Robert Whittlesey SECD Study: In 1969 Robert Whittlesey wrote a study[58] describing the South End Community Development (SECD) rehabilitation effort. The effort initially consisted of the rehabilitation of 11 row houses under the 221(d)(3) program. The Whittlesey study described many aspects of the SECD effort—e.g., property acquisition, building standards, and design—and focused on the costs of rehabilitation.

As part of this cost analysis, Whittlesey described the total costs of rehabilitation as they compared to FHA cost estimates of comparable new construction. This cost comparison is indicated in Exhibit 11. As we can see from this exhibit, rehabilitation was cheaper by about 20 percent on the average than redevelopment, a margin smaller than previously described studies concluded.

Dale Bagby Philadelphia Study: In 1973, Dale Bagby, in a study,[59] also concluded that rehabilitation did not have as large a cost advantage over new construction as had been assumed. Bagby based his conclusions on Philadelphia new and rehabilitated housing construction cost data, which he analyzed in the following manner:

First Bagby derived from empirical data of 89 rehabilitated row houses a regression equation to predict rehabilitation costs as shown in Exhibit 11.

Exhibit 11. SECD New Construction-Rehabilitation Costs

Project No.	Rehabilitation Costs[1]	FHA Estimate of Replacement Value[1]	Rehabilitation as Percent of Replacement Value
1	$48,000	$50,800	94.5
2	49,100	73,900	66.4
3	48,200	60,900	79.1
4	52,000	59,500	87.4
5	91,500	118,200	77.4
6	94,200	123,200	76.5
7	164,700	198,600	82.9
Average	78,200	97,900	79.9

[1] Rounded to nearest hundred.
Source: Robert Whittlesey, *The South End Row House and Its Rehabilitation for Low Income Residents.* (Boston, Mass., 1969), pp. 4–21.

$$C^r = 6574 + \underset{(1.83)}{1.454(A_t)} + \underset{(2.49)}{1191(EOR)} + \underset{(2.07)}{1370(C)} + \underset{(1.15)}{366.1(3B)} + \underset{(1.81)}{1274(4B)} + \underset{(4.41)}{3179(5B)} + \underset{(8.07)}{5181(6B)} - \underset{(1.43)}{1019(3S)} - \underset{(2.43)}{1011(R2)} - \underset{(.77)}{410.3(T_{66})} - \underset{(1.19)}{468.1(T_{67})}$$

$$R^2 = .735$$

Where
C^r = Costs of rehabilitation
A_t = total floor Area
EOR = End of Row dummy variable
C = Corner dummy variable
R2 = Rehabilitator no. 2 dummy variable
3B = 3 Bedroom dummy variable
4B = 4 Bedroom dummy variable
5B = 5 Bedroom dummy variable
6B = 6 Bedroom dummy variable
T_{66} = Constructed at Time 1966
T_{67} = Constructed at Time 1967
3S = Three-story houses

From this equation Bagby could, for example, predict that a four bedroom, 1000-square-foot house could be gut rehabilitated for approximately $8,700 while it would cost $7,469 to rehabilitate similarly a smaller three bedroom house with 500 square feet. Bagby called gut rehab wreckout rehabilitation.

Once having derived the rehabilitation cost regression equation, Bagby empirically examined the costs of seven new brick row houses projects in the Philadelphia metropolitan area. The costs of rehabilitating similar houses were then calculated by using the rehabilitation cost estimation equation and these costs were then compared to the actual new construction outlays. Bagby found that on the average, rehabilitation cost 88 percent that of new construction (see Exhibit 12) but "were all one story new houses (involving disproportionately large excavation and foundation expenses) eliminated from the comparison, the relative expense of rehabilitation would rise to 96 percent of new construction costs."[60] (Of course such an approach has the drawback in that it is based on estimated instead of actual rehabilitation costs. We have included Bagby's study, though, because his regression equation has a high "explanatory power" ($R^2 = .735$) as well as containing an interesting methodology for comparing rehabilitation-redevelopment costs.)

[58] See supra, fn. 38.
[59] See supra, fn. 1.
[60] Ibid., p. 24.

Bagby followed a similar approach for comparing the costs of rehabilitation versus urban renewal new construction. He first reasoned that urban renewal is similar to new construction except that the former usually entails a considerable demolition expenditure. To calculate this later expenditure Bagby formulated the following regression equation:

$$C^d = \underset{(37.2)}{885.74} + \underset{(3.33)}{0.43}\ (A_g) - \underset{(0.94)}{122.22}(2S)$$
$$-\underset{(1.87)}{161.66}(X) + \underset{(1.28)}{440.92}\ (C^d_1) + \underset{(1.10)}{131.66}\ (C^d_2)$$
$$R^2 = .725$$

Where
C^d = Costs of demolition
A_g = Ground floor Area
2S = 2 Story dummy variable
X = Exposed wall dummy variable
C^d_1 = Demolition Contractor Number 1
C^d_2 = Demolition Contractor Number 2

Exhibit 12. Philadelphia New Construction-Rehabilitation Costs (Bagby Study)

Housing Project No.	Size	Urban Renewal Costs[1]	Estimated Rehabilitation Costs[1]	Rehabilitation as Percent of New
1	18 × 35	$ 8,800	$8,400	95.5
2	18 × 35	8,200	8,400	102.4
3	18 × 35	8,500	8,400	98.8
4	24 × 25	10,500	8,300	79.0
5	20 × 40	9,100	7,700	84.6
6	20 × 46	9,700	7,900	81.4
7	20 × 50	11,900	8,000	67.2
Average		9,500	8,200	86.3[2]

[1] Rounded to nearest hundred.
[2] Does not equal rehabilitation's 12 percent cheaper cost indicated by Dale Bagby because were rounded out cost figures.
Source: Dale Bagby, *Housing Rehabilitation Costs* (Lexington, Mass.: D. C. Heath, 1973), p. 24.

Urban renewal new construction costs were then calculated by adding the demolition expenditures calculated from the above equations to the new construction costs that Bagby had already empirically obtained. This combined cost was then compared to estimated rehabilitation costs, projected from the rehabilitation regression equation. This comparison showed that "demolishing an existing structure and replacing it with an identical new unit (urban renewal new construction) produces expenditures only 24 to 22 percent higher than the costs of rehabilitating the original units." [61] In summary, then, as in the Whittlesey SECD study, the Babgy Philadelphia analysis also concluded that rehabilitation, while having a cost advantage over redevelopment, does not have a tremendous cost saving (especially for conventional new as opposed to urban renewal new housing). We shall now examine other studies coming to similar conclusions.

George Sternlieb et al. Newark Study: In a 1970 analysis George Sternlieb, Robert Burchell, and James Hughes analyzed housing costs and restraints in Newark, N.J.[62] Specifically they examined in detail the costs of three different types of housing, highrise new housing, lowrise new housing, as well as lowrise rehabilitation. We shall focus on the latter two types of housing as being most comparable.

Buildings Examined: Exhibit 14 lists the basic data of the new and rehabilitated units studied by Sternlieb et al. As this exhibit indicates these two units serve the same income group, have the same type of ownership, and have other similarities as well.

Exhibit 13. Philadelphia Urban Renewal New Construction-Rehabilitation Costs (Bagby Study)

Housing Project No.	Size	Urban Renewal Costs[1]	Estimated Rehabilitation Costs[1]	Rehabilitation as Percent of New
1	18 × 35	$ 9,900	$8,400	84.8
2	18 × 35	9,200	8,400	91.3
3	18 × 35	9,500	8,400	88.4
4	24 × 25	11,500	8,300	72.2
5	20 × 40	11,200	7,700	68.8
6	20 × 45	10,900	7,900	72.5
7	20 × 50	13,100	8,000	61.1
Average		10,800	8,200	75.9

[1] Rounded to nearest hundred.
Source: See Exhibit 12, p. 26.

Development Costs: Sternlieb et al. found that development costs were significantly higher for rehabilitation as compared to new construction. The former's development outlay was more than double the latter's. (See Exhibit 15.) Why such a large cost disparity? The major reason was that the land acquisition cost for rehabilitation, e.g., $5,850 for a three-bedroom unit, was considerably higher than for redevelopment, e.g., $1,275 for a three-bedroom unit (see Exhibits A–19 and A–20).

Construction and Project Costs: Sternlieb et al. found that rehabilitation's construction cost

[61] Ibid., p. 26.

[62] See supra, fn. 45.

Exhibit 14. Sternlieb Newark Study: Building and Subsidy Data

	Low Rise New Construction (University Court)	Low Rise Rehabilitation (Amity Village)
Basic Building Data		
Income Group Served	Moderate Income	Moderate Income—Black
Type of Ownership	Cooperative	Cooperative
Location:	Newark, N.J. (East Ward—within Core)	Newark, N.J. (West Ward—½ mile N.E. of Core)
Type of Unit	3-story garden apartment	3-story, multi-family frame
Number of Units	270	96
Subsidy Data		
Construction Financing	Prudential Life Insurance Co. (6.5%—2 years)	N. J. Housing Finance Agency (5% 1st year; 6.25% 1st four months of second year; 5.80% 2nd five months of second year)
Long Term Financing	New Jersey Housing Finance Agency (4.75%—50 years)	N. J. Housing Finance Agency (6.25% est.—35 years)
Tax Abatement	City of Newark—20% of Gross Revenue	City of Newark (15% of Shelter)
Rent Reduction Assistance	None	Used

Source: Derived from George Sternlieb, Robert Burchell, and James Hughes, *Housing Costs and Housing Restraints: Newark, N.J.* (New Brunswick, N.J.: Rutgers University, Center for Urban Social Science Research, 1970).

Exhibit 15. Newark New Construction-Rehabilitation Costs (Sternlieb Study) (Three-Bedroom Units)

	Housing Strategies					
	Low Rise New Construction Cost (University Court)		Rehabilitation Cost			
Housing Stage	Total	Per Square Foot	Total	Total as Percent of New	Per Square Foot	Per Square Foot as Percent of New
Development	$ 4,400	$ 4.00	$ 8,200	186.4	$ 8.20	205.0
Construction	12,600	11.45	7,800	61.9	7.80	68.1
Total Project	17,000	15.45	16,000	94.1	16.00	103.6

Source: Derived from George Sternlieb, Robert Burchell, and James Hughes, *Housing Costs and Housing Restraints: Newark, N.J.* (New Brunswick, N.J.: Rutgers University, Center for Urban Social Science Research, 1970).

was considerably lower than redevelopment's construction outlay, $7,800 for rehabilitation as opposed to $12,600 for new construction (see Exhibit 15. For a detailed breakdown of construction costs see Exhibit A–20). Rehabilitation's total project cost of $16,000 per unit, however, was only slightly less than new construction's $17,000 per unit total project cost. This resulted because rehabilitation's construction cost saving was matched by its comparatively high development outlay. It would appear then, from the Sternlieb et al. study, that rehabilitation has a negligible cost advantage.

One word of caution is necessary concerning such a conclusion. The Sternlieb study focused on the initial rehabilitation effort of a nonprofit group, Priorities Investment Corporation. The study documented that Priorities, largely because of inexperience, had serious cost overruns on its initial rehabilitation effort.[63] (In subsequent efforts, Priorities has experienced greater success.)

Specifically Priorities project cost was estimated as $11,500 per unit in November 1967, $13,600 per unit in December 1968, and $16,000 as of July 1969. Why such serious cost overruns? The Sternlieb, et al., study listed the following factors:

[63] Ibid., pp. 84–96.

Dollar Increase of Particular Development/Construction Items		Reasons Necessitating the Increase
$240	3 month delay	Training of black subcontractors
$300	Rehab. concept had to be revised	Scheduling inefficiencies
$100	Delay in having housing ready for rental	Misreading of initial income
$220	Roofing, siding, windows, landscaping	Additional work—missed in initial inspection
$220	Winter freeze—change from gas to oil	Exposure damage and heating system alterations
$250	Electric demolition	Subcontractors not able to meet bids
$550	Dishwashers, carpeting, A/C sleeves, daylight ceilings	Extra equipment—increased amenity
$220	Bonds, extended closing, etc.	Unanticipated initial costs

In summary, then, while the Sternlieb study shows rehabilitation having practically no cost advantage over redevelopment, the basis for this conclusion (Priorities' initial rehabilitaiton project) may or may not be typical of the universe of rehabilitation projects.

HUD Task Force Study: Heretofore the rehabilitation cost studies we have examined have had the defect of often depending on a small sample size. This deficiency is corrected in the next study we shall examine, an unpublished (1973) HUD Task Force analysis that examined the rehabilitation-redevelopment costs of thousands of housing units in various housing programs. This study's major finding is that for many years and for numerous housing programs rehabilitation has not proved much cheaper (more than 25 percent) than new construction. Specifically, the study found that:

1. On the average, over a 12 year span units rehabilitated under the 221(d)(3) market interest rate program have been only 10 percent cheaper than the estimated new construction cost of such units (see Exhibit 16 Section A).

2. Over a 10 year span units rehabilitated under the 221(d)(3) below market interest rate (BMIR) program have similarly been only 6 percent less costly than the projected new construction cost of such units (see Exhibit 16, Section B).

3. Since its inception, the 236 rehabilitation program has had only a small (10 percent cheaper) cost advantage over new construction (see Exhibit 16, Section C).

4. A more detailed national study of all the 236 units either built or rehabilitated in the first three-quarters of fiscal 1971 came to a similar conclusion that the rehabilitated units, both in terms of total unit and per square foot cost were often only slightly cheaper than new construction (see Exhibits 17 and 18). In some regions though, e.g., Region II (New York, New Jersey, etc.) certain types of rehabilitated 236 housing (nonelevator buildings) were considerably cheaper than new 236 units.

5. Generally the elevator rehabilitated 236 units have a greater cost advantage over redevelopment than nonelevator rehabilitated 236 units (see Exhibits 18 and 19). This may result because rehabilitating a building already containing an elevator saves the high cost present in new construction of buying and installing an elevator. But the elevator building's cost advantage is not universal for all regions of the country.

6. Over a 2 year span for which data is available, rehabilitated 235j units have been only 5 percent cheaper than the estimated new construction outlay for these units (see Exhibit 16, Section E.)

7. In contrast to the above findings of a small rehabilitation cost advantage, a survey of Project Rehab units revealed that rehabilitation were considerably cheaper (30 percent) than comparable (Section 236) new units (see Exhibit 19). This was not always true, however. An analysis of Project Rehab units in Cincinnati, Ohio revealed that these units were almost identical in cost with the estimated new construction outlay (replacement cost) for the Cincinnati Project Rehab Housing (see Exhibit 20).

Exhibit 16. Various HUD Programs' Average New Construction-Rehabilitation Costs (1960–1972)

Program	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	Average For All Years Listed
A. Rehabilitated Units 221 d (3) BMIR Average Mortgage Amount[1]	$ 8,800	$ 8,100	$ 8,500	$10,500	$11,600	$13,700	$13,300	$11,000	$11,800	$12,200	$11,900	$13,800	$14,800	$11,500
Average Estimated Replacement Value[2]	8,800	8,300	8,400	12,200	13,300	15,600	15,100	12,200	13,100	13,600	13,300	15,600	16,900	12,800
Average Mortgage Amount As % of Replacement Value	100%	97.6%	101.2%	86.1%	87.2%	87.8%	88.1%	90.2%	90.1%	89.7%	89.5%	88.5%	87.6%	89.8%
B. Rehabilitated Units 221 (d) (3) BMIR Average Mortgage Amount	NA[3]	NA[3]	12,100	11,000	12,300	12,800	13,500	13,700	14,200	15,900	18,000	24,000	NA[3]	14,800
Average Estimated Replacement Value	NA	NA	12,100	11,600	12,600	13,600	15,100	15,200	15,800	17,700	20,200	23,200	NA[3]	15,700
Average Mortgage Amount As Percent of Replacement Value			100.0%	94.8%	97.6%	94.1%	89.4%	90.1%	89.9%	89.8%	89.1%	103.4%		94.3%
C. 236 Rehabilitated Units Average Mortgage Amount					NA					14,800	16,400	16,300	16,600	16,000
Average Estimated Replacement Value					NA					16,500	17,400	18,300	18,600	17,700
Average Mortgage Amount As Percent of Replacement Value					NA					89.7%	94.3%	89.1%	89.2%	90.4%

(Continued on p. 1053.)

Exhibit 16.—Continued

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	Average For All Years Listed
D. 221 (d) (2)[4] Rehabilitated Unit Mortgage Amount					NA					$12,400	$13,900	$15,700	NA	$14,000
Average New Mortgage Amount					NA					14,200	16,000	18,100	NA	16,100
Average Rehabilitation Mortgage Amount As Percent of New Mortgage Amounts					NA					87.3%	86.9%	86.7%	NA	87.0%
E. 235j Average Rehabilitated Unit Mortgage Amount					NA					NA	13,800	15,000	NA	14,400
Average Estimated Replacement Value					NA					NA	13,900	16,400	NA	15,200
Average Mortgage Amount As of Replacement Value					NA					NA	99.3%	91.5%	NA	94.7%
F. 203 (b)[4] Average Rehabilitated Unit Mortgage Amount			NA			$14,300	$14,500	$15,200	$15,300	16,000	16,800	17,900	NA	15,700
Average Estimated Replacement Value			NA			15,900	15,700	17,600	18,400	19,300	21,300	22,300	NA	18,800
Average Mortgage Amount As Percent of Replacement Value			NA			89.9%	96.8%	86.4%	83.1%	82.9%	78.9%	80.3%	NA	83.5%

[1] Selected averages.
[2] All mortgage amounts and estimates of replacement value are rounded to nearest hundred.
[3] NA = Data not available or program not in effect.
[4] These are listed in HUD reports as mortgages for existing units and while they include rehabilitated houses, they also might include used, but not rehabilitated, units.
Source: U.S. Department of Housing and Urban Development, Statistics Office.

Exhibit 17. Section 236 New and Rehabilitated Housing Average Unit Cost Comparison (First Three Quarters 1971)

Type of Housing	Area	Number of Units New	Rehab	Total	New Housing Unit Development Cost	Rehab Housing Unit[2] Development Cost	Rehab Unit Development Cost As Percent of New	New Housing Construction Cost	Rehab Unit Construction Cost	Rehab Unit Construction Cost As Percent of New	New Unit Project Cost	Rehab Housing Unit Project Cost	Rehab Housing Unit As Percent of New
Elevator Multi Family	I	971	NA[1]	971	$ 7,628	NA[1]	NA[1]	$18,515	NA	—	$26,143	NA	—
	II	1,316	57	1,373	11,138	$26,568	239%	18,207	$ 1,714	69%	29,345	$28,282	96%
	III	NA	NA	NA[1]	NA	NA	NA	NA	NA	—	NA	NA	—
	IV	168	NA	168	4,656	NA	NA	13,788	NA	—	18,444	NA	
	V	789	178	967	3,966	13,697	345.3	12,510	5,515	44	16,476	19,212	117
	VI	195	165	360	5,179	9,521	184	12,427	5,798	47	17,606	15,319	87
	VII	104	NA	104	3,766	NA	NA	12,965	NA	—	16,731	NA	—
	VIII	360	NA	360	5,335	NA	NA	11,515	NA	—	16,850	NA	—
	IX	712	20	732	7,352	4,899	67	11,282	9,285	82	18,634	14,184	76
	X	NA	NA	NA	NA	NA	NA	NA	NA		NA	NA	—
	Nation[3]	4,624	420	5,044	7,459	9,385	126	15,173	7,380	49	22,632	16,765	74
Non Elevator Multi Family	I	1,612	3	1,615	6,381	11,722	184	15,066	8,493	56	21,447	20,215	94
	II	259	7	236	7,230	3,783	52	17,899	10,643	59	25,129	14,426	57
	III	31	1	32	5,144	5,537	108	11,781	11,340	96	16,925	16,877	100
	IV	4,551	NA	4,551	4,024	NA	NA	9,364	NA	—	13,388	NA	—
	V	7,135	378	7,513	5,340	7,886	148	12,635	5,032	40	17,975	12,918	72
	VI	2,597	NA	2,597	4,765	NA	NA	10,315	NA	—	15,080	NA	—
	VII	1,144	NA	1,144	5,452	NA	NA	12,607	NA	—	18,059	NA	—
	VIII	298	NA	298	3,486	NA	NA	9,938	NA	—	13,424	NA	—
	IX	2,596	26	2,622	6,726	7,261	108	10,790	4,486	42	17,516	11,747	67
	X	733	15	748	4,713	9,022	191	9,810	5,672	58	14,523	14,694	101
	Nation[3]	24,596	NA	NA	5,206	8,906	171	11,559	6,455	56	16,265	15,361	92

[1] NA = information not available either because no units were built or that data was not immediately available.
[2] Listed in HUD records as existing construction. There is some doubt whether existing construction includes only rehabilitated units.
[3] Nation totals may not add up to summation of region totals since they sometimes were calculated from different samples.
Note: Some of the cost averages are based on extremely small samples so they might not be representative.
Source: See Exhibit 16.

Exhibit 18. Section 236 New and Rehabilitated Housing: Average per Square Foot Comparison (First Three Quarters 1971)

Type of Housing	Area	Number of Housing Units: New	Rehab	Total	New Housing Per Sq. Ft. Development Cost	Rehab Unit Per Sq. Ft. Development Cost	Rehab Unit Development Cost As Percent of New	New Housing Per Sq. Ft. Construction Cost	Rehab Unit Per Sq. Ft. Construction Cost	Rehab Unit Construction Cost As Percent of New	New Unit Per Sq. Ft. Project Cost	Rehab Unit Per Sq. Ft. Project Cost	Rehab Unit Project Cost As Percent of New
Ele-	I	662	NA	662	11.53	NA	NA	$27.98	NA	—	$39.57	NA	—
vator	II	749	821	1,570	14.87	13.89	93.4%	24.31	20.54	84	39.18	$34.43	88
Multi	III	NA	NA	NA	NA	NA	NA	NA	NA	—	NA	NA	—
Family	IV	749	NA	749	6.22	NA	NA	18.41	NA	—	24.63	NA	—
	V	553	760	1,313	7.17	18.02	251.3%	22.62	7.26	32	29.79	25.28	85
	VI	484	545	1,029	9.58	17.46	182.3%	25.69	10.63	41	35.27	28.09	80
	VII	501	NA	501	8.06	NA	NA	25.35	NA	—	33.41	NA	—
	VIII	484	NA	484	11.02	NA	NA	23.78	NA	—	34.80	NA	—
	IX	520	472	992	14.13	10.38	74%	21.69	19.66	91	35.82	30.04	84
	X	NA	NA	NA	NA	NA		NA	NA	—	NA	NA	—
	Nation	624	670	1,294	11.95	16.85	141%	24.31	11.01	46	36.26	27.86	77
Non	I	842	825	1,667	7.57	14.20	188%	17.89	10.29	57	25.46	24.49	96
Ele-	II	720	671	1,391	10.05	5.54	55.1%	24.87	15.85	64	34.92	21.39	62
vator	III	850	631	1,481	6.05	8.69	144%	13.86	18.05	130	19.91	26.74	134
Multi	IV	792	NA	792	4.58	NA	NA	11.82	NA	—	16.40	NA	—
Family	V	829	601	1,430	6.44	13.12	204%	15.24	8.37	55	21.68	21.49	99
	VI	791	NA	791	6.03	NA	NA	13.05	NA	—	19.08	NA	—
	VII	887	NA	887	6.15	NA	NA	14.21	NA	—	20.36	NA	—
	VIII	801	NA	801	4.35	NA	NA	12.42	NA	—	16.77	NA	—
	IX	860	718	1,578	7.82	10.10	129%	12.54	6.25	50	20.36	16.35	80
	X	762	807	1,569	6.18	11.17	181%	12.88	7.03	55	19.06	18.20	95
	Nation	825	681	1,506	6.31	13.07	207%	14.02	9.47	68	20.33	22.54	111

See Notes Exhibit 17.
Source: See Exhibit 16.

Exhibit 19. Comparison of New Rehabilitated (Project Rehab) Units in Eight Cities During First Three Quarters 1972

	New Proposed Units			Rehabilitated Units				
City	Number of Units	Total Project Cost	Per Unit Project Cost	Number of Units	Total Project Cost	Per Unit Project Cost	Difference (New Unit Project Cost vs. Rehab. Unit Project Cost)	Per Unit Rehab. Cost as Percent Per Unit New Construction Cost
Cincinnati	90	$1,529,293	$17,000	35	$ 461,793	$13,194	$3,806	77.6
Chicago	78	1,583,681	20,303	126	1,933,824	15,347	4,956	75.6
Detroit	202	4,449,425	22,026	190	2,341,550	12,323	9,703	55.9
Kansas City	64	1,132,232	17,691	72	764,243	10,614	6,977	60.0
Los Angeles	80	1,186,006	14,825	32	324,941	10,154	4,671	68.5
Newark	64	1,110,333	17,348	102	1,679,519	16,465	883	94.9
New York	80	1,502,224	27,818	49	1,038,456	21,192	6,626	76.2
Pittsburgh	136	2,988,395	21,973	87	1,785,700	20,525	1,448	93.4
Average			20,158			14,096	5,252	69.9

Source: See Exhibit 16.

Exhibit 20. Cincinnati Project Rehab Units: Mortgage Amounts and Estimated Replacement Value (1969)

Project No.[1]	No. of Housing Units	Project Mortgage Amount	Estimated Replacement Cost	Project Mortgage As Percent of Estimated Replacement Cost (Rounded to nearest digit)
1	54	$717,200	$717,279	100
2	56	678,700	754,125	90
3	22	242,100	242,120	100
4	NA	75,770	84,344	90
5	36	459,400	459,468	100
6	28	290,400	322,685	90
7	13	159,200	159,216	100
8	60	693,000	770,089	90
9	18	232,800	232,801	100
10	45	594,200	594,243	100
11	42	462,700	462,700	100
12	6	67,900	67,946	100
13	15	170,200	192,023	89
14	8	90,000	90,500	100
15	6	82,900	92,119	90
16	12	150,200	150,200	100
17	25	291,600	324,013	90
18	14	157,106	159,000	100
19	14	200,000	200,000	99
20	57	578,300	642,560	90
21	6	55,120	61,262	90
23	8	83,700	93,069	90
25	5	59,100	65,711	90
26	63	698,600	698,689	100
31	47	458,000	508,897	90
32	25	338,900	338,900	100
34	36	302,800	336,483	90
35	14	159,100	159,102	100
36	23	362,100	362,101	100
39	32	378,800	378,863	100
40	5	63,900	71,003	90
41	27	282,500	313,930	90
42	12	128,700	142,562	90

Note: Data was not available for project not listed.
[1] On HUD accounting sheet.
Source: See Exhibit 16.

Rehabilitation Initial Cost Studies: Summary

Exhibit 21 summarizes the findings of the rehabilitation cost studies. As we can see, some studies accord rehabilitation a significant cost advantage over new construction. Many others conclude that rehabilitation has a much lower cost benefit over redevelopment. Which of these two groups of studies are more accurate? This cannot be readily answered but the HUD study, which had the broadest data base, clearly showed that nationally, rehabilitation had about a 10 to 15 percent cheaper cost than new construction (though this was not true for all regions nor for all programs). (For an analysis of which development-construction cost components were cheaper for rehabilitation as compared to redevelopment, see Appendix C.)

Policy Implications

If we believe that rehabilitation is the preferred housing strategy when C>R where C equals initial (project) new construction costs and R equals initial (project) rehabilitation costs, then according to all of our studies rehabilitation would be the optimal dollar strategy. The only difference between the studies reviewed is that according to some, e.g., HUD New York City, C is much larger than R and hence a rehabilitation strategy would result in large cost savings. According to other analyses though, e.g., HUD Task Force Study, C is often only slightly larger than R so rehabilitation affords only marginal cost savings, and has lesser desirability as a housing strategy.

(For a discussion of when private property owners will respond to code enforcement and other measures to force building repair utilizing a similar C and R approach see Albert Schaaf, *Economic Aspects of Urban Renewal: Theory Policy and Area Analysis* (Berkeley, Calif. University of California, Institute of Business and Economics Research, 1970) and Jerome Rothenberg, *Economic Evaluation of Urban Renewal* (Washington, D.C.: Brookings Institution, 1967).

Rehabilitation's desirability also differs between regions. Where rehabilitation-redevelopment cost data is available by region, e.g., 1973 HUD Study, it appears that the C−R difference is greatest in the Northeast as compared to other areas. Hence it would be logical to stress rehabilitation in the Northeast where it will afford the greatest benefit for each dollar expended as compared to new construction.

Where cost data are broken down by elevator and nonelevator properties, it appears that rehabilitating the elevator units affords a larger rehabilitation cost saving (as compared to redevelopment) than modernizing the nonelevator properties. It would therefore be most efficient to stress the rehabilitation of elevator units. But such a strategy should be preceded by greater analysis of the relative cost advantages of rehabilitated elevator versus nonelevator properties since our conclusions are only based upon a limited sample from the (236) housing program.

Exhibit 21. Rehabilitation-Redevelopment Cost Studies: Summary

Study	Housing Units Examined in	Project Cost Saving (in Percent) From Effecting Rehabilitation Compared to New Housing Per Unit	Per Square Foot
References in Rehabilitation Literature.	Boston, Philadelphia, New York Other cities	20 to 50%	NA[1]
McGraw-Hill (Kaiser)	Not specified city on Boston-Washington Corridor	34%	44%
HUD New York City	New York City	45%	32%
Robert O'Block and Robert Kuehn	Boston?	31%	NA
Robert Whittlesey SECD	Boston	20%	NA
Dale Bagby	Philadelphia	12 to 24%	NA
Sternlieb Burchell Hughes	Newark	6%	4 percent more expensive
HUD 1973 studies	National	Generally less than 15 percent cheaper	

[1] NA = Information not available
Source: See Text

Conclusion

This chapter has completed our first cost-benefit analysis of rehabilitation versus redevelopment by examining the initial costs of these housing strategies. Specifically it discussed and analyzed the best available rehabilitation-redevelopment cost studies. It concluded that rehabilitation does have an initial cost advantage over redevelopment but that there is little agreement on the magnitude of this advantage. We now will discuss the drawbacks of a cost-benefit analysis, looking at only initial costs, and develop an alternative cost-benefit analysis that considers the long term costs.

Rehabilitation—Redevelopment Cost-Benefit Analysis: The Long Term Cost Approach

Introduction: Need for a Long Term View

The methodology of focusing on C and R costs,[64] an approach we have utilized so far, is illuminating but can sometimes be misleading; it can lead to the implementation of erroneous strategies, either rehabilitation when such a policy can prove more costly in the long run than new construction or redevelopment when in fact rehabilitation could have provided housing at a cheaper cost.

Previously we illustrated how an initial cost approach could be misleading if the rehabilitated unit's replacement cost at the end of its economic life (which is presumably shorter than a new unit's economic life) were not considered. We will now show how an initial cost approach can be misleading when operating cost disparities are not considered.

In illustration, if a rehabilitated unit had an initial $20,000 project cost and a comparable new unit cost $25,000, we might be tempted to effect a rehabilitation strategy. If the rehabilitated property's operating cost, though, was $40 higher monthly than the new unit's operating cost, then over 25 years the former unit would cost $12,000 more in operating costs, more than offsetting the rehabilitated unit's initial cost saving. (If we discounted this $12,000 sum at a 7 percent discount rate for 25 years we would obtain $5,600, still more than the $5,000 initial rehabilitation cost saving. The $40 figure is not unreasonable. Arthur Solomon, for example, has reported a $30 monthly higher operating cost for rehabilitated rent supplement units as compared to new rent supplement units. See Arthur Solomon, *The Cost Effectiveness of Subsidized Housing* (Cambridge, Mass.: MIT-Harvard Joint Center for Urban Studies, 1971), Working paper No. 5.) Our initial decision, then, to effect rehabilitation would have proved shortsighted.

To avoid this and similar erroneous policy decisions, it is important to look at both the long-term and the initial costs of rehabilitation versus redevelopment. But this raises these questions: How these long-term costs can be projected and compared? What methodology for

[64] An initial C and R cost benefit analysis is not only popular in the United States but in England as well. The Skelmersdale Report on Environmental Recovery, for example, concluded that rehabilitation was an advantageous strategy as compared to redevelopment because the initial capital of the former strategy was cheaper than for the latter housing policy.

comparing long-term costs and benefits should be utilized? To formulate such a methodology is this chapter's objective. Specifically, we shall determine how the problem of comparing present and future costs can be handled and which factors should be considered in the long-term cost evaluation. We also shall present numerous equations (called here rehabilitation decision equations) for actually projecting long-term costs; discuss how these equations could be calibrated; and finally, apply these equations using empirical data and discuss the policy implications of our findings. (The groundwork for these equations was established, by Lionel Needleman, an English economist, and A. H. Schaaf of the University of California at Berkeley. See footnotes 65 and 66.)

Formulating a Long Term Rehabilitation Cost Methodology: Simultaneously Considering Present and Future Costs

One problem in formulating a long-term rehabilitation cost methodology is that we often will be dealing with present and future costs and there is a danger of treating such costs equally. Such an approach is erroneous as future expenditures are less "costly" than present expenditures when based on current money values; e.g., a dollar spent today has more value than a dollar that will have to be spent a year hence. It is important, then, that we deal in standardized dollars so that we do not treat present and future expenditures equally.

Luckily a technique exists—discounting for obtaining standardized dollars. To obtain the present value of future expenditures (or benefits) we can multiply the future expenditures (or benefits) by either $(1 + i)^{-n}$ or $(1/(1 + i))\,n$, where i = stated interest rate (as we shall see later i can vary) and n = number of years being discounted. In our methodology, which we shall soon present, we utilize the discounting procedure outlined above for comparing present and future expenditures. (The political problems of present expenditure "cost" vs. future ones fortunately follow the same direction though the discounts used may actually be much higher.)

Formulating a Long Term Rehabilitation Cost Methodology: What Costs and Other Factors Should Be Considered?

An even more fundamental problem is what factors and costs should be considered in a long-term cost evaluation of rehabilitation? Omission of certain costs may lead us to underestimate rehabilitation's true cost; inclusion of overlapping costs would have an opposite and equally undesirable effect. In the author's opinion the following costs and factors bear consideration: the eventual replacement cost of the rehabilitated property, the operating cost disparities between rehabilitated and newly constructed units, the amenity differences between these two types of housing, and depreciation disparities for rehabilitated as opposed to new housing.

Replacement Cost: There is little agreement on how long a rehabilitated property can continue to provide adequate shelter or, more technically on what the length is of the economic life of a rehabilitated structure. (We shall examine this topic in greater depth later.) There is agreement that a rehabilitated property will not last so long as a new building; the rehabilitated unit will often have to be replaced, either being rehabilitated again or demolished and replaced with a new structure, long before the economic life of a new unit constructed at the same time will have terminated.

Not including the future rehabilitation or the redevelopment expenditure of the currently rehabilitated structure, which is a frequent practice of rehabilitation cost studies, can severely underestimate rehabilitation's actual total cost. To avoid this omission we shall describe two equations for determining when rehabilitation should be effected, which take into consideration rehabilitation's replacement cost.

Proposed Replacement Cost Equations: To include the replacement cost of the rehabilitated unit in our consideration of whether to effect rehabilitation, we would extend our previous decision to rehabilitate (if $C > R$) as follows: Rehabilitate if $C > [R + C \div (1 + i)^n]$, C and R and i stand for initial new construction cost, initial rehabilitation cost, and discount rate respectively; n stands for the economic life of the rehabilitated unit and $C \div (1 + i)^n$ equals the present value of the future replacement cost of the rehabilitated property.

This equation was first formulated by an English economist, Lionel Needleman.[65] Needleman used a different discounting format in his equation as follows: Rehabilitate if $C > [R + C(1 + i)^{-n}]$. He also included other factors, e.g., maintenance cost disparities between rehabilitation and redevelopment, amenity difference, factors which we too shall soon consider. It was criticized by

[65] Lionel Needleman, *The Economics of Housing* (London: Staples Press, 1965), p. 201+.

E. Segsworth and R. Wilkinson [66] as underestimating rehabilitation's "true" cost by assuming that the future replacement cost would be equal to C, the current new construction cost. (Here replacement is assumed to be through new construction rather than through rehabilitation.) Segsworth and Wilkinson argued that, given the housing industry's inflationary cost spiral, the future replacement cost would be considerably more than C. Needleman, responding to this criticism, suggested a modification whereby rehabilitation would be preferred if $C > [R + (C + Z) \div (1 + i)^n]$ where Z is the annual rate of increase in replacement cost.[67]

Albert Schaaf has argued that not only would this Needleman modification tend to inflate erroneously our projection of rehabilitation's cost but that Needleman's original equation—where the replacement cost was deemed as C (not C + Z)—would have the same defect. In Schaaf's words,[68]

> The formulation $[C > R + \frac{C}{(1+i)^n}]$ implies that the owner would be indifferent between rehabilitation and replacement if $C = [R + \frac{C}{(i+i)^n}]$. This is not true, however. If he replaces now he will have a structure n years old in n years whereas if he rehabilitates and invests the amount $\frac{C}{(1+i)^n}$, he will have an amount equal to the cost of a *new* structure in n years.

Schaaf suggested that [69]

> The proper comparison is between C and $[R + \frac{C(1-nr)}{(1+i)^n}]$ where r denotes the annual depreciation rate of the new structure (using straight line depreciation). We may correctly say that the owner is still indifferent between rehabilitation and redevelopment if $C = [R + \frac{C(1-nr)}{(1+i)^n}]$ because in either case he will have an asset worth the depreciated structure for n years and an asset worth the depreciated value of a new structure at the end of n years.

We agree with Schaaf's arguments. Consequently our first rehabilitation decision equation, which we shall label equation A, is to rehabilitate if

$$C > [R + C(1 - nr) \div (1 + i)^n] \quad \text{(Equation A)}$$

We can express equation A in terms of a decision to rehabilitate when rehabilitation's costs are a certain proportion of initial new construction costs. Such an approach may be worthwhile because, as the second section of this paper examined, many rehabilitation cost studies focus precisely on this proportion. Specifically, our second rehabilitation decision equation (derived from equation A), which we shall label equation B, is to rehabilitate if

$$\frac{R}{C} < [1 - (1 - nr) \div (1 + i)^n]$$

(Equation B)

Operating Cost Disparities: Rehabilitated properties, especially in urban area, often have numerous management and maintenance problems. In fact, Robert Whittlesey, the executive director of the SECD, concluded that housing management difficulties pose even thornier problems than the physical rehabilitation process. These difficulties often result in expensive operating expenditures, which are frequently higher than for new construction (see Exhibit 22). We might therefore want to include this operating cost disparity in our evaluation of the long-term costs of rehabilitation versus redevelopment. First we shall describe why rehabilitated properties frequently have higher operating expenditures than new units and determine how we could include operating cost disparities in a rehabilitation decision equation.

Lack of Repairmen: One problem in managing rehabilitated properties is the dearth of repairmen. A recent study by the American Homeowners Association citing a nationwide shortage of repairmen noted that on the East Coast there is an acute shortage of plumbers, electricians, plasterers, and carpenters. Inner city areas suffer most because repairmen are reluctant to come to certain urban neighborhoods or will come only in teams for security purposes, which often makes the cost of their services prohibitive.[70] The problem and cost of getting repairmen is exacerbated for rehabilitated properties because the mechanical and other systems of the properties are often archaic and hard to remove, thus limiting the number of repairmen willing and able to repair these systems.

Vandalism: Another reason for rehabilitation's frequently high operating expenditure is both internal and external vandalism. Three buildings that had been rehabilitated on Fox Street in the Southeast Bronx at a cost of $886,000, for example, were completely vandal-

[66] E. M. Segsworth and R. K. Wilkinson, "Building or Renovation?" *Urban Studies*, June 1967.

[67] Lionel Needleman, "Rebuilding or Renovation? A Reply" *Urban Studies*, February 1968, p. 89.

[68] A. H. Schaaf, "Economic Feasibility Analysis for Urban Renewal Housing Rehabilitation," *Journal of the American Institute of Planners* Vol. 35, No. 6, November 1969, p. 401.

[69] Ibid.

[70] George Sternlieb, "Abandonment and Rehabilitation: What is to Be Done," U.S. Congress, House of Representatives, Committee on Housing Panels, *Papers Submitted to Subcommittee on Housing Panels and Housing Production, Housing Demand and Developing a Suitable Living Environment* (Washington, D.C.: Government Printing Office, 1971), p. 327.

Exhibit 22. Annual Operating Costs Covered by FHA Approved Rents and Annual Operating Costs Estimated by SECD Per Apartment

Item	1		2		3		4		5		6		7[5]	
	FHA	SECD	FHA	SECD	FHA	SECD	FHA	SECD	FHA	SECD	FHA	SECD	FHA	SECD
Vacancies	$ 69	$ 26	$ 71	$ 26	$ 70	$ 27	$ 71	$ 26	$ 77	$ 29	$ 83	$ 29	$108	$ 37
Fuel	98	115	120	120	116	115	108	95	103	133	97	133	118	150
Utilities	41	62	41	55	40	63	41	47	43	57	38	51	103	145
Insurance	42	58	65	63	46	58	48	61	61	64	66	78	88	107
Repairs & Painting	61	135	62	135	60	135	64	135	56	148	71	148	106	160
Halls & Misc.	20	35	20	30	20	30	18	35	22	27	22	28	17	33
Management fee	46	200	52	200	46	200	47	200	52	200	55	200	72	200
Reserve	24	41	24	40	24	40	24	37	29	43	38	44	35	60
Total Operating Costs	$401	$672	$455	$669	$422	$668	$421	$636	$443	$701	$470	$711	$647	$892
Real Estate Taxes	$137	$198	$144	$194	$140	$201	$142	$198	$157	$216	$166	$222	$231	$277
Total Operating Costs and Taxes	$538	$870	$599	$863	$562	$869	$563	$834	$600	$917	$636	$933	$878	$1,169

Source: Robert Whittlesey, *The South End Row House And Its Rehabilitation for Low Income Residents* (Boston: 1969) Chapter 6.

Exhibit 23. Socioeconomic Comparison of Tenants and Homeowners in Four Rehabilitation Efforts

Rehabilitation Project	Percentage homeowners or tenants receiving public assistance	Percentage homeowners or tenants from rehabilitation neighborhood	Mean Income	Percentage households headed by female	Mean family size
CHIP*					
Camden Housing Improvement Project	84	85	$4,780	72	5.5
RRDP*					
Rapid Rehabilitation Demonstration Program	84	***	***	***	***
SECD*					
South End Community Development	72	84	$3,200	66	3.0
Amity**					
Newark Rehabilitation Effort	4	42	$8,200	33.3	4.0

* Homeowners or tenants of different size units—efficiency to five bedrooms
** Based on sample of 24 applications for three bedroom units
*** Information not available
Sources: CHIP homeowner applications, Institute of Public Administration, *Rapid Rehabilitation of Old Law Tenements: An Evaluation* (New York: 1968), Robert Whittlesey, *The South End Row House and Its Rehabilitation for Low-Income Residents* (Boston: 1969). Robert Burchell, James Hughes and George Sternlieb, *Housing Costs and Housing Restraints: Newark, New Jersey* (New Brunswick: 1970).

ized a year after tenants had moved in.[71] Scores of buildings rehabilitated in the Boston Rehabilitation Program have also been vandalized—one building was described as being "almost destroyed in five years." [72]

Why is vandalism such a frequent problem? One explanation is that rehabilitated units often house large, low income, fatherless families who often have severe social problems (see Exhibit 23). Another explanatory factor is that there is often racial and social antipathy between rehabilitation sponsor and tenants. These same conditions also characterize new housing projects in urban areas but rehabilitated units are often

[71] *The New York Times*, February 13, 1972.
[72] "Rehabilitation Projects and Middle and Low Income Housing: A Panel Discussion," *New York University Twenty-Ninth Annual Institute on Federal Taxation* (New York, 1971), p. 1176.

prone to more vandalism for the following reasons: They often afford poorer security, e.g., have more entrances and exits than newly constructed houses; they frequently house larger families than new units (because the rehabilitated units are larger, e.g., have more bedrooms, etc.) and therfore suffer the concomitant physical plant abuses characteristic of such families; and they frequently have more pipes and other parts of their mechanical systems exposed and vulnerable to vandalism.

Expense of Maintaining Scattered Properties: Another reason for rehabilitation's frequent higher operating expenditures than for new construction is that the former units are often spatially scattered; it is not unusual to find a rehabilitation project consisting of a handful of small rehabilitated buildings scattered over scores of blocks. This dispersion increases the difficulty and expense in managing them because routine tasks, such as collecting rents, consume a great deal of time. The SECD in Boston, as an illustration, found that the management of small scattered projects required special costly services, services it often could not afford.[73]

Repair-Prone Properties: Perhaps the major reason that rehabilitation often has a higher operating expenditure than new construction is that unless rehabilitation involves complete interior gutting and replacement of all mechanical systems, the rehabilitated unit will often be repair-prone. In the SECD, even after properties were rehabilitated, operating costs were high (see Exhibit 22) because of the somewhat fragile construction of the South End Row House[74] and because certain original repair-prone mechanical components had been retained. Similarly, the Octavia Hill Association, which rehabilitated properties in Phildelphia, encountered severe repair problems.[75]

Proposed Replacement Plus Operating Cost Equation: Because rehabilitation's operating expenditures often are higher than redevelopment's, we should include this disparity as well as rehabilitation's replacement cost in our long-term cost evaluation. We could formulate a rehabilitation decision equation (labeled as equation C) including these two factors as follows:

(Equation C)

$$\text{Rehabilitate if } C > \left[R + \frac{C(1-nr)}{(1+i)^n} + M\frac{1-(1-i)^{-n}}{i} \right]$$

where M = Annual savings in maintenance costs with a new rather than a rehabilitated unit.

$M\frac{1-(1+i)^{-n}}{i}$ = Annual maintenance cost saving discounted.

Alternatively if we wished to express our rehabilitation decision equation in terms of rehabilitation's initial expenditures as a proportion of redevelopments initial outlay, we could do so as follows:

(Equation D)

$$\text{Rehabilitate if } \frac{R}{C} < \left[1 - \frac{(1-nr)}{(1+i)^n} - M\frac{1-(1+i)^{-n}}{C} \right]$$

Housing Amenity Differences: Previously we discussed how it is often difficult to compare rehabilitated and new housing units because the former's housing amenities may be far inferior to the latter's housing quality. We mentioned that this problem could be ameliorated by comparing only "gut" rehabilitation to new construction. This approach, though, has the obvious drawback that even "gut" rehabilitation may be inferior to redevelopment. Additionally, even if "gut" rehabilitation and new construction are initially comparable immediately after rehabilitation is effected, this similarity may soon be lost. This can result when rehabilitation proves more vulnerable to the "elements"—both physical and social, causing housing decline in urban areas.

We could standardize new and rehabilitated units for comparative purposes by taking into account their rental differences. This assumes that differences in rent will reflect differences in housing quality, i.e., a unit renting for $100 monthly will have 20 percent more amenities than a unit renting for $80 monthly. Another reason for considering rental disparities is that our approach to considering policy focuses on the "dollars and cents" of housing much in the same way that a private entrepreneur would evaluate different potential housing investments by comparing their cost and potential income, e.g., rent. This standardizing of housing units by considering their rental disparities could be added to

[73] Whittlesey, *South End Row House*, p. XI.
[74] Ibid., pp. 6–10.
[75] Nash, *Residential Rehabilitation*, p. 119; see also Comptroller General of the United States, *Improvement Needed in the Management of the Urban Renewal Rehabilitation Program*, Report No. B–118754, April 25, 1969; Elias Soto, "Meeting the Challenges of Inner City Management," *Journal of Property Management* Vol. 37, No. 3, May-June 1972, p. 109+; Department of Housing and Urban Development, *Organizing and Managing a Large Scale Program*, Section II-Management.

previously discussed considerations of replacement cost and operating cost disparities in a long term rehabilitation decision equation (equation E) as follows:

(Equation E)

Rehabilitate if $C >$

$$\left[R + C\frac{(1-nr)}{(1+i)^n} + M\frac{1-(1+i)^{-n}}{i} + D\frac{1-(1+i)^{-n}}{i}\right]$$

where D = Differences in the annual rental income of a new unit and a rehabilitated unit.

$D\frac{1-(1+i)^{-n}}{i}$ = Discounted annual differences in rental income.

Alternatively, we could express equation E in terms of rehabilitation's initial costs as a proportion of redevelopment's initial outlays as follows:

(Equation F)

Rehabilitate if $\frac{R}{C} <$

$$\left[1 - \frac{(1-nr)}{(1+i)^n} - \frac{M\frac{1-(1+i)^{-n}}{i}}{C} - \frac{D\frac{1-(1+i)^{-n}}{i}}{C}\right]$$

Tax Depreciation Differences: Another factor that we might want to consider in determining rehabilitation's long term cost is the greater Federal tax loss eminating from rehabilitated as compared to new housing. This larger loss results from the fact that investors in rehabilitation can depreciate their investment much more rapidly than investors in new construction. This tax depreciation difference, causing a concomitant reduction in Federal tax revenues, is authorized by Section 167(k) of the 1969 tax act.

This section allows a taxpayer [76] to depreciate rehabilitation expenditures by a straight-line depreciation schedule with a 5-year write off and no salvage value. The rehabilitation expenditure cannot be less than $3,000 or more than $15,000 per dwelling unit over two consecutive years. The rehabilitated units must be planned for occupancy by low to moderate income families whose income can be a maximum of 150 percent (this income limitation has been modified by Tres. Reg. Σ1 167(k)) of the maximum income level for eligibility for local public housing.[77] (Appendix B explores how we calculated the cost of section 167(k) for various rehabilitation expenditures).

In contrast new housing can be depreciated fastest according to a (200 percent) double declining balance depreciation schedule, significantly slower than the 5-year 167(k) write off. Investors in new 236 housing have the advantage although they can use pre-1969 section 1250 recapture rules (20 months full recapture, of excess depreciation, 100 months recapture reduced by 1 percent monthly, no recapture after 120 months) instead of the post-1969 section 1250 recapture schedule (100 months full recapture of excess depreciation followed by 100 months where recapture is reduced 1 percent monthly, no recapture after 200 months. See Internal Revenue Code Σ 1250 (a)(1)(C)(ii)). This recapture advantage of new 236 housing will be meaningless if the 236 property is not sold before 120 months or, if sold, if the seller can at least temporarily avoid recapture through section 1039 "rollover." (See Internal Revenue Code Σ 1039.)

Because there is an opportunity value of capital ("time is money"), the speed of the rehabilitation depreciation means that the Federal Government has a higher cost in terms of lost tax revenue with rehabilitation as compared with new construction. (For a discussion on the need to calculate this lost revenue see Boris L. Bittker, "Accounting for Federal Tax Subsidies in the National Budget," *National Tax Journal* (June 1969).) This additional cost could be added to the previously discussed replacement cost, operating cost disparities and housing amenity difference factors in a rehabilitation decision equation (Equation G) as follows:

(Equation G)

Rehabilitate if $C >$

$$\left[R + C\frac{(1-nr)}{(1+i)^n} + M\frac{1-(1+i)^{-n}}{i} + D\frac{1-(1+i)^{-n}}{i} + \Sigma T\frac{1}{(1+i)^{n_1}}\right]$$

where T = Annual difference in Federal tax reve-

[76] For a discussion of the operation of section 167(k) see Lewis Kaster and Stanley Berman, *Subsidized Housing Tax and Profit Opportunities in Selling and Buying* (New York: Practicing Law Institute, 1971); and "Accelerated Depreciation for Housing Rehabilitation," *Yale Law Journal* Vol. 79, No. 5, April 1970, pp. 961–972.

[77] See *Federal Register* Vol. 35, No. 150, August 4, 1970, pp. 12, 400–12, 404.

nues with a rehabilitated as compared to a new unit.

$\Sigma T \frac{\frac{1}{(1+i)^{n_1}}}{C}$ = Sum of the annually discounted annual difference in Federal tax revenue.

n_1 = Year depreciation is taken (see Appendix B).

Alternatively we could express equation G in the form of a R/C rehabilitation decision equation (Equation H) as follows:

(Equation H)

$$\text{Rehabilitate if } \frac{R}{C} < \left[1 - \frac{(1-nr)}{(1+i)^n} - \frac{M\frac{1-(1+i)^{-n}}{i}}{C} - \frac{D\frac{1-(1+i)^{-n}}{i}}{C} - \Sigma T \frac{1}{(1+i)^{n}1} \right]$$

Rehabilitation Decision Equations: Summary: Exhibit 24 summarizes all of the rehabilitation decision equations we have so far introduced. There is no one right equation; rather, as we go from A to H, we consider more cost and other factors, thus gaining a more complete evaluation. But we also complicate our analysis by requiring the empirical determination of more variables. The difficulty of this empirical determination is evident in the next section when we try to calibrate equations A through H.

Calibrating the Rehabilitation Decision Equations

Introduction: To use the equations previously presented we must determine the following values: C, R, M, D, i, n and n_1, T, and r. It is important that we carefully determine these values, for some of them—especially n, i, C, R, and D—have significant influence on the answers derived from the rehabilitation decision equations. It is better not to use a rehabilitation decision equation if we have no faith in the accuracy of our equation variables. We follow this advice because, at the end of the chapter, we reject a number of expanded rehabilitation decision equations precisely because we have no data to calibrate the variables required by the expanded equations.

We are far luckier with respect to many of the variables of our A through H equations since

Exhibit 24. Summary of Rehabilitation Decision Equations

Equation I.D.	Rehabilitation Decision	Equation
A	Rehabilitate if	$C > \left[R + \frac{C(1-nr)}{(1+i)^n} \right]$
B	Rehabilitate if	$\frac{R}{C} < \left[1 - \left[\frac{(1-nr)}{(1+i)^n} \right] \right]$
C	Rehabilitate if	$C > \left[R + \frac{C(1-nr)}{(1+i)^n} + M\frac{1-(1+i)^{-n}}{i} \right]$
D	Rehabilitate if	$\frac{R}{C} < \left[1 - \frac{(1-nr)}{(1+i)^n} - r\frac{M\frac{1-(1+i)^{-n}}{i}}{C} \right]$
E	Rehabilitate if	$C > \left[R + \frac{C(1-nr)}{(1+i)^n} + M\frac{1-(1+i)^{-n}}{i} + D\frac{1-(1+i)^{-n}}{i} \right]$
F	Rehabilitate if	$\frac{R}{C} < \left[1 - \frac{(1-nr)}{(1+i)^n} - \frac{M\frac{1-(1+i)^{-n}}{i}}{C} - \frac{D\frac{1-(1+i)^{-n}}{i}}{C} \right]$ *
G	Rehabilitate if	$C > \left[R + \frac{C(1-nr)}{(1+i)^n} + M\frac{1-(1+i)^{-n}}{i} + D\frac{1-(1+i)^{-n}}{i} + \Sigma T\left(\frac{1}{(1+i)^{n_1}}\right) \right]$
H	Rehabilitate if	$\frac{R}{C} < \left[1 - \frac{(1-nr)}{(1+i)^n} - \frac{M\frac{1-(1+i)^{-n}}{i}}{C} - \frac{D\frac{1-(1+i)^{-n}}{i}}{C} - \frac{\Sigma T\left(\frac{1}{(1+i)^{n_1}}\right)}{C} \right]$ *

Sources: Derived from A. H. Schaaf "Economic Feasibility Analysis for Urban Renewal Housing Rehabilitation," *Journal of the American Institute of Planners*, Vol. 35, No. 6, November 1969; and Lionel Needleman, *The Economics of Housing* (London: Staples Press, 1965), pp. 201+.

* These equations could have been more elegantly written by factoring the $\frac{1}{C}$ term, e.g.,

$$\frac{R}{C} < \left[1 - \frac{(1-nr)}{(1+i)^n} - \frac{1}{C}\left(M\frac{1-(1+i)^{-n}}{i} \right) + D\frac{1-(1+i)^{-n}}{i} \right]$$

many of these variables can be obtained from empirical sources. Empirical sources, though, sometimes are scanty or conflict and where this is true we will often assume a range of possible values. We shall also try to determine values for the three different levels of rehabilitation: light, moderate and "gut."

We do this for the following reasons: All three levels of rehabilitation bear consideration, for each may be beneficial in particular situations. "Gut" rehabilitation may be needed in houses of deteriorated conditions and may be appropriate in blighted neighborhoods. But not all houses nor are all neighborhoods in such a rundown condition. Moderate rehabilitation, for example, may be appropriate for deteriorating houses in neighborhoods in downward transition but not yet blighted. Light rehabilitation may yield good results in basically sound housing suffering from an accumulation of deferred maintenance but located in basically stable neighborhoods.

In contrast, though, we may decide that one particular level of rehabilitation should be used for all different houses in many different neighborhoods. If we believe that the latter is true we would be faced with the question: Which one of the three rehabilitation levels is optimal from a cost-benefit perspective? Our rehabilitation decision equations could tell us which is the optimal rehabilitation level (how this could be done will be explained later). To do this, we would have to determine equation variables, R, C, etc., for different rehabilitation levels. Even if we opt for only one rehabilitation level, our decisionmaking would be served by determining the equation values for all three rehabilitation types.

As we can see from the above discussion, not only must we determine a score of values R, C, M, D, etc., some of which, i for example, will be given a range of values because empirical data is lacking, but we also determine these values for three levels of rehabilitation. This comprehensive approach was undertaken to provide the basis for a thorough analysis.

But such a multiplicity of data can also prove confusing. To avoid this problem we have labeled each set of data as a Parameter Set (PS) and have numbered these PS's consecutively, i.e., PS1, PS2, PS3, etc. (see Exhibits 25 through 27). Each level of rehabilitation has four PS's, one each for the four different values of i we shall assume. Our two major empirical sources of data, the McGraw-Hill and Sternlieb studies (we will explain why we chose these two studies) yield 12 PS's (4 PS's for each of the three levels of rehabilitation) for a total of 24 PS's. We also hypothesized certain values (for reasons we shall soon describe) yielding 12 more PS's. We thus have a total of 36 PS's. We shall now proceed to determine the values comprising our PS's.

Determining C and R Values: From our second chapter we saw that many analyses have either examined or projected initial new and rehabilitation costs. Very few analysts have

Exhibit 25. Parameter Set Values [1] Derived from the McGraw-Hill Study

Parameter Set (PS#)	Values					T	n	n[1]	r
Light Rehab	i	C	R	M	D				
PS1	0.5	$28,000	$4,500	$110	$2,100	See	9	Varies	.02
PS2	.07	28,000	4,500	110	2,100	Appendix	9	by	.02
PS3	.10	28,000	4,500	110	2,100	B	9	year	.02
PS4	.15	28,000	4,500	110	2,100		9	depre-ciation is	.02
Moderate Rehab									
PS5	.05	28,000	9,000	60	1,600		18	taken	.02
PS6	.07	28,000	9,000	60	1,600		18		.02
PS7	.10	28,000	9,000	60	1,600		18	See	.02
PS8	.15	28,000	9,000	60	1,600		18	Appendix B	.02
Gut Rehab									
PS9	.05	28,000	18,000	10	1,000		35		.02
PS10	.07	28,000	18,000	10	1,000		35		.02
PS11	.10	28,000	18,000	10	1,000		35		.02
PS12	.15	28,000	18,000	10	1,000		35		.02

Notes: [1] Not all of these values are derived from the indicated study see text and appendix.
Source: See text and Appendix B.

Exhibit 26. Parameter Set Values [1] Derived from the Sternlieb Study

Parameter Sets (PS^s)	i	C	R	M	Values D	T	n	n^1	r
Light Rehab									
PS13	.05	$21,000	$5,000	$120	$1,000	See	8	Varies	.02
PS14	.07	21,000	5,000	120	1,000	Appendix	8	by	.02
PS15	.10	21,000	5,000	120	1,000	B	8	year	.02
PS16	.15	21,000	5,000	120	1,000		8	depre-	.02
								ciation	
Moderate Rehab								is	
PS17	.05	21,000	10,000	100	500		15	taken	.02
PS18	.07	21,000	10,000	100	500		15		.02
PS19	.10	21,000	10,000	100	500		15		.02
PS20	.15	21,000	10,000	100	500		15		.02
Gut Rehab									
PS21	.05	21,000	20,000	70	0		30		.02
PS22	.07	21,000	20,000	70	0		30		.02
PS23	.10	21,000	20,000	70	0		30		.02
PS24	.15	21,000	20,000	70	0		30		.02

Notes: [1] Not all of these values are derived from the indicated study see text and appendix.
Source: See text and Appendix B.

Exhibit 27. Hypothetical Parameter Set Values [1]

Parameter Sets (PS^s)	i	C	R	M	Values D	T	n	n^1	r
Light Rehab									
PS25	.05	$21,000	$5,000	$240	$1,200	See	7	Varies	.02
PS26	.07	21,000	5,000	240	1,200	Appendix	7	by	.02
PS27	.10	21,000	5,000	240	1,200	B	7	year	.02
PS28	.15	21,000	5,000	240	1,200		7	depre-	.02
								ciation	
Moderate Rehab								is	
PS29	.05	21,000	10,000	200	1,000		13	taken	.02
PS30	.07	21,000	10,000	200	1,000		13		.02
PS31	.10	21,000	10,000	200	1,000		13		.02
PS32	.15	21,000	10,000	200	1,000		13		.02
Gut Rehab									
PS33	.05	21,000	20,000	140	500		25		.02
PS34	.07	21,000	20,000	140	500		25		.02
PS35	.10	21,000	20,000	140	500		25		.02
PS36	.15	21,000	20,000	140	500		25		.02

Notes: [1] Assuming rehabilitation has little advantages over new construction in terms of economic life, maintenance cost, etc., we have hypothesized these values because in some instances BURP, Philadelphia "Used House" program rehabilitation has had a short economic life and high maintenance costs, etc.
Source: See text and Appendix B.

supplemented their initial cost focus by looking at operating expenditures as well. Since we are also interested in the latter expenditures for determining some of our values, e.g., M and D, the few studies that have both project and occupancy costs are invaluable to use and shall be used for determining our values.

The most complete studies covering both project and occupancy costs are the McGraw-Hill and Sternlieb analyses previously described. (A third extensive analysis by Arthur Solomon *(The Cost Effectiveness of Subsidized Housing,* see footnote 84) focusing on both capital and operating expenditures of new and rehabilitated units is discussed in the fourth section.) The former accorded rehabilitation a greater costs advantage over redevelopment than the latter's analysis (compare Exhibits 8 and 15). Some may object that recent events—e.g., the failure of BURP, Philadelphia "Used House" Program, and

other rehabilitation programs—point to even a lesser rehabilitation cost advantage than indicated in the Sternlieb study. To satisfy such critics we have hypothesized the values indicated in Exhibit 27, which, by comparing these values to the ones in Exhibits 25 and 26, paint a bleak picture of rehabilitation's benefits.

To return to our two empirical studies, according to the McGraw-Hill analysis, "gut" rehabilitation would cost $18,000 per unit as compared to a $28,000 unit cost for new construction. (These figures have been updated to 1973 by being an inflationary cost factor (see Appendix B).) Based on these two figures we estimate that moderate rehabilitation would cost $9,000 and light rehabilitation $4,500 per unit (see Exhibit 25 and Appendix B). According to the Sternlieb study, "gut" rehabilitation would cost $20,000 per unit versus a $21,000 new unit cost. Based on these two parameters we estimate that moderate and light rehabilitation would cost $10,000 and $5,000 respectively. (See Exhibit 26 and Appendix B.) We assume the same values in our hypothetical PS's. (See Exhibit 27.)

Determining M and D Values: According to the McGraw-Hill study, M, (the yearly difference in maintenance costs for rehabilitated as compared to new units) is $10 for "gut" rehabilitation, $60 for moderate rehabilitation, and $110 for light modernization. (See Exhibit 25 and Appendix B.) According to the Sternlieb study, M is $70, $100 and $120 for "gut", moderate, and light rehabilitation respectively. (See Exhibit 26 and Appendix B). Our hypothetical M values are even larger. (See Exhibit 27.)

We also can determine the D value (the yearly difference in rental between rehabilitated and new units) from the McGraw-Hill and Sternlieb studies. According to the latter study, D is $1,000 for "gut" rehabilitation, $1,600 for moderate rehabiliation and $2,100 for light rehabilitation. According to the latter study, D is equal to 0 for "gut" modernization and is $100 and $120 for moderate and light rehabilitation respectively. (See Exhibit 26 and Appendix B.) Our hypothetical D values range from $500 for "gut" rehabilitation to $1,200 for light rehabilitation. (See Exhibit 27.) (The "gut" figures have been updated to 1973 by using an inflationary cost factor (see Appendix B). The rest are estimated figures.)

Determining the "i" Value It is far more difficult to determine what i value to utilize. Since we are trying to determine which strategy, rehabilitation or redevelopment, should be effected by a public body, our "i" is the social rate of discount. There is little consensus though on the exact magnitude (i.e., the percentage rate) of the latter discount rate. In the words of William Baumol:[78]

> Few topics in our discipline (economics) rival the social rate of discount as a subject exhibiting simultaneously a very considerable degree of knowledge and a very substantial level of ignorance. Economists understand thoroughly just what this variable should measure: The opportunity cost of postponement of receipt of any benefit yielded by a public investment. They agree also on the components that should be considered in making up this figure: Primarily the welfare foregone by not having these benefits available for immediate consumption or reinvestment and (perhaps) a premium corresponding to the risk incurred in undertaking government projects. Above all, economists are quite generally in accord on the view that a very serious misallocation of resources can result from the use of an incorrect estimate of the value of this variable in a cost-benefit calculation. Yet, while they agree that externalities can play a significant role in the matter, there is some considerable question even about the direction of these effects. There is substantial obscurity and divergence of views in discussions of the implications of differences (if indeed there are any) in the degree of risk that is incurred when a given project is undertaken by a private firm on the one side and by government on the other. And as a result of these and other sources of shaky understanding of some basic principles, we are treated to what may, with little exaggeration be described, as a sorry spectacle—outstanding members of our profession providing in print estimates of the social discount rate ranging from four and one half to eight or nine percent. Some calculations by governmental agencies and others have even employed discount rates as low as three per cent[79] or have even discounted at a zero rate.[80] Since the choice of investment projects can be so sensitive to the magnitude of this variable, little help is provided to the decision maker who is confronted by such an enormous range of estimates.

It would be beyond the scope of this paper to discuss fully the literature examining the social rate of discount[81] or to determine what is the most proper rate. Instead we shall assume four different rates, 5, 7, 10 and 15 percent. We have assumed this range of values because we believe that discount rates either below .05 or above .15 are either too low or too high.

Determining the n Value: There is also little consensus concerning the economic life of a rehabilitated unit. One recent article described

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[78] William Baumol, "On the Social Rate of Discount," *American Economic Review* Vol. 58, 1968, p. 789.

[79] M. S. March, Discussion of a paper by Weisbrod, in Robert Dorfman (ed.), *Measuring Benefits of Government Investments* (Washington, 1965).

[80] H. E. Klarman, "Syphilis Control Programs," in Dorfman, *Measuring Benefits of Government Investments*.

[81] See also K. J. Arrow, "Discounting and Public Investment Criteria," in A. V. Kneese and S. C. Smith (eds.), *Water Research* (Baltimore, 1966); S. A. Marglin, "The Social Rate of Discount and the Optimal Rate of Investment," *Quarterly Journal of Economics*, Feb. 1963, pp. 77, 95–112; A. K. Senus "Isolation, Assurance and the Social Rate of Discount," *Quarterly Journal of Economics*, Feb. 1967; Gordon Tullock, "The Social Rate of Discount and the Optimal Rate of Investment: Comment," *Quarterly Journal of Economics*, May 1964.

how "real estate experts estimate the useful life of projects which have undergone total rehabilitation to be approximately 25 years." [82] One New York State study estimated that the economic life after rehabilitation for a new-law fireproof elevator building was 40 years, while 25 years for both new-law elevator and walk-up structures was estimated. The study estimated a 20 year life for old-law walk-up buildings.[83] But there have also been instances of rehabilitated buildings being vandalized and abandoned in only a few years, e.g., the BURP project in Boston.

Given the range of the supposed and actual economic life of rehabilitated units, we will make an educated guess in determining n. For the PS's derived from the McGraw-Hill study, we have assumed an n of 50 for new buildings, and n's of 35, 18 and 9 for the "gut," moderate, and light rehabilitated units respectively. For the PS's derived from the Sternlieb study, which we have accorded rehabilitation a lesser cost advantage, we have again assumed an n of 50 for new buildings but n's of 30, 15 and 8 for the "gut," moderate, and light modernized units respectively. The n's in our hypothetical PSs range from 7 to 25. (See Exhibits 25 through 27.)

Determining the Other Values: We shall briefly describe how our other values were determined. Since the economic life of a new building has been assumed to be 50 years, r, which is the depreciation percentage per year (assuming straight line depreciation) is .02. We have operationally defined the value of T as the annual difference between the Federal tax loss from depreciation under Section 167(k) versus depreciation calculated according to a double declining balance schedule. This value is determined in Appendix B.

We now have determined all the values in our PS's, our basic data sets. What remains to be done is to "plug in" these PS's in our rehabilitation (long-term) decision equations and to see whether in fact rehabilitation has a cost advantage as compared to new construction. This we shall do in the next section.

Applying the Rehabilitation Decision Equations

Because of the multiplicity of our rehabilitation decision equations as well as our parameter sets, we shall not describe the application and operation of our equations on an individual basis; rather we shall summarize them in exhibit form and then discuss interesting trends and conclusions. We present two general forms of exhibits: The first (Exhibit 28) indicates whether the long-term new construction costs are greater than long-term rehabilitation expenditures, while the second (Exhibit 29) shows the actual magnitude of difference between these long term costs. We do not include the results of the R/C> equations (equations B, D, F, H) because, as the latter are derived from our C> equations (equations A, C, E, G) they exhibit similar trends and come to similar conclusions as the C> equations.

Examining Our Findings

Overview: Looking at Exhibit 28, we see that long-term new construction costs are frequently higher than long-term rehabilitation outlays. (This situation is indicated by a Y). But we also can see that rehabilitation is not always cheaper and that there are many groupings or clusterings of "N's" indicating redevelopment's cost advantage. Similarly, looking at Exhibit 29, we see that, in many cases rehabilitation's cost advantage is quite substantial. But we also see clusters where rehabilitation's cost advantage is quite small and cases where redevelopment is cheaper.

To examine whether the differences we have just described are merely random occurrences or whether they follow certain patterns we shall examine our findings more closely. Specifically we shall inquire whether there are differences between our three major PS groupings (i.e., those derived from the McGraw-Hill, [PS1–PS12], Sternlieb, [PS13–PS24] and hypothetical analyses [PS24–PS36]) as well as differences within our three major PS groupings.

Differences Between the Three PS Groupings: Looking at Exhibit 28 we see that rehabilitation decision equations based on the McGraw-Hill study [PS1–PS12] frequently reveal rehabilitation to be cheaper than redevelopment. Rehabilitation's cost advantage declines however (i.e., the number of N's increase in our second (Sternlieb) PS grouping). This latter trend is accelerated in our third (hypothetical) PS grouping.

We can gain a better picture of rehabilitation's declining cost advantage as we go from the McGraw-Hill to the hypothetical PS grouping by looking at Exhibit 29. As an illustration, rehabilitation, according to the McGraw-Hill PS grouping can have a maximum $17,552 cost advantage over redevelopment (according to Equation A using PS8 values). In our second (Sternlieb) PS grouping, rehabilitation's maximum cost

[82] Dennis Meir, "Tax Shelters and Real Estate: The Rehabilitation of Low Income Housing," *Suffolk University Law Review* Vol. 7, No. 1, Fall 1972, p. 29.

[83] New York State Temporary State Housing Rent Commission, *Prospects for Rehabilitation*, p. 102.

Exhibit 28. Are Long Term New Construction Costs Higher Than Long Term Rehabilitation Costs?

Y = YES[1] N = NO[2]

Parameter Sets (PS) (See Exhibits 25 to 27)	*For Equations* (See Exhibit 24) A	C	E	G
McGraw-Hill Parameter Sets (See Exhibit 25)				
Light Rehab				
PS1	Y	Y	N	N
PS2	Y	Y	N	N
PS3	Y	Y	Y	Y
PS4	Y	Y	Y	Y
Moderate Rehab				
PS5	Y	Y	N	N
PS6	Y	Y	N	N
PS7	Y	Y	Y	Y
PS8	Y	Y	Y	Y
Gut Rehab				
PS9	Y	Y	N	N
PS10	Y	Y	N	N
PS11	Y	Y	N	N
PS12	Y	Y	Y	Y
Sternlieb Parameter Sets (See Exhibit 26)				
Light Rehab				
PS13	Y	Y	N	N
PS14	Y	Y	N	N
PS15	Y	Y	Y	Y
PS16	Y	Y	Y	Y
Moderate Rehab				
PS17	Y	Y	N	N
PS18	Y	Y	Y	N
PS19	Y	Y	Y	Y
PS20	Y	Y	Y	Y
Gut Rehab				
PS21	N	N	N	N
PS22	N	N	N	N
PS23	Y	Y	N	N
PS24	Y	Y	Y	N
Hypothetical Parameter Sets (Exhibit 27)				
Light Rehab				
PS25	Y	Y	N	N
PS26	Y	N	N	N
PS27	Y	Y	N	N
PS28	Y	Y	Y	Y
Moderate Rehab				
PS29	Y	Y	N	N
PS30	Y	Y	N	N
PS31	Y	Y	N	N
PS32	Y	Y	Y	Y
Gut Rehab				
PS33	N	N	N	N
PS34	N	N	N	N
PS35	Y	N	N	N
PS36	Y	N	N	N

[1] A yes response indicates that rehabilitation would be preferable in terms of costs as compared to new construction.

[2] A no response indicates that new construction has a cost advantage as compared to rehabilitation and therefore the former policy would be preferable from a cost perspective.

Source: Application of rehabilitation decision equations.

Exhibit 29. Differences Between Long Term New Construction and Rehabilitation Costs: Specifics

(New Construction Cost — Rehabilitation Cost = Listed Numbers[1])

Parameter Sets (PS) (See Exhibits 25 to 27)	*For Equations* (See Exhibit 24) A	C	E	G
McGraw-Hill Parameter Sets (See Exhibit 25)				
Light Rehab				
PS1	$ 8,700	$ 7,918	$ — 7,009	$ — 7,406
PS2	11,011	10,295	— 3,387	— 3,863
PS3	13,763	13,129	1,035	489
PS4	16,973	16,448	6,428	5,840
Moderate Rehab				
PS5	11,554	10,852	— 7,851	— 8,645
PS6	13,698	13,095	— 3,000	— 3,952
PS7	15,777	15,285	2,163	1,041
PS8	17,552	17,184	7,380	6,203
Gut Rehab				
PS9	8,477	8,313	— 8,061	— 9,385
PS10	9,213	9,084	— 3,863	— 5,540
PS11	9,701	9,605	— 40	— 1,860
PS12	9,937	9,871	3,254	1,292
Sternlieb Parameter Sets (See Exhibit 26)				
Light Rehab				
PS13	4,061	3,285	— 3,178	— 3,597
PS14	5,734	5,017	— 954	— 1,460
PS15	7,771	7,131	1,795	1,209
PS16	10,233	9,695	5,208	4,572
Moderate Rehab				
PS17	3,929	2,891	— 2,299	— 3,182
PS18	5,672	4,761	207	— 850
PS19	7,481	6,720	2,917	1,704
PS20	9,193	8,609	5,685	4,377
Gut Rehab				
PS21	— 944	— 2,020	— 2,020	— 3,344
PS22	— 103	— 972	— 972	— 2,559
PS23	519	— 141	— 141	— 1,961
PS24	873	414	414	— 1,548
Hypothetical Parameter Sets (Exhibit 27)				
Light Rehab				
PS25	3,165	1,776	— 5,167	— 5,609
PS26	4,753	3,460	— 3,007	— 3,534
PS27	6,732	5,564	— 278	— 885
PS28	9,211	8,212	3,220	2,584
Moderate Rehab				
PS29	2,759	880	— 8,513	— 9,396
PS30	4,551	2,880	— 5,478	— 6,535
PS31	6,499	5,078	— 2,025	— 3,238
PS32	8,474	7,358	1,775	467
Gut Rehab				
PS33	— 2,101	— 4,074	— 11,121	— 12,445
PS34	— 935	— 2,566	— 8,393	— 9,980
PS35	31	— 1,240	— 5,778	— 7,598
PS36	681	— 244	— 3,456	— 5,418

[1] A plus number indicates that new construction is costlier than rehabilitation; a minus number indicates that the opposite is true.

Source: Application of rehabilitation decision equations.

advantage declines to $10,233 (according to Equation A, using PS16 values). In our third (hypothetical) PS grouping, rehabilitation's maximum cost advantage drops to $9,211 (according to Equation A using PS28 values).

This decline in rehabilitation's cost advantage as we go from the McGraw-Hill to the hypothetical PS groupings is expected. The McGraw-Hill study accords rehabilitation significant advantages, e.g., initial cost savings and only a slightly higher maintenance cost. The Sternlieb study also accords rehabilitation cost savings but not so great as the McGraw-Hill analysis; the former analysis accords rehabilitation only a small, initial project cost advantage and slightly higher maintenance costs. Our hypothetical parameter set assumes even a smaller rehabilitation cost advantage; it not only accords rehabilitation a slight initial cost advantage but also considers that this housing strategy will produce units with short economic lives and high maintenance costs, etc. Given these three evaluations of rehabilitation underlying our three major parameter sets, it is no wonder that there is a concomitant difference in their evaluation of rehabilitation's long-term cost advantage.

Differences Within the Three PS Groupings: There are also differences within the PS groupings. Specifically there are variations between the different equations as well as differences in the different levels of rehabilitation—light, moderate, and gut. The equations' differences are that rehabilitation's cost advantage declines as one proceeds from Equations A through G. This situation is expected because Equations A through G differ in that each equation calculates an additional expenditure incurred because rehabilitation was effected, e.g., higher maintenance costs, greater Federal tax loss, etc.

When we turn our attention to the different levels of rehabilitation, light, moderate, and gut, we also discover differences. The first is that within each rehabilitation level (light, moderate, or gut), as our PS values increase, rehabilitation's cost advantage also increases. As an illustration, Equation A accords rehabilitation a $8,700 cost advantage if we calibrate this equation according to PS1 values, an $11,011 cost advantage according to the PS2 values, a $13,763 cost advantage according to the PS3 values, and a $16,973 cost advantage according to the PS4 values. Why should this occur? The reason is that within each rehabilitation level the four PS values differ only by discount rates, each successive PS using a higher discount rate. As the discount rate increases the present value of rehabilitation's additional expenditures (higher maintenance costs, etc.) decreases, thus improving rehabilitation's cost position as compared to redevelopment.

The second difference lies between the different levels of rehabilitation. In general, as we increase the level of rehabilitation we decrease rehabilitation's cost advantage (or increase this housing strategy's cost disadvantage). (This is especially true for Equation A and those equations closest to A, e.g., Equation C.) This disparity is especially pronounced for the rehabilitation situation depicted by the Sternlieb and hypothetical analyses. As an illustration, Equation A calibrated according to PS values derived from the Sternlieb analysis yields a maximum $10,233 cost advantage for light rehabilitation as compared to redevelopment (using PS16 values). This cost advantage drops to $9,193 (using PS20 values) for moderate rehabilitation, and to $873 (using PS24 values) for gut rehabilitation (see Exhibit 29).

There is a slightly different scenario when we calculate rehabilitation's costs using values derived from the McGraw-Hill study. According to this study, rehabilitation's cost advantage is more pronounced for moderate as compared to light rehabilitation but is least pronounced for gut rehabilitation. As an illustration, Equation A calibrated according to values derived from the McGraw-Hill analysis yields a maximum $16,973 cost advantage for light rehabilitation (using PS4 values), a $17,552 cost advantage for moderate rehabilitation (using PS8 values), but a $9,937 maximum cost advantage for gut modernization (using PS12 values). (See Exhibit 29.) We will shortly examine why more extensive rehabilitation generally costs more than moderate rehabilitation.

Policy Analysis

We saw from the previous section that rehabilitation's cost-benefit varied depending on such factors as which discount rate or rehabilitation decision equation we chose to use. We effected such a broad analysis in order to formulate the basic structure of how rehabilitation decision equations could be calibrated and applied. To make policy, however, we do not have the luxury of continuing to include all of our variables but must decide which variables are most important and appropriate. In this section we shall discuss what we believe are the most appropriate variables and then decide, given the rehabilitation-re-

development's relative costs, which strategy is most efficient.

Deciding on an Appropriate Discount Rate and Rehabilitation Decision Equation: From our four discount rates (.05, .07, .10 and .15) we, for the purpose of policymaking, will use the .07 rate, i.e., about midway between the range of the discount rates we have discussed. We also shall use Equation G as our rehabilitation decision equation. We do this because this equation includes many of rehabilitation's hidden costs, (e.g., higher maintenance costs) that some of the other equations do not include.

Deciding Which Basic Parameter Set is Most Appropriate: The next decision we have to make is which of our three basic parameter sets, those derived from the McGraw-Hill, Sternlieb, or hypothetical analyses most closely parallels the "real world." This is a crucial but difficult question to answer because the real world of urban neighborhoods can differ considerably; there are at least three different typologies of neighborhoods: basically stable neighborhoods, neighborhoods in downward transition, and blighted areas with increasing evidence of abandonment. (A HUD task force report by George Sternlieb and Jim Hughes has listed and described five different neighborhood stages.)

In our evaluation, the McGraw-Hill study may very well represent conditions in basically stable urban neighborhoods, the Sternlieb study may very well describe a basically stable neighborhood with some evidence of transition, and our hypothetical values may very well reflect conditions in blighted neighborhoods. We then can use all three of our basic parameter sets for evaluating rehabilitation policy in three different categories of neighborhoods.

Policy Implications

Overview: In general redevelopment is less costly over the life of the improvement but the former's cost advantage varies by neighborhood and the level of rehabilitation effected. Redevelopment has the largest cost advantage when compared to extensive levels of rehabilitation (gut rehab) effected in blighted neighborhoods. Redevelopment's cost advantage declines when compared to moderate rehabilitation effected in transitional neighborhoods. Redevelopment has the least cost advantage when compared to light rehabilitation effected in stable neighborhoods. (See Exhibit 30.)

The marginal increase in housing amenities —e.g., lower housing maintenance cost and longer housing unit economic life—is generally greater with redevelopment as compared to rehabilitation. But redevelopment's marginal amenity increase advantage (as compared to rehabilitation) declines as neighborhood conditions improve and as more moderate levels of rehabilitation are effected. Why should the above scenario occur? To answer this we must consider a number of factors and conditions.

Exhibit 30. Does Rehabilitation Have a Cost Advantage Over New Construction

Neighborhood Stage	Level of Rehabilitation	Redevelopment's Long Term Cost Advantage as Compared to Rehabilitation
Stable	Light	↑ increasing
	Moderate	
	Gut	
Basically Stable but Showing Some Signs of Transition	Light	
	Moderate	
	Gut	
Blighted with Increasing Evidence of Abandonment	Light	
	Moderate	
	Gut	↓

Source: Application of rehabilitation decision equation G, assuming a 7 percent discount rate (see text).

Rehabilitation Strategy—Neighborhood Analysis: Discussion. There may be basic restraints on the level of housing amenities achievable by even extensive modernization; there may be limits on the increase in economic life, improved maintenance, etc., that a gut rehabilitated unit can achieve. It is likely that the marginal increase in housing amenities per dollar expended is higher with light and moderate rehabilitation as compared to gut modernization. (We should not forget that even light rehab's comparatively high marginal increase in housing amenities may still be less than the marginal amenity increase achievable by redevelopment.)

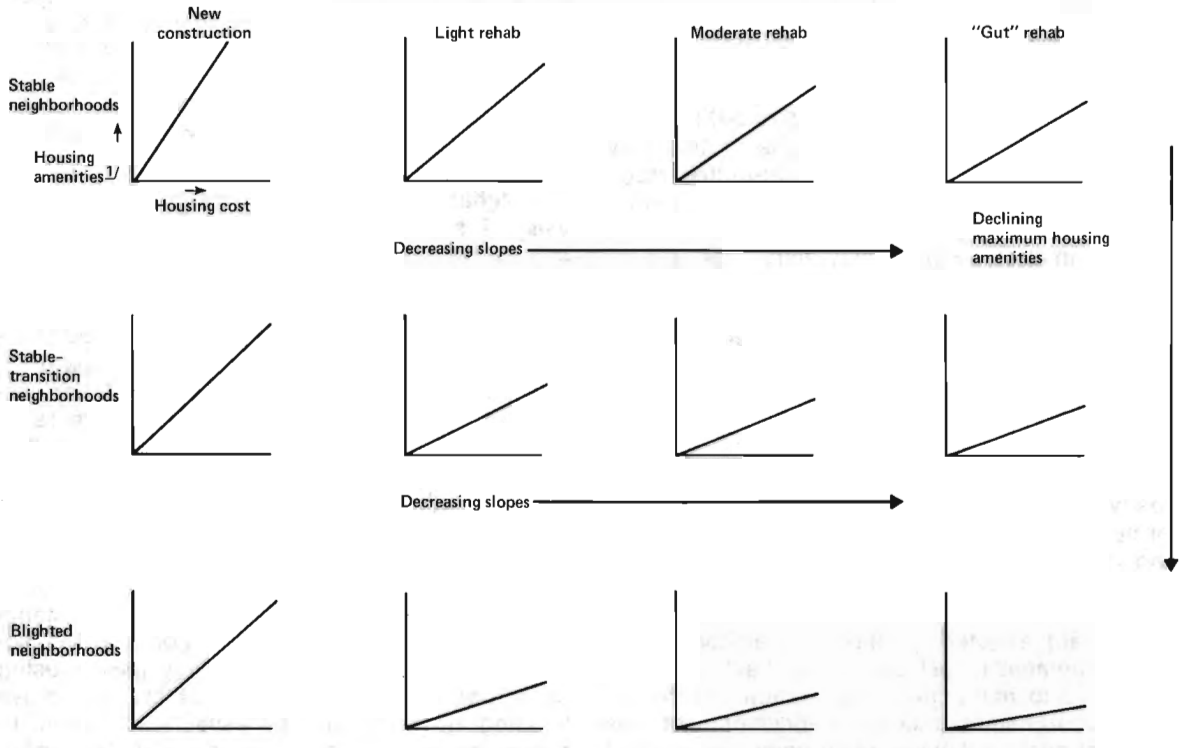
The lighter rehabilitation's higher marginal amenity increase is accentuated in more stable neighborhoods. In such areas, because the social and physical forces impacting upon housing are slight, light rehabilitation's ability to improve housing amenities may be especially marked. In poorer neighborhoods, light rehabilitation's ability to improve housing amenities at a comparatively low cost will often diminish. Therefore, light and moderate rehabilitation is often most efficient when effected in better neighborhoods.

A similar scenario may prevail with more extensive rehabilitation. The latter, as described, has a generally less favorable ability to increase marginal housing amenities for each dollar expended as compared to the lighter modernization modes. This drawback, though present in stable neighborhoods, is especially marked in blighted areas. Why should this occur? The basic reason is that the adverse social forces in such housing benefit in terms of maintenance savings, etc., achievable by rehabilitated as opposed to unrehabilitated units. These maximum housing benefits may be more closely reached at a lower cost by less extensive forms of rehabilitation (even though redevelopment in blighted neighborhoods will often achieve these and higher housing benefits at a lower long-term cost) as opposed to gut rehabilitation, which will achieve only slight marginal housing benefits for its greater dollar outlay.

In essence, blighted neighborhoods are best supported by the two ends of the strategy spectrum: light rehab thus minimizing investment, or massive efforts at regeneration of a scale to ensure their longevity. And the former may have more psychological then economically sustained effect.

Rehabilitation Strategy—Neighborhood Analysis: Graphic Analysis: The above discussion may be presented graphically and the implications for policy be more clearly defined by the graphs in Exhibit 31. These graphs are roughly based on the findings of our rehabilitation decision equations depicting the increase in housing benefits as expenditures increase for redevelopment and for light, moderate, and gut rehabilitation. To illustrate the housing cost-benefits we have drawn straight lines indicating the relationship between these two variables. Comparatively steep lines indicate sharply rising housing amenities for each dollar

Exhibit 31
Housing Cost-Benefits of Different Rehabilitation Levels Effect in Different Neighborhoods



1/ By increasing housing amenities we mean increasing unit economic life, reduced maintenance costs, etc. See text for more details.

Note: Slopes have been drawn to indicate rough interrelationships and should not be interpreted literally.

expended. Lines drawn at comparatively shallow slopes indicate the reverse.

Rehabilitation will be preferable to redevelopment if the slope of our rehabilitation cost-benefit curve is greater than the slope of the redevelopment cost-benefit slope. From our rehabilitation decision equations we never find this to be true. But the disparity of the steepness of the slopes is pronounced in particular situations; specifically it is most pronounced for the most extensive rehabilitation modes effected in blighted neighborhoods and least pronounced for less extensive rehabilitation effected in better neighborhoods.

Our graphs also indicate that the maximum housing amenities achievable through either redevelopment or rehabilitation decline as one goes from stable to blighted neighborhoods.

Policy Decisions

Based on the above findings, redevelopment is less costly than a rehabilitation strategy. Therefore, the former strategy should be stressed over the later housing approach. If rehabilitation programs are to be continued, there should be a stress on lighter forms of modernization effected in better neighborhoods because under such conditions redevelopment has only a slight cost advantage as compared to rehabilitation.

It is important to realize two considerations. While redevelopment appears to have a cost advantage as compared to rehabilitation, this advantage is often quite small in terms of its entire magnitude and especially on an annual basis. As an illustration, rehabilitation decision equation G calibrated according to the Sternlieb PS18 values reveals that on a long-term basis, redevelopment is $850 cheaper than moderate rehabilitation. Obviously this is only a small total cost saving. Additionally, if we divide this $850 saving by 15—the economic life of a moderately rehabilitated unit (see Exhibit 26)—the $57 yearly saving that we obtain is also quite small. Hence if we stress new construction over rehabilitation in order to achieve housing cost savings, we should realize that frequently we shall achieve only small total, and even smaller yearly, savings.

A second consideration is that in some situations redevelopment's cost advantage was partially due to the larger Federal tax resulting from the section 167(k) rapid write-off. This tax provision can be used only until January 1, 1975. Unless this deadline is extended by Congress, redevelopment's cost advantage will decline and in some situations will disappear. We should realize that a policy of stressing redevelopment will not produce as large savings and for some levels of rehabilitation effected in certain neighborhoods will produce almost negligible saving (for example, light rehab effected in blighted neighborhoods if we assume the PS27 values of moderate rehab effected in stable-transition areas [if we assume PS18 parameters]) if the section 167(k) provisions are terminated in 1975.

Further Reflection

Additional reflections are also warranted. The above conclusions (as in our first chapter) are based solely on the objective of producing housing at the lowest cost, whether this can be done through rehabilitation and redevelopment. It ignores (as stated our first chapter) rehabilitation's alleged social benefits, e.g., that it can serve as a valuable manpower training vehicle, etc. But we have also ignored a number of non-social factors that, if considered, may reduce rehabilitation's relative cost as compared to redevelopment. These factors are discussed below.

Maintaining Housing Capital Value: We have not considered that rehabilitation, especially in its more moderate levels, may serve a valuable function as a saver of housing capital value. In other words, a housing unit located in a transition neighborhood and worth $15,000 today may lose most of its value through owner neglect, etc., if its owner is not forced (or encouraged) to maintain code standards (light rehabilitation). Rehabilitation's role as a saver of housing capital value may be quite important if we believe that rehabilitation has a "chain reaction" psychological effect, i.e., one property owner bringing his building up to code standards may induce other property owners to do the same, thus stabilizing entire neighborhoods. Unfortunately there is no definitive data on the magnitude of the housing capital value that can be saved from erosion through effecting a rehabilitation strategy.

Housing Dislocation Differences: Another factor that would reduce rehabilitation's relative cost is the housing dislocation differences between rehabilitation and redevelopment. Both of these housing strategies cause at least temporary dislocation problems with the concomitant public cost involved with relocation, etc. Rehabilitation, generally causes less extensive (i.e., more temporary) dislocation problems than redevelopment. As an illustration, a family dislocated

from a property that is rehabilitated may be housed in a hotel for months at public expense. A counterpart family dislocated because of new construction may be similarly housed but for a larger period. To the extent that rehabilitation causes less extensive relocation problems (than redevelopment) and to the degree that these lessened difficulties produce savings in public relocation expenditures (as compared to redevelopment), then rehabilitation would have a cost advantage.

We could extend our rehabilitation decision equation approach by considering this housing dislocation difference. But since we lack any data concerning the dollar magnitude of the public relocation savings resulting from rehabilitation's relocation advantage, we did not do so.

Public Infrastructure Advantages: Other rehabilitation versus redevelopment cost components could also be examined. As an illustration, the latter strategy, if it is to be effected only on open lots, will often be concentrated on the peripheral regions of urban areas where such lots are available. In contrast, the former strategy can be, and often is, effected in more central locations. Consequently, rehabilitation may help reduce or would tend to minimize urban sprawl and decentralization and the concomitant costs of such decentralization, e.g., requiring the construction of new transportation, recreation, school, and other public facilities, etc. This ignores that new construction built in outlying areas, while possibly requiring the construction of public facilities, also has compensating benefits, e.g., closer access to jobs that are decentralizing from central business districts, the reduction of pollution, etc. In fact a number of recent court decisions have concluded that housing decentralization (especially to suburban areas) should be emphasized. (See George Sternlieb and David Listokin, "Zoning—Exclusionary Zoning: State of the Art, Strategies for the Future," paper submitted to HUD Housing Review Task Force, May 1973.) In contrast, redevelopment would tend to accentuate urban decentralization and the related costs of such a movement.

A number of individuals have emphasized that rehabilitation's ability of taking advantage of a developed infrastructure, e.g., roads, schools, should be considered in rehabilitation-redevelopment cost analyses. In a reply to a HUD Policy Review Task Force questionnaire, the National Housing Rehabilitation Association, for example, argued that:

> . . . the cost factors used for new construction did not recognize the cost of land markdowns, costs of new utilities and municipal services and schools, of any which make the cost of new construction much higher to the Nation than rehabilitation, which reuses existing facilities.

If accurate cost figures for infrastructure savings could be obtained, then these would be included in the rehabilitation decision equations. As an illustration, if we could calculate E, T_r, and P as defined below, then we could extend our most complete rehabilitation decision equations (Equations G and H) as follows:

Rehabilitate if

$$C > [R + C(1 - nr)/(1 + i)^n + M(1 - (1 + i)^{-n})/i + D(1 - (1 + i)^{-n})/i + \Sigma T(1)/(1 + i)^{n_1} + E(1 - (1 + i)^{-n_3})/i + Tr(1 - (1 + i)^{-n_3}/i + P(1 - (1 + i)^{-n_3})/i]$$

where

E = Annual cost of an educational facility built to serve the residents of new construction, a facility that would have been unnecessary had rehabilitation been effected.

T_r = Annual cost of transportation facilities built to serve the residents of new construction, facilities that would have been unnecessary had rehabilitation been effected.

P = Annual cost of parks and other recreation facilities built to serve the residents of new construction, facilities that would have been unnecessary had rehabilitation been effected.

n_3 = Capitalization or other cost paying period of the indicated facility, e.g., education, transportation, and recreation facilities.

Alternatively, we could express this last decision equation in an R/C form as follows:

Rehabilitate if

$$R/C < [1 - (1 - nr)/(1 + i)^n - M(1 - (1 + i)^{-n})/i/C - D(1 - (1 + i)^{-n}/i/C - \Sigma T(1/(1 + i)^{n_1}/C) - E(1 - (1 + i)^{-n_3})/i/C - T_r(1 - (1 + i)^{-n_3})/i/C - P(1 - (1 + i)^{-n_3})/i/C]$$

We did not include the likely higher public infrastructure costs resulting from a policy of redevelopment (and its related decentralization emphasis) as compared to a rehabilitation policy (and its frequent centralization focus) in our rehabilitation decision equations. This omission is prompted by the near impossibility of measuring the infrasturcture saving of rehabilitation; public facilities are usually built because of slowly rising demand over a number of years rather than because a new housing development rather than rehabilitation was constructed.

But our omission of rehabilitation's probable infrastructure savings should not be ignored. We

therefore consider the conclusions reached from our rehabilitation equations A through G as being the most comprehensive, given the availability of current data. We must realize, though, that further research into measuring some of rehabilitation's indirect cost benefits, e.g., infrastructure saving is needed. When such data are obtained and applied in the modified rehabilitation decision equation as outlined above, it may very well modify this chapter's conclusion that redevelopment is frequently cheaper than rehabilitation.

Conclusion

This section has focused on the long term costs of rehabilitation versus redevelopment. It established a series of rehabilitation decision equations for deciding when this housing policy is warranted. It then calibrated these equations and concluded that redevelopment is frequently preferable to rehabilitation. It also discussed certain costs and other variables not included because of such reasons as the nonavailability of needed data and the need for further research to obtain such data.

Rehabilitation—Redevelopment Cost-Benefit Analysis: The Midrange Approach

Introduction

To recapitulate our analysis: We first effected a rehabilitation-redevelopment cost analysis looking at initial (project) costs of these housing strategies. Because an initial cost approach can be misleading, we then effected a long term cost analysis. But the latter analysis—while perhaps giving us the truest picture of relative housing costs—also requires a considerable amount of data that are not easily available now, e.g., relative economic life of new versus rehabilitated units, etc., or that is not available at all, e.g., rehabilitation's public infrastructure saving.

In this section we discuss a middle-range cost-benefit analysis which lies midway—in terms of the number of cost components it evaluates as well as the term of its analysis—between the short and long term approaches (See above). The middle-range cost-benefit analysis gives us a better insight into housing program costs than the short term approach. While the reverse is true when we compare the middle-range approach to the long term cost methodology, the former strategy has the benefit of being able to take advantage of more readily accessible data.

Specifically, we shall describe a comprehensive and lucid housing cost analysis by Arthur Solomon[84] that we believe to be midrange in nature. We shall examine Solomon's methodology and present his findings relating to the relative cost of redevelopment versus rehabilitation. We shall also compare Solomon's cost findings to the conclusions of our short term and long term analyses and then discuss the policy implications of our analyses.

Midrange Cost-Benefit Analysis: Methodology

One of the objectives of Solomon's analysis was to answer what is the least expensive (most cost effective) method of providing low income families with adequate shelter. To do this Solomon compared the monthly full economic costs of building a two bedroom unit in Boston (1970) under various housing programs, e.g., public housing and leased housing. (The full economic cost includes the overall value to the economy of the resource inputs, e.g., land, labor, and capital used in housing. It includes both public and private inputs. The monthly full economic cost differs from the monthly occupancy cost in that the former includes only direct monthly carrying expenses while the later includes indirect governmental expenditures, e.g., housing program administrative expenses, tax losses, etc., as well.) These costs were then broken down into capital and operating expenditures.

To illustrate Solomon's methodology we will cite his analysis[85] of leased housing's monthly full economic cost.

> For leased housing, as with conventional public housing, we estimate the monthly economic cost of a two-bedroom unit in Boston in 1970. When the local housing authority leases existing private units there are operating and administrative costs but no capital costs. However, there are capital costs in those instances when private developers and real estate owners are willing to construct new units, reconstruct vacant units or eliminate housing code violations in response to program incentives. Whenever these private investments are undertaken, moreover, there are federal tax losses from accelerated depreciation. Because the magnitude of these private costs and tax losses varies with the

[84] Arthur Solomon, *The Cost Effectiveness of Subsidized Housing*, Working Paper No. 5 (Joint Center for Urban Studies of the Massachusetts Institute of Technology and Harvard University, February 1972).

[85] Ibid., pp. 9–13.

amount of construction or rehabilitation involved, we must decompose our cost calculations into three program subcatebories, namely, leasing with existing, rehabilitated and newly constructed units.

The cost of leasing an existing dwelling consists of the expenses incurred in managing, maintaining and operating the unit as well as the government's administrative overhead. Unlike public housing, it is not necessary to make an adjustment for property tax subsidies since private owners pay full property taxes under the short-term Section 23 program.

Since we are making separate cost estimates for the leasing of existing, rehabilitated and newly constructed units, we prorate the federal and local administrative costs among the program subcategories in accordance with their respective share of the total number of leased housing units. As government administrators gain more experience with the leasing program and more units are added to the leased housing stock, there may be some economies of scale which would lower the per unit administrative costs.

Since the private capital cost of bringing marginally substandard units up to code requirements is minimal, we exclude capital costs from this calculation. Thus, with a per unit federal overhead cost that is one-third the cost of administering public housing, we estimate the total monthly cost of Section 23 leased housing—with existing units.

For the leased housing units involving either rehabilitation or new construction, we add the capital costs to the administrative and operating costs. The federal and local administrative costs, as previously mentioned, are prorated according to the number of units under each subcategory. In addition, we include the forgone federal revenue from "accelerated" depreciation since this involves real costs to the economy.

The average cost for the substantial rehabilitation of multifamily housing accomplished under an agreement with the BHA was $8,412 per unit, in 1970 prices. For the purpose of converting this capital cost to a monthly basis we assume a twenty-five year, 8 percent mortgage. Thus, the monthly capital cost for amortization and interest is $65.

Since the 1969 Tax Reform Act provides a special five-year write-off of expenditures incurred in rehabilitating rental housing, which reduces the capital cost to the investor, the amount of this tax subsidy should be included in our calculation. We compute the value of this foregone federal revenue by establishing the depreciation schedules for both the accelerated sixty-month and straight-line depreciation methods over the actual useful life, calculating the annual differential and multiplying this differential by the marginal tax rate of real estate investors. The amount of the depreciation differential is valued more highly in the early years, so it would bias our cost estimates to include the value of the tax loss in the first year, 1970. In fact, as Exhibit B-8 indicates, the large tax shelter created during the first six years becomes a tax liability after the rehabilitation improvements are fully depreciated. To avoid the bias entailed in using the value of the tax loss for any single year we take the average of the annualized discounted present values.

In calculating the present value of the tax shelter (or forgone federal revenue) we include the deductions for interest payments, real estate taxes and other expenses incurred during the construction period. We assume that these deductions are equal to 10 percent of the total construction cost. Also, we include the tax revenue from the sale of the property, which offsets some of the earlier tax losses. For this purpose, we assume that the property, is sold at the end of the twentieth year for the amount of the remaining mortgage balance. Applying the forgoing methodology (see Exhibit B-8) we find that the average annual discounted present value—using a 10 percent discount rate—is $88, and the mothly value is approximately $7.50 (see Exhibit 32).

The same approach is used to calculate the monthly economic costs of Section 10(c) leased housing—with new construction, with two modifications. First, the city makes a property tax exemption available to the long-term leasing program. Thus, we have to add the value of the forgone property taxes to the operating costs in order to determine the full economic cost of the program. The local property tax exemption is $16.50 per unit, which is added to the $6.10 per unit actually paid by the owners of the leased housing dwellings. We include this additional $16.50 as part of the total monthly cost, since actual property tax payments are already accounted for in the operating costs.

Secondly, the mortgage term and capital costs of the rehabilitation and new construction programs are different. The monthly capital costs of new construction are calculated on the basis of the amortization and interest payments on a forty-year, 8 percent mortgage for $15,512. This amount is also used as the depreciable base for the computation of the tax loss (forgone federal revenue) as well (see Exhibit 33).

But Solomon was also interested in determining what proportion of the total cost of housing produced under various Federal housing programs is subsidized by the Government, what percent is subsidized locally and what proportion is first paid for by the housing consumer.[86] In other words, Solomon wished to determine the program (governmental) costs of the various housing programs as well as the private (non-governmental, i.e., tenant outlays) expense.

To answer this, housing expenditures were first broken down into a Federal outlay component by considering such factors as direct Federal subsidy of capital costs, forgone Federal revenue from certain tax provisions (e.g., 167(k) to encourage housing investment) as well as Federal administrative expenses. Next, local costs were estimated by calculating the difference between the full property taxes that a locality would have received from a publicly subsidized housing unit and the PILOT (payment in lieu of taxes) it actually receives, as well as local administrative expenditures. Finally, the tenant's cost was estimated by calculating such factors as the housing unit's operating cost. (This was done for public housing.) To illustrate how housing costs were broken down into Federal, local, and tenant outlays, we shall cite Solomon's calculations of these component costs for a public housing unit as follows:[87]

The cost of providing a newly constructed two-bedroom conventional public housing unit in Boston in 1970 was $215.50 per month. This total cost was allocated among the tenants, the federal government and the local government. The federal government pays the full capital cost of conventional or Turnkey public housing developments

[86] Ibid., p. 3.
[87] Ibid., p. 19.

through its retirement of the local housing authority's (LHA) forty-year serial bonds. In addition, the federal government offers a tax exemption on the bonds in order to lower the capital costs. The tax loss or forgone federal revenue created by this exemption represents another federal cost. For authorities with an operating deficit, the federal government makes an additional direct payment of $120 per annum for each family that is elderly, displaced by public action, extra large, or unusually poor. And in recent years the Congress has authorized annual contributions to modernize substandard projects and to alleviate the burden of excessive rents. This later provision (the so-called Brooke Amendment) obligates the federal government to pay the LHA an amount equivalent to the difference between 25 percent of a household's net income and their project rent, if this exceeds one-fourth of household income. Finally, there is an additional direct expenditure for federal administrative costs.

Although the federal government pays the entire capital costs, the federal administrative costs, and a limited portion of the local operating cost, the public housing tenants finance most of the operating costs through their rental payments. Tenant rent payments are set at a fixed proportion of net income, 22.8 percent in Boston. The local government provides the final operating cost subsidy through its property tax abatement. Instead of paying full property taxes, the housing authority makes a payment in lieu of taxes. The difference between full property taxes and the PILOT is the cost assumed by the municipal government.

Midrange Cost Benefit Analysis: Findings

Exhibits 32 through 35 present Solomon's findings on the monthly capital, and operating and administrative expenditures of new versus rehabilitated units constructed under various Federal housing programs. The allocation of these costs to the Federal, local, and tenant components is indicated by Exhibit 36. We can make the following conclusions from these exhibits:

1. In general, subsidized rehabilitated units' full economic cost is only slightly cheaper than newly constructed units. In the leased housing program, rehabilitated units have a $33 per month or 16 percent cheaper monthly cost than leased new housing. There is even a smaller disparity, $10 or 5 percent, in the monthly costs of the rehabilitated versus new 221(d)(3) and 236 units.

2. The tenant of rehabilitated units does not gain from this unit's total lower monthly costs; his monthly payment is the same as that paid by the tenant of a new unit (see Exhibit 36).

3. In contrast, the Federal Government's program cost is slightly lower for subsidized rehabilitated versus new units. Specifically, its program costs are $9.50 lower for rehabilitated versus new leased housing units and $10 lower for rehabilitated 221(d)(3)–236 units versus new

Exhibit 31. Gross Economic Cost Leased Housing with Rehabilitation per Month (1970) Boston, Massachusetts

Capital Costs	Per Unit Per Month[a]
Capital cost[b]	$65.00
Forgone federal revenue[c]	7.50
Operating and Administrative Costs	
Operating cost	89.00
Local administrative cost	10.50
Federal administrative cost	2.50
Total per unit per month	$174.50

Notes:

[a] The per unit per month costs are computed on the basis of average costs ($8,412) for 108 Section 23 short term lease and 32 Section 10(c) long term lease rehabilitated units.

[b] The monthly capital costs resulting from rehabilitation are paid out of tenant rent payments and federal rent assistance. The capital cost for amortization and interest for an $8412 unit assuming an 8 percent 25 year mortgage is $65.

[c] For the computation of the average monthly federal revenue forgone from accelerated depreciation see Exhibit B–8.

Source: Arthur Solomon, *The Cost Effectiveness of Subsidized Housing* (Cambridge, Mass.: Joint Center for Urban Studies of the Massachusetts Institute of Technology and Harvard University, 1971), Working Paper No. 5.

Exhibit 32. Gross Economic Cost Leased Housing with New Construction per Month (1970) Boston, Massachusetts

Capital Costs	Per Unit Per Month[a]
Capital cost[b]	$108.00
Foregone federal revenue[c]	4.50
Operating and Administrative Costs	
Operating cost	65.00
Forgone local revenue	16.50
Local administrative cost	10.50
Federal administrative cost	2.50
Total Per Unit Per Month	$207.00

Notes:

[a] The per unit per month costs ($15,512) are computed on the basis of average costs for 55 newly constructed Section 10(c) units.

[b] The monthly capital costs (for amortization and interest payments) are paid out of tenant rent payments and federal rent assistance. The monthly capital cost for amortization and interest of a $15,512 mortgage assuming a 40-year, 8 percent mortgage is $108.

[c] For the computation of the average monthly forgone Federal revenue from accelerated depreciation see Exhibit B–9.

Source: See Exhibit 32.

Exhibit 33. Gross Economic Cost Rent Supplements with Rehabilitation per Month (1970) Boston, Massachusetts

Capital Costs	Per Unit Per Month[a]
Capital cost[b]	$65.00
Forgone federal revenue[b]	7.50
Operating and Administrative Costs	
Operating cost	102.00
Local administrative cost	3.00
Federal administrative cost	2.50
Total Per Unit Per Month	$180.00

Notes:

[a] The per unit per month operating and administrative costs are computed on the basis of average costs for the 731 rehabilitated units.

[b] The capital costs and the revenue forgone from accelerated depreciation provisions are based on the development costs and depreciable base of the rehabilitated leased housing units. (See Exhibits 32 and B-8)

Source. See Exhibit 32.

Exhibit 34. Gross Economic Cost Rent Supplements with New Construction per Month (1970) Boston, Massachusetts

Capital Costs	Per Unit Per Month[a]
Capital costs[b]	$108.00
Forgone federal revenue[b]	4.50
Operating and Administrative Costs	
Operating cost	72.00
Local administrative cost	3.00
Federal administrative cost	2.50
Total Per Unit Per Month	$190.00

Notes:

[a] The per unit per month operating and administrative costs are computed on the basis of average costs for the 38 newly constructed units.

[b] For the purpose of this analysis, we assume that the capital cost and forgone Federal revenue are equal to that of the leased housing-new construction program. (See Exhibits 34 and B-9)

Source: See Exhibit 32.

221(d)(3)–236 housing. This saving results because even though the Federal Government's forgone Federal revenue cost is slightly higher with rehabilitated as compared with new units (because of section 167(k)), its capital cost savings are more than commensurately lower.

4. The above conclusions are premised upon the sole objective of producing housing at the cheapest cost. It ignores rehabilitation's alleged social benefits, e.g., maintaining the social cohesiveness of a neighborhood, etc.

Exhibit 35. Cost Allocations Leased Housing, and Rent Supplements per Unit per Month (1970) Boston, Massachusetts

	Full Accounting	Federal Budgetary Cost			
	Total Cost	Federal Expenditure	Forgone Federal Revenue	Forgone Local Government Revenue	Tenant Payment
Leased Housing					
With new construction	$207.00	$110.50	$4.50	$23	$69.00
With rehabilitation	174.50	98.00	7.50	—	69.00
Rent Supplements					
With rehabilitation 221(d)(3) market rate	180.00	99.50	7.50	—	73.00
With rehabilitation Section 236[a]	180.00	99.50	7.50	—[b]	73.00
With new construction 221(d)(3) market rate	190.00	112.50	4.50	—	73.00
With new construction Section 236[a]	190.00	112.50	4.50	—[b]	73.00

Notes:

[a] Under the Section 236 program the Federal Government subsidizes the interest payment on the mortgage, thereby increasing the direct Federal expenditure and lowering the tenant rental payments. The Federal Government pays the annual difference between the debt service on the mortgage at the market rate plus the mortgage insurance premium and the debt service at a one percent interest rate. However, when a Section 236 development contains rent supplement units—as in our analyses—the interest rate subsidy reduces the fair market rent rather than the tenant payment since the latter is based on tenant income. Instead, there is a reduction in the Government's rent supplement equivalent to the interest rate subsidy. This means that the total Federal expenditure per unit remains the same as under the rent supplement 221(d)(3) market rate program.

[b] Although some municipalities provide a property tax exemption for Section 236 projects, we do not make this assmuption in our study. In those instances where there is preferential tax treatment, the city assumes the cost while the landlords pass some fraction of their property tax savings to the tenants.

Source: See Exhibit 32.

Midrange Cost-Benefit Analysis: Conclusions and Policy Implications

We could summarize Solomon's findings as follows: Rehabilitation (as compared to redevelop-

ment) offers only a small full economic cost saving and an equally small Federal program cost outlay. His second finding is comparable to the conclusions of a recent HUD study of Project Rehab. This study showed that the Federal mortgage subsidy cost of rehabilitated 236 units was only $150 cheaper annually than the Federal mortgage subsidy cost for new 236 units (See Exhibit 37). We can conclude from both the Solomon and the aforementioned HUD study that the Federal subsidy cost of new housing is only slightly higher than for new construction.

Given this finding, we can say that a Federal policy stressing rehabilitation as opposed to redevelopment would produce cost saving. But one wonders whether such a policy is warranted because the cost saving would be small, especially considering that the rehabilitated units' amenities are often inferior to the new units' standards.

Exhibit 36. Comparison of Rehabilitation Versus New Section 236 Federal Mortgage Subsidy Factors

City	Average Cost Per Unit Rehab	Average Cost Per Unit New Construction
Hartford	$[1,013]	$ 826
Newark	926	1,371
Buffalo	994	1,114
New York	1,340	1,983
Washington, D.C.	717	822
Baltimore	631	732
Philadelphia	[858]	807
Pittsburgh	[1,032]	837
Jacksonville	662	697
Chicago	872	1,038
Indianapolis	[746]	689
Detroit	767	911
Cincinnati	667	821
Cleveland	784	847
Kansas City	665	842
St. Louis	633	897
Denver	[708]	685
Los Angeles	697	812
Seattle	685	813
NATIONAL	841	992

The cost of rehabilitation is $150 less per unit per year in section 236 subsidy dollars in large-scale rehabilitation cities.

[ ]—Greater than.
Source: Comptroller Report 1/5/73.

Midrange Cost Benefit Conclusions: Comparison With the Short and Long Term Cost-Benefit Conclusions

The midrange cost-benefit conclusion that rehabilitation is slightly less costly than redevelopment stands midway between the conclusions reached in the prior two sections. It accords rehabilitation a smaller cost advantage than the short term cost-benefit's conclusion (according rehabilitation substantial cost savings) and it accords rehabilitation a better cost advantage than the long term cost-benefit's conclusion (that redevelopment is cheaper than new construction). It appears, then, that rehabilitation cost saving declines as we extend the scope and timespan covered by our analysis. This conclusion is based on our actual findings but see text (Appendix C) about possible future modifications in our findings by considering such factors as public infrastructure, savings possible with rehabilitation, etc. We could state this in other words as follows:

There is no question that a rehabilitation strategy would be preferred over redevelopment if we just looked at the initial costs of these housing strategies. There is also no doubt that in many cases (depending on the neighborhood and level of rehabilitation) redevelopment instead of rehabilitation would be warranted if we looked at the relative long term costs of these housing strategies. There is some doubt, though, as to which housing approach would be preferred if we used a midrange cost-benefit methodology for evaluating housing costs.

While such an approach reveals a slight rehabilitation cost advantage there is a question whether such a small saving warrants the stressing of rehabilitation, a strategy producing housing units with inferior amenities than those of new construction.

Further Reflection and Conclusion

Before summarizing, we would like to discuss the possible criticism that this study's focus —comparing rehabilitation's versus redevelopment's cost—is too mechanical an approach for determining housing policy. We believe that there are two basic retorts: That objective evaluation of costs is urgently needed as well as that our cost approach is essential to broad program analysis.

Objective Cost Estimations Are Needed: In a period when a huge Federal housing subsidy has often not achieved its desired effect, it is im-

perative that housing program costs be carefully evaluated. It is true that our three cost-benefit analyses ignore the varying social benefits of different housing strategies but such a social analysis can be supplemented once we have objectively calculated program costs.

There are many alternate social virtues which may be attributed to various housing approaches. They must be reviewed in terms of their marginal costs and returns. A clear-eyed costing of the housing variable is the essential first step in this process. A less than "most efficient" housing approach may then be chosen, but the decision should be based on knowledge. We believe that the three rehabilitation-redevelopment cost-benefit analyses outlined in this paper can be valuable tools for objective cost analysis.

Flexibility of the Cost-Benefit Approaches: We furthermore believe that the three cost-benefit approaches can be extremely flexible in helping decide numerous housing issues. As an illustration, if desired, dollar values could be assigned to rehabilitation's social benefits, values which could then be considered in our three cost-benefit analytic approaches. And Appendix B shows specifically how our second (long term) cost-benefit analysis could be extended for deciding such varied issues as the costs of multiple rehabilitation, e.g., code enforcement every few years versus redevelopment as well as for deciding whether it is economically sound to spot rehabilitate properties in an area that has mostly deteriorated buildings that will have to be demolished.

Conclusion

This study has examined the cost-benefits of rehabilitation versus redevelopment. It has employed three different variations of cost-benefit approaches, ranging from an initial cost methodology to a long term cost approach. In general, rehabilitation's cost advantage declines as we extend the scope of our analysis. But it must be remembered that we have not included some cost factors in our analysis, e.g., rehabilitation reducing urban sprawl, factors that would tend to increase rehabilitation's cost benefit, and, that we have also ignored rehabilitation's other alleged social benefits as well.

Typical Rehabilitation Costs, FHA 220, 221(d)(3) BMIR, Rent Supplement 221(h) Programs

	Total development cost	Land and building	Rehabilitation	Other[1]
Boston, Mass.:				
Walk-up	$11,603	$4,142	$ 5,818	$1,643
Row	12,417	1,300	9,238	1,879
Chicago, Ill., walk-up	11,256	3,340	6,878	1,038
Cleveland, Ohio:				
Elevator	11,702	4,788	6,084	830
Walk-up	10,413	1,458	8,124	831
Detroit, Mich.:				
Elevator	10,141	3,358	5,603	1,180
Walk-up	11,675	4,096	6,263	1,316
Hartford, Conn.:				
Highrise	14,389	3,408	10,414	567
Walk-up	13,254	6,547	5,055	1,652
New York City:				
Elevator	16,484	2,495	12,297	1,692
Walk-up	12,840	2,880	8,201	1,759
Row	19,835	4,650	13,636	1,549
Omaha, Nebr.:				
Walk-up	6,487	1,280	4,173	1,034
Single-family	10,637	3,894	5,746	997
Philadelphia, Pa., elevator	16,241	2,850	12,106	1,285
Pittsburgh, Pa., row	11,953	2,842	7,892	1,219
St. Louis, Mo., walk-up	8,582	1,820	5,800	962

[1] Legal and organization, financing, carrying charges, taxes, etc.

Appendix A
Rehabilitation Versus Redevelopment: Detailed Cost Analyses

Exhibit A-1. Philadelphia Public Housing Authority Rehabilitated Versus New Housing Units

Comparison by Costs Per Dwelling Unit (du)
A. Elevator Construction B. Rowhouse and Garden Apartment C. Rehabilitation.

Project:	1	2	3	4	5	6	7	8	9
							Used	Used	New
Number	Westpark	Hawthorne	Mantua	Holmecrest	Paschall	Whitehall	Houses #1	Houses #2	Houses #3
Dwelling Units:	381	576	153	84	223	69	1000	3300	1700
Rooms/du:	4.37	4.66	4.38	3.42	4.46	4.76	5.96	5.98	5.74
I.H.A. Associated Costs									
Overhead	$ 383/du	$ 245/du	$ 224/du	$ 653/du	$ 493/du	$ 523/du	$ 249	$ 225	$ 225
Interest	502	296	277	295	586	549	199	—	—
Planning	218	246	375	458	246	324	24	56	109
Settlements	30	135	63	125	155	275	180	239	611
Non-Dwelling Structures & Equipment	367	348	369	626	486	50	—	25	25
Contingency	393	666	623	205	431	445	72	15	17
Subtotal	1,893	1,936	1,931	2,362	2,397	2,166	724	560	987
Development Costs									
Construction/ Rehabilitation	13,873	13,335	13,117	11,270	15,303	13,445	12,514	12,034	13,156
Architecture & Engineering Fees	383	286	609	720	459	804	—	—	—
Land	1,471	1,907	1,250	923	1,717	2,217	747	446	667
Reimbursables	—	—	—	—	—	—	410	335	335
Site Improvements	1,556	1,372	804	1,570	2,604	2,234	550	550	900
Equipment	305	305	305	305	305	305	305	305	305
Subtotal	17,588	17,205	16,085	14,788	20,388	19,005	14,526	13,670	15,363
Total	19,481/du	19,141/du	18,016/du	17,150/du	22,785/du	21,171/du	15,250/du	14,230/du	16,350/du

Source: National Commission on Urban Problems, *Hearings Volume 4* (Washington, D.C., Government Printing Office, 1968), p. 478.

Exhibit A-2. New Three Bedroom Unit: Development Component Costs (McGraw-Hill Study)

Steps or Processes	Major Participants	Total Cost	Percent of Total Project Cost
Decision to Build—Preliminary Negotiation on Site Location	Sponsor-Builder, Real Estate Agent, Lawyer a Consulting Engineer, if deemed necessary	NIL	NIL
Retain Architect—Draw Preliminary Sketches	Sponsor-Builder, General Contractor, Architect, Consulting Engineer, if deemed necessary	$ 200	1%
Select General Contractor	Sponsor-Builder, General Contractor	1,000	5
Obtain Loan Commitment for a Permanent Mortgage	Sponsor-Builder, Lending Agency, Mortgage Broker, if deemed necessary	NIL	NIL
Authorize Architect to Proceed with Final Drawings	Sponsor-Builder, Architect, General Contractor	800	4
Finalize Land Purchase	Sponsor-Builder, Real Estate Agent, Lawyer	1,800	9
Arrange for a Construction Loan	Sponsor-Builder, Lending Agency	NIL	NIL
Award Demolition Contract	Sponsor-Builder, General Contractor	800	4
Demolish Existing Structure	Demolition Sub-contractor		
Obtain Local Building Department Approval and Permit	Sponsor-Builder, Architect, Local Building Department Official, Lawyer, if deemed necessary	NIL	NIL

(Continued on p. 1082.)

Exhibit A-2—Continued

Entertain Bids by Sub-Contractors	Sponsor-Builder, General Contractor, Sub-contractors	NIL	NIL
Schedule and Order Materials	Sponsor-Builder, General Contractor, Building Materials Suppliers	NIL	NIL
Site Layout	Sponsor-Builder, General Contractor, Surveyor, if deemed necessary	NIL	NIL
Formulate Marketing Plan—Prepare Promotional Material	Sponsor-Builder, Rental Agency	NIL	NIL
Miscellaneous Fees and Expenses	Legal Fees, Rental Agency Fees, Engineering Fees, Mortgage Broker Fees, etc.	400	2
TOTAL DEVELOPMENT COSTS		$5,000	25%

Source: The President's Committee on Urban Housing, *Technical Studies Vol. II* (Washington, D.C.: Government Printing Office, 1969), p. 31.

Exhibit A-3. Rehabilitated Three Bedroom Unit: Development Component Costs (McGraw-Hill Study)

Steps or Processes	Major Participants	Total Cost Percent	Percent of Total Project Cost
Decision to Rehabilitate	Sponsor-Builder, Real Estate Agent, Lawyer, Consulting Engineer	NIL	NIL
Preliminary Commitment for Finances	Sponsor-Builder, Lending Agency	NIL	NIL
Select General Contractor	Sponsor-Builder, General Contractor	$1,700	13.0%
Obtain Loan Commitment for Permanent Financing	Sponsor-Builder, Lending Agency	NIL	NIL
Finalize Purchase of Building	Sponsor-Builder, Real Estate Agent, Lawyer	1,500	11.5
Prepare Plans and Specifications for Final Approval	Sponsor-Builder, Architect, General Contractor	155	1.0
Arrange for Construction Loan	Sponsor-Builder, Lending Agency	NIL	NIL
File Building Permit	Sponsor-Builder, Architect, Local Building Official	NIL	NIL
Award Demolition Contract	Sponsor-Builder, General Contractor, Demolition Contractor	NIL	NIL
Obtain Local Building Department Approval	Sponsor-Builder, Architect, Local Building Official	NIL	NIL
Move Tenants to Temporary Living Quarters	Sponsor-Builder, Moving Company	150	1.0
Schedule and Order Materials	Sponsor-Builder, General Contractor, Building Materials Suppliers	NIL	NIL
TOTAL DEVELOPMENT COSTS		$3,505	26.5%

Source: See Exhibit A-2, p. 37.

Exhibit A-4. New Three Bedroom Unit: Construction Component Costs (McGraw-Hill Study)

		Cost Breakdown				
Steps or Processes	Major Participants (By Trade)	Labor	Materials	Overhead and Profit	Total Cost	Percent of Total Project Cost
Excavation and Fill	Operating Engineer	$ 125	$ 200	$ 75	$ 400	2 %
Piling	Operating Engineer	125	200	75	400	2
Concrete Foundation	Concrete Worker	50	275	75	400	2
Plumbing	Plumber, Pipefitter	325	550	225	1,100	5.5

(Continued on p. 1083.)

Exhibit A-4—Continued

Heating and Ventilating	Plumber, Pipefitter, Sheetmetal Worker	250	400	150	800	4
Electric Work	Electrician	275	600	225	1,100	5.5
Structural Frame	Carpenter, Concrete Worker, Iron Worker	775	1,700	625	3,100	15.5
Waterproofing	Dams and Waterproof Worker	50	30	20	100	.5
Metal Windows and Trim	Carpenter, Iron Worker	100	225	75	400	2
Incinerator	Pipefitter, Sheetmetal Worker	30	50	20	100	.5
Brickwork	Bricklayer	475	475	250	1,200	6
Hollow Metal Work	Sheetmetal Worker	50	100	50	200	1
Miscellaneous Iron and Ornamental Work	Iron Worker	50	275	75	400	2
Carpentry and Millwork	Carpenter	250	325	125	700	3.5
Roofing and Sheetmetal Work	Roofer, Sheetmetal Wroker	75	100	25	200	1
Installation of Elevators	Elevator Mechanic	50	275	75	400	2
Metal Furring and Lath	Carpenter, Lather	275	375	150	800	4
Insulation	Carpenter	75	100	25	200	1
Plastering	Plasterer	300	175	125	600	3
Glazing and Caulking	Glazier	125	200	75	400	2
Ceramic Tile and Terrazzo	Tile and Terrazzo Worker	75	250	75	400	2
Appliances	Electrician and Plumber	25	300	75	400	2
Sitework and Cleanup		150	—	50	200	1
Resilient Flooring	Soft Floor Layer	50	125	25	200	1
Finish Hardware	Carpenter	35	45	20	100	.5
Painting	Painter	150	100	50	300	1.5
Landscape and Paving	Landscaper, Cement Worker	125	200	75	400	2
TOTAL CONSTRUCTION COSTS		$4,440	$7,650	$2,910	$15,000	75%
PERCENT OF TOTAL CONSTRUCTION COSTS		30%	61%	19%	100%	

Exhibit A-5. Rehabilitated Three Bedroom Unit: Construction Component Costs (McGraw-Hill Study)

Steps or Processes	Major Participants (By Trade)	Cost Breakdown Labor	Materials	Overhead and Profit	Total Cost	Percent of Total Project Cost
Demolition and Debris Removal	Engineer, Laborer	$ 85	$ 150	$ 160	$ 295	2.0%
Framing	Carpenter	250	550	200	1,000	7.5
Install Windows	Carpenter	55	125	45	225	2.0
Install Stairs	Carpenter	25	55	20	100	.5
Rough Plumbing	Plumber	270	450	180	900	7.0
Sewer Work	Plumber	200	335	135	670	5.0
Brickwork	Mason Worker	160	160	80	400	3.5
Rough Heating	Plumber, Pipefitter	130	225	90	445	3.5
Rough Wiring	Electrician	85	190	70	345	2.5
Lathing and Plastering	Plasterer, Lather	450	270	180	900	7.0
Rough Trim	Carpenter	105	135	60	300	2.5
Concrete Floors in Cellar	Concrete Worker	200	120	80	400	3.0
Exterior Painting	Painter	100	60	40	200	1.5
Interior Priming	Painter	100	60	44	200	1.5
Dash Cellar Walls	Plasterer	200	120	80	400	3.0
Install Underlayment and Floor Tile	Tile Worker	195	595	200	990	7.5

(Continued on p. 1084.)

Exhibit A-5—Continued

Install Kitchen Cabinets	Carpenter	70	90	40	200	1.5
Finish Painting	Painter	115	65	45	225	2.0
Erect Ceiling	Carpenter	95	125	55	275	2.0
Finish Carpentry	Carpenter	125	155	70	350	2.5
Finish Plumbing	Plumber	95	110	45	250	2.0
Finish Electric	Electrician	25	55	20	100	.5
Install Kitchen Equipment	Electrician	15	195	55	265	2.0
Site Work and Cleanup	Plumber	120		30	150	1.5
TOTAL CONSTRUCTION COSTS		$3,270	$4,395	$1,920	$9,585	73.5%
PERCENT OF TOTAL CONSTRUCTION COSTS		34%	46%	20%	100%	

Source: See Exhibit A-2, p. 38.

Exhibit A-6. New Construction Projects: Building Characteristics (HUD New York City Study)

Building Characteristics	Project (See Below)												
	A	B	C	D	E	F	G	H	I	J	K	L	Average
Number of Buildings	1	1	1	4	1	2	1	1	3	2	1	1	1.6
Number of Living Units	150	210	120	371	263	203	189	207	396	236	159	162	222.2
Number of Efficiency Units	31	42	33	22	97	51	0	0	5	19	2	2	25.3
Number of One-Bedroom Units	119	126	87	78	107	126	38	52	149	60	63	44	87.4
Number of Two-Bedroom Units	0	42	0	130	44	25	113	103	148	88	38	66	66.4
Number of Three-Bedroom Units	0	0	0	141	15	1	38	52	81	49	36	44	38.1
Number of Four-Bedroom Units	0	0	0	0	0	0	0	0	11	19	18	8	4.7
Number of Five-Bedroom Units	0	0	0	0	0	0	0	0	2	0	2	0	0.3
Average Number of Bedrooms Per Unit	.79	1.00	.73	2.26	.91	.88	2.00	2.00	1.87	1.95	2.07	2.10	1.5
Average Net Area Per Living Unit, Sq. Ft.	510	540	680	940	560	660	920	840	700	870	740	960	743.3
Average Gross Area Per Living Unit, Sq. Ft.	N/A	N/A	N/A	1,290	780	870	N/A	N/A	N/A	N/A	N/A	N/A	980.0
Number of Persons Per Project	270	440	210	1,410	550	380	680	750	1,370	860	610	620	679.2

Notes: N/A Not Available

A LaGuardia Addition Project
B Bethune Project HAA
C Independence House Mitchell-Lama
D Tompkins Sq. N. Project
E Grammercy East Project
F Oxford East Project
G Jefferson Towers Mitchell-Lama
H RNA Houses Mitchell-Lama
I West Side Development
J Strykers Bay Apts. Mitchell-Lama
K 830 Amsterdam Avenue
L Columbus Park Mitchell-Lama

Source: U.S. Department of Housing and Urban Development, Office of Research and Technology, *Cost and Time Associated with New Multifamily Housing Construction in New York City* (1969).

Exhibit A-7. Rehabilitation Projects: Building Characteristics (HUD New York City Study)

Building Characteristics	Project (See Below)									Average
	A	B	C	D	E	F	G	H	I	J
Number of Buildings	36	6	1	1	5	6	10	10	13	9.8
Number of Living Units	459	116	20	17	145	133	150	150	240	158.9
Number of Efficiency Apts.	36	2	0	0	0	5	0	0	0	4.8
Number of One-Bedroom Apts.	172	58	20	5	38	54	100	100	0	60.8

(Continued on p. 1085.)

Exhibit A-7—Continued

Number of Three Bedroom Apts.	74	20	0	0	17	35	50	50	152	43.1
Number of Four Bedroom Apts.	45	8	0	0	12	11	0	0	40	12.9
Number of Five Bedroom Apts.	7	0	0	0	0	0	0	0	0	.8
Average Number of Bedrooms Per Unit	1.87	1.78	1	1.70	2.02	1.95	1.67	1.67	3	1.9
Net Area per Living Units, Sq. Ft.	482	730	360	444	578	584	520	520	725	549.2
Gross Area per Living Unit, Sq. Ft.	852	904	519	565	910	835	758	758	1,050	794.5

Notes: A 114th St. Rehab Project
B 102nd St. Rehab Project
C 15th St. Rehab Project
D 16th St. Rehab Project
E 100th St. Rehab Project
F 103rd St. Rehab Project
G Proposed Rapid Rehab of 10 Bldgs. (Similar to 5th Street) Constraints Removed
H Rapid Rehab of 10 Bldgs. (Similar to 5th Street) Constraints Removed
I Proposed 107th St. Rehab Project

Source: U. S. Department of Housing and Urban Development, Office of Research and Technology, *Cost and Time Associated with Tenement Rehabilitation in Manhattan, New York City* (1968).

Exhibit A-8.

	Project (See Exhibit A-6)												
Development Costs	A	B	C	D	E	F	G	H	I	J	K	L	M
Architectural Fees													
Per Living Unit	$530	$440	$590	$770	$370	$450	$700	$550	$540	$520	$490	$670	$517.19
Per Gross Sq. Ft. of Living Unit Area	0.95	0.64	0.78	0.60	0.47	0.52	0.62	0.50	0.59	0.46	0.53	0.55	.60
Financing Costs													
Per Living Unit	360	470	620	1,800	1,000	1,200	820	880	370	770	770	950	834.17
Per Gross Sq. Ft. of Living Unit Area	0.64	0.68	0.82	1.4	1.3	1.4	0.73	0.79	0.40	0.68	0.83	0.79	.87
Legal or Organization Expenses													
Per Living Unit	720	650	560	780	170	210	530	930	640	1,050	560	1,100	658.33
Per Gross Sq. Ft. of Living Unit Area	1.3	0.94	0.74	0.60	0.22	0.24	0.47	0.84	0.70	0.93	0.60	0.93	.71
Acquisition Cost of Land													
Per Living Unit	2,350	4,000	2,750	5,300	3,200	5,900	4,250	3,700	1,850	7,300	4,900	4,000	4,125.00
Per Gross Sq. Ft. of Living Unit Area	4.2	5.8	3.6	4.1	4.1	6.8	3.8	3.3	.20	6.5	5.3	3.3	4.40
Relocation Cost of Land													
Per Living Unit	N/A	370	100	N/A	N/A	N/A	110	200	270	130	400	85	208.13
TOTAL DEVELOPMENT COST OF PROJECTS													
Per Living Unit	3,950	5,950	4,600	7,850	4,750	7,800	6,400	6,250	3,650	9,750	7,100	6,850	6,242.00
Per Gross Sq. Ft. of Living Unit Area	7.0	8.6	6.1	6.1	6.1	8.9	5.7	5.7	3.9	8.7	7.6	5.7	6.70
Per Person	2,200	2,500	2,650	2,050	2,250	4,100	1,800	1,750	1,050	2,700	1,850	1,800	$2,254.00

Notes: NA = Not Available
Source: See Exhibit A-6.

Exhibit A-9. N.Y.C. Rehabilitation Projects: Development Costs (HUD New York City Study)

Development Costs	A	B	C	D	E	F	G	H	I	J	Average as Percent of New Construction Cost
Architectural Fees Per Living Unit	$456	$435	$100	$165	$378	$451	$500	$350	$570	$378.3	73.0
Financing Costs Per Living Unit	2,370	1,776	450	1,290	1,800	1,377	933	500	2,170	1,407.3	168.7
Legal and Organization Expenses Per Living Unit	262	379	300	135	207	263	300	300	384	281.1	42.6
Acquisition Cost Per Living Unit	1,770	1,920	2,400	2,794	1,140	1,650	1,900	1,900	3,250	2,080.4	50.4
Relocation Cost Per Living Unit	174	190	N/A	N/A	235	101	300	300	200	214.3	103.0
Total Development Costs Per Dwelling Unit	5,017	4,698	3,250	4,382	3,757	3,850	3,933	3,353	6,567	4,312.0	69.1

Notes: NA = Not Available
Source: See Exhibit A-7.

Exhibit A-10. N.Y.C. New Construction Projects: Construction Cost (HUD New York City Study)

Construction Costs	Project (See Exhibit A–6) A	B	C	D	E	F	G	H	I	J	K	L	M
Per Living Unit	$17,000	$12,500	$16,000	$20,000	$17,000	$17,000	$19,000	$23,000	$18,500	$18,500	$19,500	$22,500	$18,375
Per Bedroom	21,500	12,500	22,000	9,850	18,500	19,500	9,400	11,500	9,950	9,500	9,400	11,000	13,716
Per Net Sq. Ft. Living Unit Area	34	23	24	22	30	26	21	27	27	21	26	24	25.42
Per Gross Sq. Ft. Living Unit Area	30	18	21	16	22	19	17	21	20	16	21	19	20.00
Per Person	9,500	6,000	9,400	5,300	8,100	9,000	5,250	6,300	5,400	5,100	5,050	5,950	6,700

Source: See Exhibit A-6.

Exhibit A-11. N.Y.C. Rehabilitation Projects: Construction Costs (HUD New York City Study)

Construction Cost	Project (See Exhibit A–7) A	B	C	D	E	F	G	H	I	J	Rehab Cost as Percent of New Cost
Per Living Unit	$9,860	$10,990	$6,050	$8,000	$7,930	$9,090	$11,100	$7,200	$12,800	$9,224	50.2
Per Bedroom	5,270	6,150	6,050	4,700	3,930	4,660	6,640	5,400	14,270	6,341	46.2
Per Sq. Ft. Net Apartment Area	20.3	15.0	16.8	18.0	13.7	15.6	21.3	13.9	17.6	16.9	66.5
Per Sq. Ft. Gross Area per Living Unit	11.6	12.1	11.7	14.1	8.7	10.9	14.6	9.5	12.2	11.7	58.5
Per Person	2,780	3,290	3,020	2,620	2,300	2,520	3,400	2,260	2,390	2,741	40.9

Source: See Exhibit A-7.

Exhibit A-12. N.Y.C. New Construction Projects: Total Project Costs (HUD New York City Study)

Project Cost	Project (See Exhibit A–6) A	B	C	D	E	F	G	H	I	J	K	L	M
Per Living Unit	$21,000	$18,500	$21,000	$28,000	$21,500	$24,500	$25,000	$29,000	$22,500	$28,500	$26,500	$29,500	$24,625
Per Net Sq. Ft. of Living Unit Area	41	34	31	29	39	37	28	40	32	33	36	31	34.17
Per Gross Sq. Ft. of Living Unit Area	38	27	27	21	28	28	23	26	24	25	29	24	26.67
Per Person	12,000	8,850	12,000	7,100	10,500	13,000	7,000	8,050	6,450	7,750	6,900	7,700	8941.7

Source: See Exhibit A-6.

Exhibit A-13. N.Y.C. Rehabilitation Projects: Total Project Costs (HUD New York City Study)

Development Cost	Project (See Exhibit A–7) A	B	C	D	E	F	G	H	I	J
Per Living Unit	14,900	15,650	9,300	12,380	11,690	13,000	15,000	10,500	19,360	13,531
Cost Per Bedroom	7,970	8,790	9,300	7,280	5,790	6,670	8,980	6,300	6,450	7,503
Per Net Sq. Ft. Apt. Area	30.90	21.4	25.8	27.9	20.2	22.3	28.8	20.2	26.7	24.9
Per Sq. Ft. Gross Area	17.5	17.3	17.9	21.9	12.8	15.6	19.8	13.9	18.4	17.23
Per Person	4,200	4,700	4,650	4,050	3,380	3,590	4,730	3,220	3,620	4,015

Source: See Exhibit A-7.

Exhibit A-14. O'Block and Kuehn New Construction Rehabilitation Costs: Overview

Cost Category	New Construction Effected by Non-profit Sponsors	New Construction Effected by Limited Dividend Sponsors	Rehabilitation Effected by Non-profit Sponsors	Rehabilitation Effected by Limited Dividend Sponsors
Land or land and building acquisition costs	$ 1,000	$ 1,000	$ 2,000	$ 2,000
Construction or rehabilitation costs	16,404	16,404	10,000	10,000
Development fees	2,493	3,385	1,657	2,240
Carrying and financing charges	2,259	1,714	1,645	1,295
Total project cost	$22,156	$22,503	$15,282	$15,535
Mortgage amount				
Equity position	—	$ 2,250	—	$ 1,553
Annual debt service and profit requirements	$ 1,724	$ 1,712	$ 1,190	$ 1,181
Annual expenses	996	976	877	864
Total occupancy expenses	$ 2,720	$ 2,688	$ 2,067	$ 2,045

Source: Robert O'Block and Robert Kuehn, *An Economic Evaluation of the Housing and Urban Development Act of 1968* (Boston, Mass., Harvard University Graduate School of Business Administration, 1970).

Exhibit A-15. O'Block and Kuehn Nonprofit New Construction Costs

Development Costs		
Land Acquisitions Costs:		
$1,000 per unit × 100 units		$ 100,000
Carrying and Financing Charges:		
Interest during 12 month construction period @ 6.75% on average loan of $1,110,000	$ 74,925	
Property Taxes	10,000	
Insurance	5,000	
FHA examination fee @ 0.3% of estimated mortgage amount	6,516	
FHA inspection fee @ 0.5% of estimated mortgage amount	10,861	

(Continued above)

(Exhibit A-15—Continued)

Financing expenses @ 3.0% of estimated mortgage amount	65,165	
Working capital @ 2.0% of estimated mortgage amount	43,443	
Title and recording costs	10,000	
Total		225,910
Other Development Costs:		
Builder's overhead @ 2.00% of construction costs	32,800	
Builder's profit @ 4.75% of construction costs	78,000	
Builder's and sponsor's profit and risk allowance @ —% of estimated development cost	—	
Architect's fees @ 4.75% (design fee) plus 1.50% (supervision fee) of construction costs and builders fees	105,000	
Housing consultant	23,500	
Legal fees and organizational costs	10,000	
Total		249,300
Total Development Costs		585,210
Construction Costs:		
(including housing structure, utility connection, site development, bond premiums, and quantity survey)		
12 one bedroom (3.5 room) units @ $11,950 per unit	143,400	
38 two bedroom (4.5 room) units @ $14,900 per unit	566,000	
38 three bedroom (5.5 room) units @ $17,900 per unit	680,000	
12 four bedroom (6.5 room) units @ $20,900 per unit	251,000	
Total		$1,640,400
TOTAL PROJECT COST		$2,215,610

Source: See Exhibit A-14.

Exhibit A-16. O'Block and Kuehn Nonprofit Profit Rehabilitation Costs

Development Costs		
Land and Building Acquisition Costs:		
$2,000 per unit × 100 units		$200,000
Carrying and Financing Charges:		
Interest during 12 month construction period @ 6.75% on average loan of $750,000	$ 50,625	
Property taxes	10,000	
Insurance	5,000	
FHA examination fee @ 0.3% of estimated mortgage amount	4,495	

(Continued on p. 1089.)

(Exhibit A-16—Continued from p. 1088.)

FHA inspection fee @ 0.5% of estimated mortgage amount	7,491	
Financing expenses @ 3.0% of estimated mortgage amount	44,948	
Working capital @ 2.0% of estimated mortgage amount	29,966	
Title and recording costs	10,000	
Total		162,525
Other Development Costs:		
Builder's overhead @ 2.00% of construction costs	20,000	
Builder's profit @ 4.75% of construction costs	47,500	
Builder's and sponsor's profit and risk allowance @ —% of estimated development cost	—	
Architect's fees @ 4.75% (design fee) plus 1.50% (supervision fee) of construction costs and builder's fees	66,718	
Housing consultant	23,500	
Legal fees and organizational costs	8,000	
Total		165,718
Total Development Costs		528,243
Rehabilitation Costs: (including housing structure, utility connection site development, bond premiums, and quantity survey)		
12 one bedroom (3.5 room) units @ $7,300 per unit	87,500	
38 two bedroom (4.5 room) units @ $9,400 per unit	345,000	
38 three bedroom (5.5 room) units @ $10,900 per unit	414,500	
12 four bedroom (6.5 room) units @ $12,750 per unit	153,000	
Total		$1,000,000
TOTAL PROJECT COST		$1,528,243

Source: See Exhibit A-14.

Exhibit A-17. O'Block and Kuehn Limited Profit New Construction Costs

Development Costs		
Land Acquisition Costs:		
$1,000 per unit × 100 units		$100,000
Carrying and Financing Charges:		
Interest during 12 month construction period @ 6.75% on average loan of $1,012,000	$ 68,310	
Property taxes	10,000	
Insurance	5,000	

(Continued above)

(Exhibit A-17—Continued.)

FHA examination fee @ 0.3% of estimated mortgage amount	6,165	
FHA inspection fee @ 0.5% of estimated mortgage amount	10,276	
Financing expenses @ 3.0% of estimated mortgage amount	61,653	
Working capital @ —% of estimated mortgage amount	—	
Title and recording costs	10,000	
Total		171,404
Other Development Costs:		
Builder's overhead @ 2.00% of construction costs	32,800	
Builder's profit @ —% of construction costs	—	
Builder and sponsor's profit and risk allowance @ 9.5% of estimated development cost	195,235	
Architect's fees @ 4.75% (design fee) plus 1.50% (supervision fee) of construction costs and builder's fees	100,500	
Housing consultant	—	
Legal fees and organizational costs	10,000	
Total		338,535
Total Development Costs		$ 609,939
Construction Costs: (including housing structure, utility connection, site development, bond premiums and quantity survey)		
12 one bedroom (3.5 room) units @ $11,950 per unit	143,400	
38 two bedroom (4.5 room) units @ $14,900 per unit	566,000	
38 three bedroom (5.5 room) units @ $17,900 per unit	680,000	
12 four bedroom (6.5 room) units @ $20,900 per unit	251,000	
Total		1,640,400
Total Project Cost		2,250,339

Source: See Exhibit A-14.

Exhibit A-18. O'Block and Kuehn Limited Profit Rehabilitation Costs

Development Costs		
Land and Building Acquisition Costs:		
$2,000 per unit × 100 units		$200,000
Carrying and Financing Charges:		
Interest during 12 month construction period @ 6.75% on average loan of $750,000	$ 50,625	

(Continued on p. 1090.)

(Exhibit A-18—Continued from p. 1089.)

Property taxes	10,000	
Insurance	5,000	
FHA examination fee @ 0.3% of estimated development costs	4,256	
FHA inspection fee @ 0.5% of estimated development costs	7,094	
Financing expenses @ 3.0% of estimated development costs	42,562	
Working capital @ —% of estimated development costs	—	
Title and recording costs	10,000	
Total		$ 129,537
Other Development Costs:		
Builder's overhead @ 2.00% of construction costs	20,000	
Builder's profit @ —% of construction costs	—	
Builder's and sponsor's profit and risk allowance @ 9.5% of estimated development cost	134,780	
Architect's fees @ 4.75% (design fee) plus 1.50% (supervision fee) of construction costs and builder's fees	61,200	
Housing consultant	—	
Legal fees and organizational costs	8,000	
Total		235,980
Total Development Costs		553,517
Construction Costs:		
Rehabilitation Costs (including housing structure, utility connection, site development, bond premiums and quantity survey)		
12 one bedroom (3.5 room) units @ $7,300 per unit	$ 87,500	
38 two bedroom (4.5 room) units @ $9,100 per unit	345,000	
38 three bedroom (5.5 room) units @ $10,900 per unit	414,500	
12 four bedroom (6.5 room) units @ $12,750 per unit	153,000	
Total		1,000,000
Total Project Cost		$1,553,517

Source: See Exhibit A-14.

Exhibit A-19. Newark New Construction-Rehabilitation Costs: Overview (Three-Bedroom Unit)

Cost Breakdown Development Costs	New Construction	Rehabilitation
1. Developer (Dev. Fees)	$ 510	$ 80
2. Architect & Cons. Engineer (Prelim. & Fin. Work)	340	160

(Exhibited A-19—Continued.)

3. Land Purchase	1,275	5,850
4. Demolition	—	240
5. Interim Financing	1,615	880
6. Misc. Fees Adm. Relocation	680	1,040
Total Development Cost (1–6)	$ 4,420	$ 8,240
Construction Cost		
7. Foundation, Excavation	850	240
8. Structural Frames	4,080	1,280
9. Interior Systems	2,720	2,080
10. Interior Preparation and Appliances	4,080	3,840
11. Landscaping	850	320
Total Construction Cost (7–11)	$12,580	$ 7,760
Total Project Cost (1–11)	$17,000	$16,000

Source: George Sternlieb, Robert Burchell, and James Hughes, *Housing Costs and Housing Restraints, Newark, N.J.* (Rutgers University, Center for Urban Social Science Research, 1970).

Exhibit A-20. Newark New Construction Rehabilitation Costs: Specifics (Average Per Unit Cost)

Development and Construction Costs	New Construction	Rehabilitation
Development Costs		
1. Developer (Development Fees)	$ 549	$ 91
2. Architect and Consulting Engineer	389	161
3. Land Purchase	1,303	5,811
4. Demolition	—	203
Development and Construction Costs	**New Construction**	**Rehabilitation**
5. Interim Financing		
Interest During Construction	1,165	521
Financing Expenses	314	219
Housing Finance Agency Fee	170	146
6. Misc. Fees, Admin. Location		
Legal Fee	63	135
Working Capital	130	219
H.F.A. Admin. Cost	170	63
Title and Recording	86	73
Real Estate Taxes	150	365
Insurance	63	73
Selling and Advertising Adm.	222	135
Construction Costs		
7. Foundation, Excavation		
Foundation, Stoops, Concrete	505	214
Excavation and Fill	271	—
8. Structural Frame		
Masonry or Siding (Damproofing)	2,397	818
Roof Installation or Repair	218	58
Structural Steel and/or Rough Carpentry	1,131	82
Window Installation or Repair (Inc. Storms)	129	273
Exterior Appendages	—	54
9. Interior Systems		
Plumbing	1,021	803
Heating and Venting	835	766
Electric	832	560

(Continued on p. 1091.)

(Exhibit A-20—Continued from p. 1090.)

10. Interior Preparation and Appliances		
A. Rough Interior		
Rough Carpentry	283	320
Misc. Millwork and Carpentry	121	322
Plaster, Sheetrock, Lathing	1,163	808
Weatherstrip, Insulation Caulking	72	25
Flooring, Doors, Stairs	1,220	806
B. Interior Finish		
Painting	341	483
Finish Hardware	34	61
Tile and Bath Access.	168	188
Linoleum and Kitchen Access.	272	392
C. Appliances		
Refrigerators	146	135
Kitchen Ranges	116	122
Dishwashers	109	123
11. Sitework and Landscaping Landscape & Clean Play Areas & Paving	785	346

Source: See Exhibit A-19.

Appendix B Methodological Notes

Cost Averaging

In numerous instances in this study we averaged costs, e.g., development, construction, and project outlays. These costs were averaged by adding the outlays for the different projects and then dividing this total by the total number of projects. We did not weight costs by the number of units in each project. Our unweighted averages are only slightly different, though, from the weighted averages.

As an illustration, the unweighted average Philadelphia Housing Authority (PHA) project cost was $19,625 for new constructed units and $15,277 for rehabilitated units. The weighted PHA cost figures are only slightly different, $19,641 for new construction and $15,001 for rehabilitation.

Determining the Parameter Set (PS) Values —R, C, T, M and D Values

In the text we explained how we obtained most of our PS values. Some derivations not described are explained here.

C and R Values: The McGraw-Hill and Sternlieb studies (our two major empirical data sources for calibrating our equations) listed certain C (initial new project costs) and R (initial rehabilitation project costs) figures. The former study calculated C as being $20,000 and R as being $13,100.[88] The figures were derived, though, approximately 5 years ago. To bring C and R up to date, we assumed an inflationary cost factor of 8 percent annually, and therefore multiplied the McGraw-Hill C and R figures by 40 percent (8 × 5). We thus obtained a $28,000 new construction cost and an $18,000 "gut" rehabilitation expenditure. We then estimated a moderate rehabilitation expenditure of $9,000—half the gut rehabilitation cost—and a light modernization outlay of $4,500—half the moderate rehabilitation outlay. We followed a similar approach with the Sternlieb figures, except that—since it was completed approximately 3 years ago—we used a 24 percent (8 × 3) inflationary adjustment factor (See Exhibit B–1).

M and D Values: We followed a similar approach to determine the M and D values. The empirical McGraw-Hill and Sternlieb repair and rental figures for new construction and gut rehabilitation were adjusted by inflationary factors of 40 and 24 percent, respectively. The M and D values for gut rehabilitation were then obtained by subtracting the adjusted gut rehab figure from the adjusted new construction value. (See Exhibit B–1) The M values for moderate and light rehab were derived by assuming maintenance costs that were respectively 20 and 40 percent more than for gut rehab and then subtracting from these maintenance outlays the lower new construction's maintenance outlay. The D values for moderate and light rehab were derived by assuming rental figures that were respectively 20 and 40 percent less than for gut rehab and then subtracting these rental figures from the higher new construction's rental level. (See Exhibit B–1)

Calculating the T Value: To calculate T, the annual difference in Federal tax revenue with a rehabilitated compared to a new unit, we followed the following procedure:

1. Calculate the yearly depreciation of the rehabilitation expenditure (these ranged from $4,500 to 20,000 per unit[89]—See Exhibit B–3) allowed under the Section 167(k) 5-year writeoff.[90]

[88] All our final figures are rounded to the nearest hundred except for project costs, which are rounded to the nearest thousand.

[89] While our rehabilitation expenditures projected from the McGraw-Hill and Sternlieb studies ranged from $4,500 to $20,000, we never took more than $15,000 in Section 167(k) depreciation because Section 167(k)(2)(A) allows a maximum of $15,000 to be depreciated.

[90] Actually, we depreciated rehabilitation expenditure in 5.5 years, because we followed the half-year convention (see Exhibit B–3).

Exhibit B-1. Four Parameter Set Values (C.R.M.D.) Derived from the McGraw-Hill and Sternlieb Studies

Parameter Set Value Being Determined	Housing Strategy	Empirical Values	Inflationary Factor [1]	Adjusted or Assumed Value [2]	Actual Parameter Set Value [3]
		Project Cost			
McGraw-Hill Study					
C	New Construction	$20,000	.40	$28,000	C = 28,000
R	Gut Rehab.	13,100	.40	18,000	R = 18,000
R	Moderate Rehab.	ND [8]	—	9,000 [4]	R = 9,000
R	Light Rehab.	ND	—	4,500 [5]	R = 4,500
Sternlieb Study					
C	New Construction	$17,000	.24	$21,000	C = 21,000
R	Gut Rehab.	16,000	.24	20,000	R = 20,000
R	Moderate Rehab.	ND	—	10,000 [4]	R = 10,000
R	Light Rehab.	ND	—	5,000 [5]	R = 5,000
		Annual Unit Maintenance Cost			
McGraw-Hill Study					
M	New Construction	$ 168	.40	$ 240	M = 240−240=0
M	Gut Rehab.	180	.40	250	M = 250−240=10
M	Moderate Rehab.	ND	—	300 [6]	M = 300−240=60
M	Light Rehab.	ND	—	350 [7]	M = 350−240=110
Sternlieb Study					
M	New Construction	48	.24	60	M = 60−60=0
M	Gut Rehab.	108	.24	130	M = 130−60=70
M	Moderate Rehab.	ND	—	160 [6]	M = 160−60=100
M	Light Rehab.	ND	—	180 [7]	M = 180−60=120
		Annual Unit Rental			
McGraw-Hill Study					
D	New Construction	$ 2,736	.40	$ 3,800	D = 3800−3800=0
D	Gut Rehab.	2,028	.40	2,800	D = 3800−2800=1000
D	Moderate Rehab.	ND	—	2,200 [6]	D = 3800−2200=1600
D	Light Rehab.	ND	—	1,700 [7]	D = 3800−1700=2100
Sternlieb Study					
D	New Construction	$22,100	.24	$ 2,600	D = 2600−2600=0
D	Gut Rehab.	2,076	.24	2,600	D = 2600−2600=0
D	Moderate Rehab.	ND	—	2,100 [6]	D = 2600−2100=500
D	Light Rehab.	ND	—	1,600 [7]	D = 2600−1600=1000

[1] The McGraw-Hill Study was completed approximately 5 years ago, the Sternlieb study 3 years ago. Assuming an 8 percent annual inflationary factor the total inflationary factor would be .40(.08×5) for the former study and .24(.08×3) for the later study. (It would have been more correct to use a compounded inflationary cost factor, i.e., 8 percent compounded for either 5 years (for the McGraw-Hill study) or 3 years (for the Sternlieb analysis). We did not use a compounded inflationary cost factor in order to simplify our analysis as well as that the 8 percent inflationary factor we used is only a rough indicator of construction cost inflation which differs by city, region, etc.)

[2] The numbers in this column are rounded to the nearest thousand, hundred, or ten dollar value depending on the magnitude of the number being rounded.

[3] The C and R equals the adjusted or assumed values. For the M and D values equals the new construction adjusted or assumed figure minus the adjusted value or assumed value of either gut, moderate, or light rehabilitation (depending on the level of rehabilitation we are determining the value for).

[4] Assumed to be one half gut rehabilitation project cost.

[5] Assumed to be one quarter gut rehabilitation project cost.

[6] For maintenance costs assumed to be 20 percent higher than for gut rehabilitation; for rental figures assumed to be 20 percent less than for gut rehabilitation.

[7] For maintenance costs assumed to be 40 percent higher than for gut rehabilitation; for rental figures assumed to be 40 percent less than for gut rehabilitation.

[8] ND = value not derived in empirical sources used.

2. Calculate the yearly depreciation allowed according to the fastest depreciation schedule other than the 5-year Section 167(k) schedule. We assumed the fastest non-167(k) schedule to be a 20-year double-declining balance writeoff.

3. Calculate the increase (or decrease) in section 167(k) (5-year) depreciation as compared to the 20-year double-declining balance. (This was done by subtracting 2 from 1).

4. Determine the Federal revenue loss (or gain) caused by the increase (or decrease) in the annual depreciation allowance. This loss, though, varies according to the tax bracket of the individual doing the depreciating, e.g., $100 depreciated by a taxpayer in the 50 percent income tax bracket results in a $50 Federal revenue loss; the same amount depreciated by a taxpayer in the 75 percent bracket causes a $75

revenue tax loss. In our calculations we assumed depreciation taken by a taxpayer in the 50 percent bracket. We therefore multiplied the increase or decrease in depreciation (caused by Section 167(k)) by .5.

5. Calculate the present value of the Federal tax revenue loss resulting from taxpayers taking advantage of the Section 167(k) provisions.[91] This calculation will vary according to the social discount rate that is used. Consistent with using a range of four discount rates (.05, .07, .10, .15) to calculate the present value of M, D, etc., we used these four rates to calculate the present value of the Federal revenue loss or gain.

Long and Short Period for Calculating T: We had two options in our calculations: either to calculate the Federal tax loss disparity for the entire length of the rehabilitated properties' economic life (20 years,[92] as assumed by the double declining schedule) or else to use a considerably shorter holding period. Following the former strategy would reduce our T value because Section 167(k) provisions yield tax depreciation advantages only for the first few years (1–6) of depreciation; after this initial period, though, the double-declining balance schedule allows greater tax depreciation to be taken. In contrast, calculating depreciation for only a short length of time accentuates the tax benefits of Section 167(k) while minimizing the benefits accorded by the double-declining balance schedule.

As an illustration, a $4,500 rehabilitation expenditure depreciated according to the Section 167(k) provisions—as opposed to the double-declining balance schedule—costs the Federal Government $476 if we calculate T for the full 20-plus year life accorded by the latter schedule, and $701 if we calculate T for a shorter period, e.g., 12 years. (The latter calculation assumes an i value of 7 percent and was derived by adding the discounted Federal tax losses (assuming an i of .07) in Exhibit B–3 for first 12 years and then 21 years).

An argument for using the shorter calculation period is that in the past it has reflected reality more closely than the full economic life methodology. Owners of urban properties in marginal areas frequently do not hold onto their parcels for 20 or more years. A much shorter holding period has been indicated by empiricial studies.

The Leo Grebler study[93] of 958 parcels on New York City's Lower East Side, for example, indicated that the average period of ownership was 11 years. The Chester Rapkin[94] study covering transactions on New York City's West Side between 1938 and 1955 indicated a similar period of ownership—10 years. Arthur Sporn's study[95] of turnover rates in slum properties revealed a 13-year ownership period. And George Sternlieb[96] and David Schiering[97] have made similar findings.

The short holding period of urban property owners indicated above may not be likely among owners taking Section 167(k) depreciation, however. This results because when a property depreciated according to the Section 167(k) provision is sold before 200 months it is subject to Section 1250 recapture of excess depreciation above straight line depreciation, the excess to be taxed at income tax rates. For example, a rehabilitated Section 167(k) property sold after 12 years would be subject to substantial recapture[98]—80 percent of the accelerated depreciation above straight line writeoff. (This 80 percent is derived because there is 100 percent recapture for 100 months and recapture is then reduced 1 percent monthly thereafter.)

Because of Section 1250 recapture we believe that the ownership period of the Section 167(k) properties will approach the economic life accorded by the double declining balance schedule. This is not only our opinion; the Practicing Law Institute[99] has also assumed such a long 167(k) holding period. We have therefore opted for calculating T for 20-plus years, equal to the full economic life assumed by the double-declining balance schedule.

Values of T: Exhibits B–3 through B–7 demonstrate how we calculated T for our rehabilitation expenditures ranging from $4,500 to $15,000. Our results are summarized in Exhibit B–2.

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[91] Consistent with the half-year convention, depreciation taken during the first year is discounted one-half year later and depreciation taken during the *ith* year is discounted in (i–5) years (see Exhibit B–3).

[92] Actually, for 20.5 years, since we used the half-year convention (see Exhibit B–3).

[93] Leo Grebler, *Housing Market Behavior in a Declining Area* (New York: 1952).

[94] Chester Rapkin, *The Real Estate Market In an Urban Renewal Area* (New York: 1959), p. 21.

[95] Arthur Sporn, "Empirical Studies in the Economics of Slum Ownership," *Land Economics* Vol. 36, 1960, p. 27.

[96] George Sternlieb, *The Tenement Landlord* (New Brunswick, N.J.: Rutgers University Press, 1969).

[97] G. David Schiering, "Depreciation Deduction on Used Residential Housing, Turnover Rates in Slum Housing Ownership and Tax Reform Act of 1969," *University of Cincinnati Law Review* Vol. 38, No. 3, Summer 1969, p. 550.

[98] We assume that the owner electing Section 167(k) depreciation does not take advantage of Section 1039 "rollover," which would delay recapture.

[99] See Lewis Kaster and Stanley Berman, *Subsidized Housing: Tax and Profit Opportunities in Selling and Buying* (New York, N.Y.: Practicing Law Institute, 1971), Chapter 12.

Exhibit B-2. Calculating T—The Federal Tax Loss Under Section 167(k) as Opposed to Double Declining Depreciation

Rehabilitation Amount (per unit)	Total Depreciation Allowed by Section 167(k)[1]	Present Value of T (after 21 year property holding period and for indicating discount rates.) i = .5	.7	.10	.15
$ 4,500	$ 4,500	$ 397	$ 476	$ 546	$ 589
5,000	5,000	442	529	607	654
9,000	9,000	794	952	1,092	1,177
10,000	10,000	883	1,058	1,213	1,308
15,000	15,000	1,324	1,587	1,820	1,962
20,000	15,000				

[1] The aggregate amount of rehabilitation expenditure that can be depreciated according to the Section 167(k) provisions cannot exceed $15,000 per unit.
Source: See Exhibits B–3 through B–7.

Flexibility of the Rehabilitation Decision Equations

The rehabilitation decision equations can be extremely flexible for helping decide numerous housing issues involving rehabilitation and redevelopment. As an illustration, we have so far compared the costs of rehabilitated versus new units assuming that the former unit, at the end of its economic life, will be replaced with a new unit. But a very logical question is whether this approach ignores the possibility that the modernized unit, at the end of its economic life, could be rehabilitated again. This multiple rehabilitation scenario is especially likely with the less extensive rehabilitation modes, e.g., bringing a unit up to code standards every few years.

Schaaf Modifications: Albert Schaaf has shown that the basic rehabilitation decision equations could be modified to calculate the costs of multiple rehabilitation versus redevelopment.[100] Schaaf showed that we could compare the cost of rehabilitating a unit to a code compliance standard three times and then rehabilitating to a moderate standard, for example, by using the following formula:

Rehabilitate if

$$C > [R_1 + R_1/(1+i)^{n_1} + R_1/(1+i)^{2n_1} + R_3(r_3(n_c - 3n_1))/1 + i)^{3n_1} + M_1(1 - (1+i)^{-3n}1/i) + D_1(1 - (1+i)^{-3n_1}/i) + M_3(1 - (1+i)(-n_c - 3n_1)/i)/(1+i)3n1 + D_3(1 - (1+i)_1]$$

Where

R_1 = cost of code compliance (light rehab),
R_3 = cost of modernization (moderate rehab),
C = cost of new construction,
n_1 = life of structure rehabilitated to the code compliance standard,
n_3 = life of structure rehabilitated to the modernization standard,
$r_3 = 100/n_3$ percent,
n_c = life of new structure,
M_1 = difference in maintenance costs between a new structure and one rehabilitated to the code compliance standard,
D_1 = difference in rent levels between a new structure and one rehabilitated to the code compliance standard,
M_3 = difference in maintenance costs between a new structure and one rehabilitated to the modernization standard, and
D_3 = difference in rent levels between a new structure and one rehabilitated to the modernization standard.

Exhibit B-3. Calculation of Federal Tax Loss Under Section 167(k) of a $4,500 Rehabilitation Expenditure

Year	1 Section 167(k) Write-off	2 Double Declining Balance Write-off[a] (Assuming a 20 Year Life)	3 Increase or Decrease[b] Annual Depreciation Allowance	4 Federal Government Revenue Loss or Gain[c]	Present Value[d] of Federal Government's Revenue Loss under Indicated Discount Rate .05	.07	.10	.15
1	$ 450	$ 225	$ 225	$ 113	$ 109.75	$ 108.70	$ 107.14	$ 104.65
2	900	428	473	236	219.29	213.11	204.33	190.90
3	900	385	515	258	227.86	217.30	202.60	181.10
4	900	346	554	277	233.43	218.47	198.19	169.41
5	900	312	588	294	235.96	216.71	191.25	156.35

(Continued on p. 1095.)

[100] See A. H. Schaaf, "Economic Feasibility Analysis for Urban Renewal Housing Rehabilitation," *Journal of the American Institute of Planners* Vol. 35, No. 6, November 1969, p. 399+.

Exhibit B-3. Calculation of Federal Tax Loss Under Section 167(k) of a $4,500 Rehabilitation Expenditure (Continued)

6	450	280	170	85		64.97	58.56	50.26	39.31
7	0	252	−252	−126		− 91.73	− 81.12	− 67.74	− 50.66
8	0	227	−227	−114		− 78.70	− 68.29	− 55.48	− 39.69
9	0	204	−204	−102		− 67.35	− 57.35	− 45.32	− 31.02
10	0	184	−184	− 92		− 57.86	− 48.35	− 37.16	− 24.33
11	0	166	−166	− 83		− 49.71	− 40.76	− 30.48	− 19.08
12	0	157	−157	− 78		− 44.78	− 36.03	− 26.20	− 15.69
13	0	157	−157	− 78		− 42.64	− 33.68	− 23.82	− 13.65
14	0	157	−157	− 78		− 40.62	− 31.48	− 21.66	− 11.87
15	0	157	−157	− 78		− 38.68	− 29.41	− 19.70	− 10.31
16	0	157	−157	− 78		− 36.84	− 27.49	− 17.90	− 8.97
17	0	157	−157	− 78		− 35.08	− 25.69	− 16.27	− 7.80
18	0	157	−157	− 78		− 33.42	− 24.01	− 14.79	− 6.78
19	0	157	−157	− 78		− 31.82	− 22.44	− 13.45	− 5.90
20	0	157	−157	− 78		− 30.30	− 20.98	− 12.22	− 5.13
21	0	78	− 78	− 39		− 14.34	− 9.74	− 5.52	− 2.22
					Discounted Federal Tax Loss				
Total	$4,500	$4,500[e]	$ 1.[f]	$ 5.[f]		$ 397.40	$ 476.01	$ 546.09	$ 588.59

[a] The half-year convention is assumed. (Following Emil Sunley's approach In "Tax Incentive for the Rehabilitation of Housing," *The Appraisal Journal* July 1971, p. 382).
[b] Equals column 1 minus column 2.
[c] For taxpayer in 50% income tax bracket, equals column 3 × .50.
[d] Consistent with the half-year convention, depreciation taken during the first year is discounted one half year later and depreciation taken during the Ith year is discounted in (i−.5) years.
[e] May not equal indicated rehabilitation expenditure because of rounding.
[f] May not equal 0 because of rounding.
Note: We assume that the taxpayer electing Section 167(k) will not have to pay Section 56 tax on his 167(k) preferred income.

Exhibit B-4. Calculation of Federal Tax Loss Under Section 167(k) of a $5,000 Rehabilitation Expenditure

	1	2	3	4				
		Double Declining Balance Writeoff[a] (Assuming a 20 Year Life)	Increase or Decrease[b] Annual Depreciation Allowance	Federal Government Revenue Loss or Gain[c]	Present Value[d] of Federal Government's Revenue Loss under Indicated Discount Rate			
Year	Section 167(k) Write-off				.05	.07	.10	.15
1	$ 500	$ 250	$ 250	$ 125	$ 121.95	$ 120.77	$ 119.05	$ 116.27
2	1,000	475	525	263	243.91	237.04	227.27	212.34
3	1,000	428	572	286	253.08	241.36	225.02	201.14
4	1,000	385	615	308	259.13	242.53	220.02	188.07
5	1,000	346	654	327	262.45	241.03	212.71	173.90
6	500	312	188	94	71.85	64.76	55.58	43.47
7	0	281	−281	−141	−102.28	− 90.45	− 75.53	− 56.50
8	0	253	−253	−127	− 87.72	− 76.12	− 61.83	− 44.24
9	0	227	−227	−114	− 74.94	− 63.82	− 50.43	− 34.52
10	0	205	−205	−103	− 64.46	− 53.86	− 41.40	− 27.11
11	0	184	−184	− 92	− 55.10	− 45.18	− 33.78	− 21.15
12	0	174	−174	− 87	− 49.62	− 39.93	− 29.04	− 17.39
13	0	174	−174	− 87	− 47.26	− 37.32	− 26.40	− 15.13
14	0	174	−174	− 87	− 45.01	− 34.89	− 24.00	− 13.15
15	0	174	−174	− 87	− 42.87	− 32.60	− 21.83	− 11.43
16	0	174	−174	− 87	− 40.83	− 30.47	− 19.84	− 9.94
17	0	174	−174	− 87	− 38.88	− 28.48	− 18.03	− 8.65

(Continued on p. 1096.)

Exhibit B-4. Calculation of Federal Tax Loss Under Section 167(k) of a $5,000 Rehabilitation Expenditure (Continued)

18	0	174	−174	− 87		− 37.04	− 26.61	− 16.39	− 7.52
19	0	174	−174	− 87		− 35.27	− 24.87	− 14.90	− 6.54
20	0	174	−174	− 87		− 33.58	− 23.25	− 13.55	− 5.69
21	0	87	− 87	− 44		− 15.99	− 10.86	− 6.16	− 2.47
					Discounted Federal Tax Loss				
Total	$5,000	$4,999 [e]	$ 1 [f]	$ 1 [f]		$ 446.51	$ 528.67	$ 606.56	$ 653.76

For a-f, See Exhibit B–3.

Exhibit B-5. Calculation of Federal Tax Loss Under Section 167(k) of a $9,000 Rehabilitation Expenditure

	1	2	3	4					
		Double Declining Balance Writeoff[a] (Assuming a 20 Year Life)	Increase or Decrease[b] Annual Depreciation Allowance	Federal Government Revenue Loss or Gain[c]		Present Value[d] of Federal Government's Revenue Loss under Indicated Discount Rate			
Year	Section 167(k) Writeoff					.05	.07	.10	.15
1	$ 900	$ 450	$ 450	$ 225		$ 219.51	$ 217.39	$ 214.29	$ 209.29
2	1,800	855	945	472		439.05	426.67	409.09	382.21
3	1,800	770	1,030	515		455.72	434.61	405.20	362.20
4	1,800	693	1,107	554		466.43	436.55	396.03	338.52
5	1,800	623	1,177	589		472.33	433.78	382.82	312.96
6	900	561	339	170		129.57	116.77	100.23	78.39
7	0	505	−505	−253		−183.82	−162.56	−135.74	−101.53
8	0	454	−454	−227		−157.40	−136.59	−110.96	− 79.38
9	0	409	−409	−205		−135.03	−114.99	− 90.86	− 62.19
10	0	368	−368	−184		−115.72	− 96.69	− 74.32	− 48.67
11	0	331	−331	−166		− 99.12	− 81.28	− 60.77	− 38.05
12	0	314	−314	−157		− 89.55	− 72.06	− 52.41	− 31.38
13	0	314	−314	−157		− 85.28	− 67.35	− 47.63	− 27.30
14	0	314	−314	−157		− 81.23	− 62.96	− 43.32	− 23.74
15	0	314	−314	−157		− 77.37	− 58.83	− 39.39	− 20.63
16	0	314	−314	−157		− 73.68	− 54.98	− 35.80	− 17.95
17	0	314	−314	−157		− 70.16	− 51.39	− 32.53	− 15.61
18	0	314	−314	−157		− 66.83	− 48.03	− 29.58	− 13.56
19	0	314	−314	−157		− 63.65	− 44.89	− 26.89	− 11.81
20	0	314	−314	−157		− 60.60	− 41.95	− 24.44	− 10.27
21	0	157	−157	− 78		− 28.86	− 19.60	− 11.11	− 4.46
					Discounted Federal Tax Loss				
Total	$9,000	$9,000 [e]	$ 0 [f]	$ 1 [f]		$ 794.29	$ 951.63	$1,091.90	$1,177.06

For a-f, see Exhibit B–3.

Exhibit B-6. Calculation of Federal Tax Loss Under Section 167(k) of a $10,000 Rehabilitation Expenditure

	1	2	3	4					
						Present Value[d] of Federal Government's Revenue Loss under Indicated Discount Rate			
Year	Section 167(k) Writeoff	Double Declining Balance Writeoff[a] (Assuming a 20 Year Life)	Increase or Decrease[b] Annual Depreciation Allowance	Federal Government Revenue Loss or Gain[c]		.05	.07	.10	.15
1	$1,000	$ 500	$ 500	$ 250		$ 243.90	$ 241.55	$ 238.10	$ 232.55
2	2,000	950	1,050	525		487.83	474.07	454.54	424.67
3	2,000	855	1,145	573		506.61	483.13	450.44	402.64
4	2,000	770	1,230	615		518.26	485.05	440.03	376.13
5	2,000	693	1,307	654		524.50	481.69	425.10	347.53
6	1,000	623	377	189		144.43	130.20	111.76	87.14
7	0	561	— 561	—281		—204.20	—180.59	—150.80	—112.79
8	0	505	— 505	—253		—175.08	—151.93	—123.42	— 88.30
9	0	454	— 454	—227		—149.89	—127.64	—100.86	— 69.03
10	0	409	— 409	—205		—128.61	—107.46	— 82.60	— 54.09
11	0	368	— 368	—184		—110.20	— 90.36	— 67.56	— 42.30
12	0	349	— 349	—175		— 99.53	— 80.10	— 58.25	— 34.88
13	0	349	— 349	—175		— 94.79	— 74.86	— 52.94	— 30.35
14	0	349	— 349	—175		— 90.29	— 69.97	— 48.14	— 26.38
15	0	349	— 349	—175		— 85.99	— 65.39	— 43.78	— 22.93
16	0	349	— 349	—175		— 81.89	— 61.11	— 39.79	— 19.95
17	0	349	— 349	—175		— 77.98	— 57.11	— 36.16	— 17.35
18	0	349	— 349	—175		— 74.28	— 53.38	— 32.88	— 15.08
19	0	349	— 349	—175		— 70.74	— 49.89	— 29.89	— 13.12
20	0	349	— 349	—175		— 67.36	— 46.63	— 27.17	— 11.41
21	0	174	— 174	— 87		— 31.99	— 21.72	— 12.31	— 4.94
					Discounted Federal Tax Loss				
Total	$10,000	$10,003[e]	$ —3[f]	$ —6		$ 882.73	$1,057.55	$1,213.33	$1,307.79

For a-f, see Exhibit B–3.

Exhibit B-7. Calculation of Federal Tax Loss Under Section 167(k) of a $15,000 Rehabilitation Expenditure

	1	2	3	4				
					Present Value[d] of Federal Government's Revenue Loss under Indicated Discount Rate			
Year	Section 167(k) Writeoff	Double Declining Balance Writeoff[a] (Assuming a 20 Year Life)	Increase or Decrease[b] Annual Depreciation Allowance	Federal Government Revenue Loss or Gain[c]	.05	.07	.10	.15
1	$1,500	$ 750	$ 750	$ 375	$ 365.85	$ 362.32	$ 357.15	$ 348.82
2	3,000	1,425	1,575	788	731.74	711.11	681.82	637.01
3	3,000	1,283	1,717	859	759.69	724.49	675.47	603.78
4	3,000	1,154	1,846	923	777.81	727.97	660.41	564.51
5	3,000	1,039	1,969	985	786.95	722.73	637.82	521.43
6	1,500	935	565	283	215.94	194.61	167.04	130.66
7	0	842	— 842	—421	—306.49	—271.04	—226.33	—169.28
8	0	757	— 757	—379	—262.45	—227.74	—185.01	—132.36
9	0	682	— 682	—341	—225.16	—191.74	—151.51	—103.70
10	0	613	— 613	—307	—192.76	—161.07	—123.80	— 81.07
11	0	552	— 552	—276	—165.30	—135.54	—101.35	— 63.45
12	0	523	— 523	—262	—149.16	—120.03	— 87.29	— 52.27
13	0	523	— 523	—262	—142.05	—112.18	— 79.34	— 45.47

(Continued on p. 1098.)

Exhibit B-7. Calculation of Federal Tax Loss Under Section 167(k) of a $15,000 Rehabilitation Expenditure (Continued)

14	0	523	– 523	–262		–135.30	–104.86	– 72.15	– 39.54
15	0	523	– 523	–262		–128.87	– 97.98	– 65.61	– 34.36
16	0	523	– 523	–262		–122.72	– 91.58	– 59.62	– 29.89
17	0	523	– 523	–262		–116.86	– 85.59	– 54.18	– 25.99
18	0	523	– 523	–262		–111.32	– 79.99	– 49.27	– 22.59
19	0	523	– 523	–262		–106.01	– 74.76	– 44.79	– 19.66
20	0	523	– 523	–262		–100.94	– 69.87	– 40.72	– 17.10
21	0	262	– 262	–131		– 48.17	– 32.71	– 18.54	– 7.44
					Discounted Federal Tax Loss				
Total	$15,000	$15,001 [e]	$ 0 [f]	$ +7 [f]		$1,324.43	$1,586.53	$1,820.20	$1,962.01

For a-f, see Exhibit B–3.

Needleman Modification: Lionel Needleman has also shown the flexibility of decision equations.[101] As an illustration, local urban renewal agencies having authority over an area of dwellings, most of which are structurally unsound, but including a scattering of modernizable dwellings, have a choice of one of two policies: Should they rebuild the area (demolition and new construction) entirely, or should they rehabilitate the units that can be restored and incur the higher average costs of clearance and rebuilding that are involved in partial clearance? Needleman described that this problem could be answered by modifying the rehabilitation decision equation and approaching the question as follows (emphasis added and variable letters changed to conform with our quotation presented in Chapter Three):

> Assume that the area in question contains T dwellings, T–A of which are modernised at a cost of *R each* and *A of which are cleared and rebuilt* at a *cost of B* each. Let us assume that the average cost of clearance and rebuilding, B, varies with the *proportion* of the buildings in the area that are cleared, A/T, and not with the absolute number. We should expect the curve to be downward sloping and it may also be slightly convex to the origin as in Figure 1 below. As an approximation, we can assume that average costs fall at a constant rate as the proportion of dwellings cleared increases, as in Figure 2. In this case, the relationship between B and A/T is

$$B = C + g(1 - \frac{A}{T})$$

Figure 1

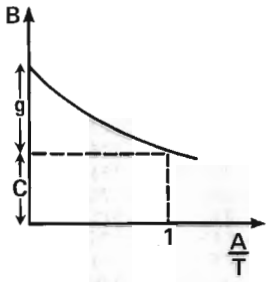
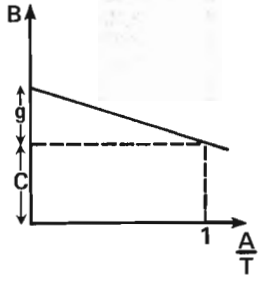


Figure 2



The decision rule when building costs are as illustrated in Figure 2 can be calculated as follows. Using the same symbols as above, but in addition using αa and a to represent the annual maintenance costs on each modernised and each new dwelling respectively, we have the rule —rehabilitate if

$$TC > (T - A)\,[R + (C + gA/T)/(1 + i)^n + \alpha a\,(1 - (1 + i)^{-n})/i] + A(C + g/T)(T - A) - (T - A)\,(a - D)\,(1 - (1 + i)^{-n}/i$$

(This formula is explained below.)

Needleman goes on to expand and apply the above formula. We shall not do this ourselves but, rather, will briefly explain his equation. According to Needleman, rehabilitation would be the preferred strategy if the new rebuilding cost (demolition and new construction) of all the structures in an area (TC) would be greater than the combined cost of the following:

Description	Formula Notation
1) The cost of rehabilitating T-A dwellings now	$(T - A)R$
2) The present value of replacing the T-A dwellings at the end of the rehabilitated properties' economic life	$(T - A)(C + gA/T/(1 + i)^n)$
3) The present value of the annual maintenance outlays on T-A dwellings for n years	$(T - A)\alpha a\,(1 - (1 + i)^{-n})/i$
4) The new construction cost of building A dwellings now minus	$A(C + g/T)(T - A)$ minus
5) The present value of the annual maintenance costs and excess rents on T-A newly built structures for n years	$(T - A)\,(a - D)\,(1 - (1 + i)^{-n})/i$

[101] See Lionel Needleman, "The Comparative Economics of Improvement and New Buildings," *Urban Studies* Vol. 6, No. 2, June 1969, p. 199+.

In other words, a mixed rehabilitation-redevelopment strategy would be preferred if the initial cost of a strictly redevelopment strategy effected in one area, plus the long term benefits higher in rental income and maintenance cost savings (as compared to rehabilitation) accruing from such a strategy, are greater than the long term costs of effecting rehabilitation in one section of the area plus the initial costs of effecting redevelopment in the remaining section. This Needleman analysis again demonstrates the flexibility of the rehabilitation decision equations for facilitating policy analysis.

Arthur Solomon's Federal Forgone Tax Revenue Calculations

Exhibits 32 through 35 presented Arthur Solomon's calculations of the full monthly economic cost of various housing programs. As part of his analysis, Solomon calculated the forgone Federal tax revenue resulting from allowing both Section 167(k) (for rehabilitated units) and the double declining balance provisions (for new units) as compared to just allowing straight line depreciation.[102] His calculations are presented in Exhibits B–8 and B–9.

Exhibit B-8. Rehabilitation [a] Leased Housing—Rent Supplements Accelerated Depreciation and Forgone Federal Revenue, Boston, Massachusetts

Sixty Month Straight Line Depreciation [b]	Sixty Month Per Unit [b]	Normal Straight Line Depreciation [b]	Normal Per Unit	Depreciation Deduction Differential	Tax Savings 50% Bracket	Tax Savings Present Value Total @ 10%	Per Unit @ 10%
614,917 [c]	841	—	—	614,917	307,450	307,500	421
229,834	1682	245,967	336	983,867	491,934	447,100	612
229,834	1682	245,967	336	983,867	491,934	406,400	556
229,834	1682	245,967	336	983,867	491,934	369,400	505
229,834	1682	245,967	336	983,867	491,934	335,800	459
229,834	1682	245,967	336	983,867	491,934	305,200	417
		245,967	336	(245,967)	(122,984)	(69,400)	(95)
		245,967	336	(245,967)	(122,984)	(63,100)	(86)
		245,967	336	(245,967)	(122,984)	(57,500)	(77)
		245,967	336	(245,967)	(122,984)	(52,100)	(71)
		245,967	336	(245,967)	(122,984)	(47,500)	(65)
		245,967	336	(245,967)	(122,984)	(43,000)	(59)
						(39,200)	(54)
						(35,500)	(49)
						(32,400)	(44)
						(29,400)	(40)
						(26,800)	(37)
						(24,400)	(33)
						(22,200)	(30)
						(20,200)	(28)
						(18,300)	(25)
						(246,500) [d]	(338)
AVERAGE ANNUAL DISCOUNTED PRESENT VALUE ($1839/21)						1,343,900	1888

Notes:

[a] When a developer syndicates limited partnership interests to investors for a syndication price in excess of the implied equity the investors will be able to add this excess equity to the depreciable basis. The net syndication proceeds received by the developer and by the syndication broker are taxable. It has been assumed that the cost of the increased depreciation to the Treasury is balanced by the taxes collected on the syndication proceeds.

[b] The total number of leased housing and rent supplement-rehabilitation units in Boston is 871. Their average rehabilitation cost, in 1970 construction prices, is $8,412/unit. We assume that the normal economic life for the rehabilitation expenditures is 25 years.

[c] It has been assumed that the items deductible during the construction period, such as interest and real estate taxes, are equal to 10 percent of the total construction cost.

[d] Sales price = outstanding mortgage = $4,730,000; the tax on sale = (sales price less adjusted basis) times capital gains rate = (4,730,000 − 0 × 0.35) = 1,656,000.

[102] Solomon assumed a slightly different approach from ours of calculating the T (Federal tax loss resulting from Section 167(k). He calculated this Federal loss assuming that only straight line depreciation instead of a 5-year writeoff were allowed. We approached the problem differently, by assuming that only double-declining balance depreciation were allowed instead of Section 167(k) (as indeed was the case prior to 1969) and then calculating the difference in the Federal tax loss resulting from the former accelerated depreciation schedule as compared to the latter, even more rapid, depreciation writeoff.

Exhibit B-9. New Construction[a] Leased Housing—Rent Supplements Accelerated Depreciation and Forgone Federal Revenue, Boston, Massachusetts

200% Declining Balance Depreciation[b]	Per Unit	Straight Line Depreciation	Per Unit	Difference in Depreciation Deductions	Tax Savings 50% Bracket	Tax Savings Present Worth @ 10%	Tax Savings Present Worth Per Unit
58,947[c]	1551	—	—	58,947	9,473	29,500	776
29,472	776	14,736	388	14,736	7,368	6,200	163
27,999	737	14,736	388	13,263	6,632	5,480	144
26,599	700	14,736	388	11,863	5,932	4,460	117
25,269	655	14,736	388	10,533	5,267	3,600	95
24,006	632	14,736	388	9,270	4,635	2,880	76
22,806	600	14,736	388	8,070	4,035	2,280	60
21,665	570	14,736	388	6,929	3,465	1,780	47
20,582	542	14,736	388	5,846	2,923	1,370	36
19,553	515	14,736	388	4,817	2,409	1,020	27
18,575	489	14,736	388	3,839	1,919	740	19
17,645	465	14,736	388	2,909	1,458	510	13
16,765	442	14,736	388	2,035	1,017	320	8
15,926	419	14,736	388	1,190	595	170	4
15,130	399	14,736	388	394	197	50	1
14,374	378	14,736	388	(362)	(181)	(40)	(1)
13,655	359	14,736	388	(1,081)	(540)	(120)	(3)
12,972	341	14,736	388	(1,764)	(882)	(170)	(4)
12,324	322	14,736	388	(2,412)	(1,206)	(220)	(6)
11,707	3088	14,736	388	(2,929)	(1,464)	(240)	(6)
11,122	292	14,736	388	(3,614)	(1,807)	(270)	(7)
						(13,130)[d]	(346)
						46,170	1216

Notes:

[a] When a developer syndicates limited partnership interests to investors for a syndication price in excess of the implied equity the investors will be able to add this excess to the depreciable base. The net syndication proceeds received by the developer and the syndication broker are taxable. It has been assumed that the cost of the increased depreciation to the Treasury is balanced by the taxes collected on the syndication proceeds.

[b] The total number of Section 10c leased housing and rent supplement—new construction units in Boston is 93. Their average construction cost, in 1970 construction prices, is $15,512 per unit. A depreciable life of 40 years has been assumed. Separating out various components by their own depreciable lives, e.g., depreciating the roof over 10 years, would yield a composite useful life of as little as 33 years. The difference in the net accelerated depreciation is reasonably insignificant, however.

[c] It has been assumed that the items deductible during the construction period are equal to 10 percent of the total construction cost.

[d] Tax on sale = (sales price − adjusted basis) × capital gains rate
= (463,000 − 211,200)0.35 = 88,130

Appendix C
Housing Rehabilitation: Present and Future Costs and Cost Savings

Introduction

This appendix briefly examines three different aspects of rehabilitation's cost:

1. Specifically which components of rehabilitation's project costs are presently most significantly lower as compared to new construction.

2. Do current building codes, supposedly archaic and unnecessarily restrictive, appreciably inflate rehabilitation expenditures?

3. Could new building materials and procedures effected in the future appreciably reduce rehabilitation's cost?

Examining Rehabilitation's Present Project Cost

Introduction: The second section of this study examined how many analyses have concluded that rehabilitation's project costs are lower than for redevelopment. Specifically, which component(s) of project costs is (are) lower for rehabilitation as compared to new construction? Are development costs lower, are construction costs cheaper, or are both perhaps rehabilitation's development and construction costs cheaper? Furthermore, within the two development and construction cost subcategories, specifically which items are less costly for rehabilitation as compared to redevelopment?

In the section below, we summarize the cost savings (as compared to redevelopment) that have accrued in various rehabilitation efforts.

Summary of Rehabilitation's Cost Saving: Findings varied among the rehabilitation programs studied, as discussed below.

Philadelphia Housing Authority (PHA): Development costs in the PHA's rehabilitation effort were considerably lower than for new construction. Specifically, site improvements, land acquisition costs, engineering fees, and other expenditures were considerably cheaper for rehabilitation. In contrast, rehabilitation's construction costs were only slightly cheaper ($1,000–$2,000) per unit (See Exhibit A–1) than redevelopment's construction outlay.

McGraw-Hill Study: The McGraw-Hill Study revealed that rehabilitation's development cost was only slightly cheaper than new construction's development outlay. The land acquisition costs for both types of units were about the same, but the new unit's demolition and miscellaneous fees, as well as other outlays, were considerably higher than for the rehabilitated unit (See Exhibits A–2 and A–3).

The McGraw-Hill Study found that rehabilitation's construction cost was considerably lower than for redevelopment. Where were these construction savings? Certain construction cost components—e.g., piling, concrete foundation, structural frame—were simply not needed for the rehabilitated unit. Other cost components were considerably cheaper for the former as compared to the latter unit. The new unit's cost for brickwork, for example, was $1,200—200 percent more than for the rehabilitated unit's brickwork. And we find similar cost savings in other construction components (See Exhibits A–4 and A–5).

HUD New York City Study: HUD's 1968–1969 New York City studies revealed that development costs were almost one-half cheaper for rehabilitation than for redevelopment. Specifically, the former housing strategy's architectural, legal, and acquisition costs, for example, were less costly than for the latter housing strategy (See Exhibits A–8 and A–9). Not all of new construction's development costs were more expensive, though; its financing and relocation expenditures, for example, were cheaper than for rehabilitation.

The HUD New York City Study revealed that rehabilitation's construction costs were about one-third cheaper than for redevelopment. There was no one construction cost component that was especially less costly; instead, most of rehabilitation's construction cost components were cheaper than for redevelopment.

Other Studies: The O'Block and Kuehn study revealed that rehabilitation's development cost was slightly less than new construction's development outlay. Rehabilitation's architectural fees and interior financing costs, for example, were slightly cheaper than on comparable redevelopment efforts. In contrast, most construction cost components were appreciably cheaper with rehabilitation, compared to new construction (See Exhibits A–14 through A–18).

The Sternlieb Study revealed a different scenario. It indicated that rehabilitation's development cost was considerably higher than for redevelopment. The former housing strategy's land acquisition cost, for example, was more than triple the latter housing strategy's land acquisition outlay (See Exhibit A–19). In contrast, the Sternlieb study revealed that rehabilitation's construction cost was considerably less costly than that of redevelopment. Among the less costly construction cost components were plaster, sheetrock outlays, and expenditures for flooring, doors, and stairs (See Exhibit A-20).

Summary: From the above analyses we can conclude only broad patterns of the specifics of rehabilitation's project cost saving. Rehabilitation's development costs range from being considerably to only slightly cheaper than new construction. But this saving is not always present; the Sternlieb analysis of Priorities' rehabilitation effort, for example, revealed that rehabilitation's development cost was higher than for new construction. Additionally, the relative costs of certain development components—e.g., land acquisition, engineering fees—range from sometimes being higher with rehabilitation to being cheaper at other times.

In most instances, rehabilitation's construction costs are considerably cheaper than redevelopment's construction outlay. But, again, this is not always true. The PHA construction cost for its rehabilitated units, for example, was only slightly cheaper than for its new units. Additionally, the rehabilitation-redevelopment cost differences for certain construction components—e.g., demolition, excavation, painting, etc.—differ between rehabilitation efforts (Compare Exhibits A–4 and A–5 to Exhibit A–20).

Do Current Building Codes Appreciably Inflate Rehabilitation Expenditures?

In another study completed for the HUD Policy Review Task Force, we examined the issue of whether existing building codes appreciably inflate housing rehabilitation expenditures. If they do to a greater extent than with new construc-

tion,[103] then it is possible that our findings have been skewed by this "artificial" factor rather than based on rehabilitation's "true" ability or nonability to be cheaper than redevelopment.

To briefly recapitulate our findings: Many studies have accused building codes of unnecessarily increasing construction costs, especially rehabilitation outlays. In 1920, the Senate Select Committee on Reconstruction and Production, for example, summarized that the building codes of the country in many instances involve an additional cost of construction[104] without assuring most useful or more durable buildings. Two years later, Herbert Hoover, then Secretary of Commerce, reported that conflicting and antiquated building codes were increasing the United States' building costs between 10 and 20 percent.[105] And the National Commission on Urban Problems has similarly criticized building codes of unnecessarily inflating both new construction and rehabilitation costs.

Other studies have come to opposite conclusions, though. A Columbia University Law School analysis,[106] for example, concluded that building regulations had little impact on housing rehabilitation expenditures. This study consisted of an interview of persons selected either because of their experience in the actual construction and rehabilitation of moderately priced housing or because of their special expertise concerning codes. Redevelopment and manufacturers' associations were also contacted. All of these individuals were asked to comment on the cost impact that building codes have on the construction and rehabilitation of low and middle income housing. The results of this survey were summarized as follows:

> . . . It would appear that building codes do *not* materially and unreasonably increase the costs or otherwise impede the construction and rehabilitation of low and middle income housing. It must not be concluded, however, that building codes are without fault, for they do operate to increase costs in some instances and certain procedural reforms and greater uniformity should be encouraged. Rather, the significance of (our) findings is to place the practical effects of building codes in context. Government agencies and private groups have believed for may years that codes constitute a significant deterrent to residential construction and rehabilitation. (Our) study indicates that this deterrent effect is insubstantial and insignificant.[107]

The conclusions of the Columbia study cited above are not unique. A Puget Sound Government Conference survey concluded that: "Undoubtedly many building codes have incorporated excessive standards; however, conclusive evidence that the situation is as bad or costly as one is led to believe is notably lacking."[108] A San Francisco study came to a similar conclusion.[109]

In summary, then, it is unclear whether, at present, building codes appreciably inflate costs for construction in general and rehabilitation in particular. Empirical studies[110] of actual rehabilitation efforts have often noted costs and difficulties caused by archaic codes, so the impact of building regulations on rehabilitation bears further study.

Possible Future Economies from Updating the Rehabilitation Technology: An Evaluation

In this last section we shall consider numerous strategies suggested that if implemented in the future could possibly reduce rehabilitation's cost. There is a widespread belief that such economies are possible. M. Carter McFarland, for example, has suggested that "we need to apply technology and systems engineering to make the rehabilitation process faster and less costly.[111] More specifically, others have suggested that rehabilitation costs might be reduced if the following procedures were instituted: Systems, engineering, prefabrication, offsite assembly, standardized operating procedures, and utilizing innovative construction materials. This section focuses on the restraint to improving the rehabilitation technology to counterbalance the impression one receives in much of the rehabilitation literature that updating rehabilitation procedures and methods could in many cases be easily done and would have a very large impact on reducing costs.

Systems Engineering: A systems-oriented Critical Path Method construction schedule has been utilized in new construction for a number of years. Such an approach may not be applicable to rehabilitation, however, because of the in-

[103] This may very well be the case, because it is easier to satisfy most building code requirements—e.g., width of stairway, number of windows—with new construction than with rehabilitation. The SECD, for example, encountered many problems in trying to satisfy Boston's building codes—problems that would not have been present with new construction. See Robert Whittlesey, *The South End Row House and Its Rehabilitation for Low Income Residents* (Boston: 1969).

[104] U.S. Congress, Senate, Report No. 829 Select Committee on Reconstruction and Production, 66th Congress 3rd Session, March 2, 1921, p. 2.

[105] Advisory Commission on Intergovernmental Relations (ACIR) *Building Codes: A Program for Intergovernmental Reform* (Washington, D.C., U.S. Government Printing Office. 1966), p. 2.

[106] "Building Codes and Residential Rehabilitation: Tilting at Windmills," *Columbia Journal of Law and Socal Problems* Vol. 5, August 1969, pp. 88–98.

[107] Ibid., p. 97.

[108] Puget Sound Government Conference, *A Study of Building Codes* (1967), p. 8.

[109] Sherman Masel, *Home Building in Transition* (1953), p. 249.

[110] See Robert Whittlesey, *The South End Row House and Its Rehabilitation for Low Income Residents* (Boston: 1969).

[111] M. Carter McFarland, "Financing Rehabilitation through Federal Housing Acts," *Journal of the Building Research Institute.*

herent uncertainties in rehabilitation work. For example, a sponsor often does not know exactly what mechanical or structural components need replacement or repair until actual rehabilitation has begun. Furthermore, most rehabilitation has been done by small contractors who are often unfamiliar with systems engineering. Finally, the cost savings, if any, on a small project with a small contractor may very well be neutralized or negated by the overhead incurred in implementing systems engineering.

Prefabrication and Offsite Assembly: Theoretically, prefabrication and offsite assembly should reduce the costs of rehabilitation efforts. Such savings result, however, only if a larger number of identical preassembled units can be utilized. But because rehabilitation is confronted with many variations in house size and floor plan, such prefabrication may be worthless, if not impossible.

The RRDP in New York City, which made extensive use of offsite assembly, had extremely high costs.[112] What's more, its preassembled bathroom and kitchen cores often did not fit the space allotted for them, because of variations in room height and size in the project's old-law tenements.

Standardizing the Rehabilitation Procedure: Similarly, standardizing rehabilitation by replacing or repairing the same components in each house may also be impracticable. Nathan Beavers, who successfully rehabilitated properties in Cleveland's Hough area, cited the infeasibility of wholesale gutting as compared to selective attempts to salvage plaster walls. He explained that for economic reasons the decision to gut should depend on the condition of the walls in question which can differ not only from one building to another but within the same building.[113] Beavers added that it would be hard to standardize the rehabilitation procedure because:

> This is a play-it-by-ear business. It needs its own kind of specialists with new job definitions. It needs dry-wall specialists who can go over old walls for thickness to decide what length nails to use and whether screws might be better. It needs flooring specialists who can repair broken and warped subflooring piece by piece. It needs framing specialists who know how to brace old walls in dozens of different ways without messing up the architect's plans.

This view is corroborated by one BURP contractor who noted that any effort to standardize production overlooks the marginal differences among the buildings, which may have to be taken advantage of in order to make a profit.[114]

Innovative Construction Materials: Innovative construction materials have also been suggested as a means of reducing rehabilitation costs and thereby increasing its volume. Among the scores of such in use are: Self-studding or partially preassembled wall systems, factory-finished vinyl-covered gypsum board, plastic plumbing, molded stackable plastics, and sprayed urethane foam for insulation purposes.[115] Their advantages are many. For example, plastic pipe, in addition to costing less than copper piping, can be fitted together much more easily and is less likely to be stolen by vandals during rehabilitation. The use of many of the construction materials mentioned above, however, may be prohibited by restrictive local building codes (See previous section).

Even if they were allowed, the new rehabilitation materials and procedures might have only a small impact on reducing monthly rentals. Robert Whittlesey, the executive director of the SECD, noted that if the SECD's use of a new material would reduce the cost of plaster materials by 50 percent, it would reduce the projects' monthly rentals only $1.[116] Similarly, if the costs for plumbing, using new technology or materials, were reduced by 25 percent, there would be only a $1 decrease in the monthly rental.

Conclusions: Although the strategies described in this section have often been touted as significant inducements to rehabilitation, in practice they may be both expensive and difficult to effect because of political or practical considerations. In addition, there is some doubt whether such action—even if allowed—would dramatically reduce rehabilitation costs—both initial construction costs and, especially, the monthly occupancy cost. But to the extent that updating the rehabilitation technology would save rehabilitation costs (and many have advanced this position), then it should be attempted.

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[112] Institute of Public Administration, *Rapid Rehabilitation of Old Law Tenements* (New York, 1968), p. 29. The lack of success of mass production in the RRDP has been disputed. In evaluating the RRDP, Richard Wickert of Conrad Engineers of New York City has stated that one of the major factors in the success of the RRDP was the use of prefabricated, mass-produced components. See Richard Wickert, "Rapid Rehabilitation," in Eugene Morris and Henry Halprin's *Urban Renewal and Housing* (New York: Practicing Law Institute, 1969), p. 148.

[113] H. Clark Wells, "Materials and Equipment Innovation in Housing Rehabilitation," in Melvin Levin (ed.), *Innovations in Housing Rehabilitation* (Boston, Mass.: Boston University, Urban Institution, 1969), p. 95.

[114] Langley Keyes, *The Boston Rehabilitation Program: An Independent Analysis* (M.I.T.: Harvard Joint Center, 1970), p. 138. Another BURP contractor felt that it was best to systematize rehabilitation in order to eliminate the need for separate decisions about what must be done in each property.

[115] See Joseph Newman, "Rehabilitation Techniques: The Current State of the Art," in Levin, *Innovations In Housing Rehabilitation.* See also Wells, "Materials and Equipment," in Levin *Innovations in Housing Rehabilitation.*

[116] See Robert Whittlesey, in Levin, *Innovations In Housing Rehabilitation,* p. 87.

Scattered Versus Concentrated Housing Rehabilitation

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Introduction and Overview

Because this "issue paper" is necessarily brief, and because it is not basically a report on primary or even secondary research, we believe it would be helpful to provide an introductory, overall statement of some of our basic views that lead to our assessment of how housing rehabilitation ("rehab") programs should be used and to our views on the specific question of whether housing rehab should be conducted on a geographically concentrated or scattered basis. It should also be noted at the outset of this paper that, because the Department has commissioned special papers dealing with the rural housing problem, this discussion is confined to rehabilitation in urban settings.

It seems to us indisputable that the preservation and continued use of most of the existing housing stock are necessary to achieve the objectives of the national housing goals, at least until the era—should it ever come—of disposable housing. Preservation of the existing stock is necessary, notwithstanding the rehab-is-cheaper /rehab-is-more-expensive debate (which is discussed later in this chapter), for economic reasons. It would be prohibitively costly not to preserve the great majority of the existing stock. Preservation of the existing stock is also important for social and cultural reasons. In countless big city communities across the Nation, the residents have expressed their strong preference for preservation of their housing and neighborhoods as opposed to demolition and new construction. Not every community should be preserved, but neither should economics be the sole, or even the primary, factor that determines whether a building is torn down or rehabilitated. In considering the uses and value of rehab, it is important to remember its abilities to preserve social patterns and cultural values and identities, abilities which new construction does not have.

A large part of the reason for the great rehab debate which has been going on for at least the past decade is that the terms "rehab" and "rehab program" are unclear and have many meanings. "Rehab" can refer to repairs costing anywhere from $1,000 or even less (under such programs as the section 312/115 program and the Title I FHA home improvement loan program), to as much as $17,500 or even more (under the sections 235 and 236 programs). The former is frequently referred to (often derisively) as "cosmetic" or "paint-up-fix-up" rehab. The latter is most frequently called "gut" rehab. It is important to note that these terms all denote the level of treatment given to the housing unit itself. This aspect of the terminology of the rehab field is significant because it is indicative of the fact that too much emphasis is placed on the housing unit, and too little is placed on other aspects of housing rehab such as the neighborhood in which the units are located, the economic availability of the housing to various segments of the market, and other factors.

When the term "rehab" is used, one at least knows that it refers to the repair of a housing unit, even though the extent of repair and other factors are not known. The term "rehab program," however, is even less clear. The term generally takes its meaning from the Federal programs classified as rehab programs. Accordingly, the term is used to describe efforts ranging from (1) owner-initiated, light rehab efforts, which are not part of any coordinated plan and carry no subsidy and no program of other neighborhood improvements, to (2) gut rehab programs, which require the entity performing the rehab to acquire the property and which carry relatively heavy subsidies and do not include provisions for other neighborhood improvements, to (3) the concentrated code enforcement approach to rehab, which offers limited grants and subsidized loans for light building treatment and does include provisions for making some neighborhood improvements.

The vague and multiple meanings of these two key terms give rise to confusion and seeming contradictions in many discussions of the subject. For example, the statements "Rehab is as expensive as new construction," and "Housing rehab programs offer a means of providing standard housing at far less than the cost of new construction," clearly seem to be contradictory. Yet they need not be. The first statement has been shown to be true with respect to old, long-neglected and poorly maintained inner-city housing. The second statement also can be true if it

refers to the limited treatment of substandard, but basically sound, housing that is not seriously deteriorated. Virtually all other statements about rehab and rehab programs are subject to confusion and contradiction unless clear reference is made to the particular level of rehab, the nature, type, and extent of the financing and subsidies that are involved, the neighborhood conditions in the area of implementation, and the extent of any companion programs that may be involved.

The differences among rehab programs are accentuated because of the fact that each one is narrowly focused at a particular combination of factors such as housing type, level of subsidy, level of rehab, type of building tenure, etc. The programs that can undertake gut rehab cannot be easily used for lighter building treatments; the programs that can provide relatively heavy subsidies cannot provide housing for those who, although somewhat better off, need some subsidization of their housing costs. The programs that can assist owner-occupants cannot be used to acquire a building from an owner who is unwilling to rehabilitate it. The programs that can be used to acquire and rehabilitate buildings cannot be used to assist owner-occupants, and so forth. The narrowness of the programs is compounded by the fact that the restrictions and limitations are applied in combination; thus, for example, the programs that are capable of gut rehab offer only relatively heavy subsidies, require that the buildings be acquired from their owners, and are designed for either single or multifamily structures. There are no programs to assist owner-occupants to undertake a heavy level of rehab. There are no programs that can rehabilitate apartment buildings and make the units available to persons with a wide variety of incomes. In fact, nowhere in the array of Federal housing rehabilitation programs in recent years has there been a single program capable of dealing with a variety of just three factors—housing type, level of subsidy, and level of rehabilitation.

Numerous other inadequacies in Federal rehab programs and gaps in their coverage could be cited, but no more are necessary to the focus of this paper. (It should be noted, of course, that many of the same defects exist throughout the Federal housing programs, particularly the subsidized programs.) However, the narrowness of the Federal rehab programs is one of the key causes of many of the failures of rehabilitation efforts.

A city agency, for example, that arms itself with a "housing rehab program" finds that it can deal with only certain types of units, that it can undertake only one level of rehab, which must be done in a certain way, and that it can offer the housing only to a narrow segment of the market. The housing units "produced" under the program may add up to impressive totals, but the units that were surrounded by blight will probably still be surrounded by blight; areas plagued by trash, rats, and similar conditions will probably still be afflicted; areas suffering from rundown commercial sections and mixed land use will probably still be burdened by those conditions, and many of the units that needed rehabilitation will not have been rehabilitated because the program was incapable of dealing with all types of housing units.

Only a few of the Federal rehab programs include any provision for making nonhousing improvements in the areas in which they are implemented. That such improvements are necessary to complement and sustain the good effects of rehabilitation is readily apparent from both our own direct observations and the case material cited later in this paper. Again and again in the literature of the rehab field it is stated that, in neighborhoods that do not have a basic soundness, the beneficial impacts of the rehab program are soon overwhelmed by the continued spread of blight and deterioration. Thus it is our recommendation that housing rehab be conducted only as part of a neighborhoodwide preservation or revitalization program except in neighborhoods that are so sound that no other improvements are needed to insure that the effects of the rehabilitation will not soon be overcome by expanding blight and deterioration. The most important point is that rehab be used in a planned, coordinated manner. In some instances, it will be possible to upgrade a neighborhood through the rehabilitation of scattered units; in other cases, a concentrated approach will be necessary to upgrade the neighborhood.

We recommend that rehab programs (which we later call neighborhood preservation and revitalization programs) be used as means of arresting and correcting light and moderate forms of blight and deterioration. Rehab has a place in treating heavily blighted areas, but its role in such areas is simply that of one of a number of programs that need to be used. The use of rehab programs as basically a preventive device requires that they be used only in areas where their tools are adequate to the conditions. Faced with the expense, unpopularity, and difficulty of using urban renewal, local officials frequently have attempted to "do something" for slum

areas by treating them with such programs as the concentrated code enforcement program (CCEP) or with other forms of rehabilitation not accompanied by a neighborhoodwide program of improvements. Such uses of rehab are doubly wasteful: They are not capable of creating lasting improvement in badly deteriorated slum areas, and areas that could be substantially helped by a rehabilitation program are deprived of its benefits. Although we appreciate the well-motivated concern to improve slum conditions, and although we understand the political pressure to "do something," rehabilitation programs must be used in a disciplined, judicious manner. At the same time, it is necessary to have programs capable of dealing effectively with badly deteriorated neighborhoods. Such areas obviously need and deserve large-scale programs, and, furthermore, unless such programs are used, it will be virtually impossible to prevent such light and early treatment programs as rehab from being used inappropriately. As long as the misuse of rehab continues, rehabilitation will be criticized and misunderstood. Far more importantly, the nation will allow sound housing and good neighborhoods to deteriorate unnecessarily.

Rehab and the National Housing Goals

A Decent Home and a Suitable Living Environment

It can be argued whether rehabilitation is a housing production program or not. In the most elementary sense, rehabilitation is not a housing production program because, by definition, it does not physically produce any housing units. On the other hand, it can well be argued that the upgrading of a substandard unit returns it to the supply of standard housing units and thereby reduces the need for new housing units. It also can be argued that the retrieval through rehabilitation of a unit that had nearly, or had already, dropped out of the housing supply is tantamount to the creation of a new housing unit (and, as the Arthur D. Little reports on Project Rehab note, the cost may be as high as that needed to produce a new unit). The national housing goal, however, is directed at both good units and good environments. It seems to us that there is little point in debating whether or not rehabilitation should be considered as housing production. It is very much to the point to consider whether rehab programs are designed and used to achieve both of the elements of the national housing goals. This issue was addressed (with respect to all Federal housing programs, not just rehab) well and directly by the President's *Fourth Annual Report on National Housing Goals,* which we quote (without passing judgment on the expressed optimism about the Nation's ability to reach the 26 million housing unit goal):

> It would be fortunate indeed if the nation's housing problems could be fully understood in terms of demographic and economic analysis, and could be reduced to a relatively simple housing needs/housing production equation. The fact that the nation has the productive capacity to reach the 26 million goal is no longer a serious question. The present high level of housing production has placed the nation comfortably ahead on the goal path. *The real question is whether a strategy which focuses narrowly on housing production alone will bring the nation to the qualitative goal of a "decent home and a suitable living environment for every American family."* (Emphasis added.)

The President's report goes on to say that, "It is unrealistic to expect neat answers to emerge from the ferment over housing policy and programs"; the report urges that the search for new solutions continue, and adds, "We should seek, however, to assess what has been learned and to draw some broad conclusions about the future direction of housing policy."

We fully concur in that view. One of the conclusions which we believe can be drawn at this time is that the answer to the question the report poses—Can housing production alone achieve the qualitative goal of a suitable living environment?—is "no," except possibly in areas where the great majority of residents have at least middle incomes. On a national basis, housing production might be sufficient if all persons had adequate incomes. Good housing and good neighborhoods might or might not drive out the bad ones, but at least one would have the assurance that, in relation to other uses of income, families were choosing housing and neighborhoods in accordance with the value they placed on those aspects of life. Even though the premise is certainly not the case, the argument is not entirely academic because there are numerous neighborhoods in which virtually all families do have adequate incomes. In such neighborhoods, good housing and general affluence are usually sufficient to create a good living environment. As later discussion indicates, we do not minimize the importance of maintaining those areas, and if conditions are such that private motivation and private financing are insufficient to do the job, then public resources should be applied.

The President's report notes that the housing problem is composed of a complex set of is-

sues. After noting that the first level of the report's discussion would deal with specific housing programs, and the second level of discussion would deal with housing strategies, the report states:

> At the third level of discussion—housing policies in a total community context—the issues involve a broad range of social, economic, and environmental concerns. These concerns are sometimes lumped together as a "housing problem," but in reality they involve questions which are far more complex.

In discussing the third level—"the place of housing policy and programs in relation to the entire range of policies and programs bearing on the growth and development of the nation's metropolitan and rural communities"—the report states:

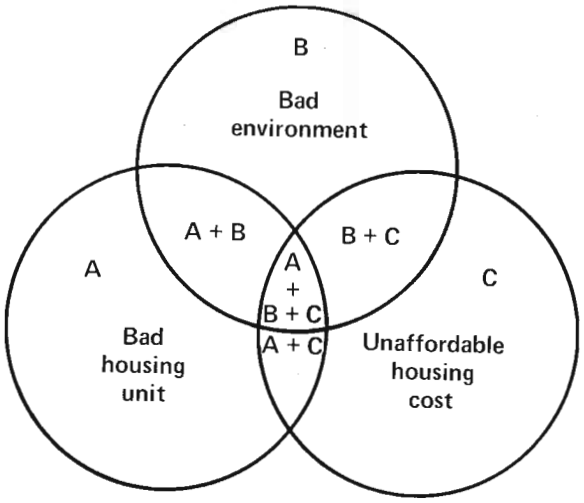
> The significance of this discussion is that housing policy is breaking out of its traditional mold of demographic and economic analysis which yields a quantitative production goal, but does not address the "suitable environment" component of the national housing goal.
>
> *Historically, federal housing programs have been structured by statute without sufficient regard to their impact on the physical and social environment of the communities in which they operate.* (Emphasis added.) Instead, the programs were structured to facilitate the construction or transfer of a particular house, apartment, or subdivision by providing mortgage insurance and/or subsidy. Thus, the federal housing agency's concern typically stopped at the lot line of the particular property under review.
>
> This narrowness of program concern has had a number of consequences which are becoming increasingly clear. Because of the cumulative impact of many ad hoc actions, federal housing programs over the years have contributed to rapid suburbanization and unplanned urban sprawl, to growing residential separation of the races, and to the concentration of the poor and minorities in decaying central cities. While housing programs have *contributed* to these problems and in many cases intensified them, it is important to emphasize that they did not *cause* them. The causes stem from the complex interaction of population migration, community attitudes and prejudices, consumer preferences, local governmental fragmentation, and the impact of other federal programs such as urban renewal and the highway programs.

The Unwritten Third National Goal

The national housing goals have a third key component that is implicit in the Federal housing legislation of several decades: that good housing in good environments be available to every American family at a cost that it can afford.

Thus the mission of the Department of Housing and Urban Development is to deal with a problem that has three distinct major parts: providing an adequate number of standard housing units; providing those units in suitable living environments; and assuring that lack of income is not a barrier to the attainment of a decent home in a suitable living environment for any American family.

The three problems to which the national housing goals are directed—substandard units, bad environments, and unaffordable housing cost—exist not only separately but also in combination, as the diagram illustrates.



As the diagram shows, seven basic types of "housing" problems are possible:

- A—Bad housing unit
- B—Bad environment
- C—Unaffordable housing cost
- A+B—Bad housing unit and bad environment
- A+C—Bad housing unit and unaffordable housing cost
- B+C—Bad environment and unaffordable housing cost
- A+B+C—Bad housing unit, bad environment, and unaffordable housing cost

The diagram oversimplifies the problem tremendously, of course. (The category "bad housing unit" includes units that have relatively little wrong with them and those that are unfit for human habitation; there is no definition of "bad environment," nor does the diagram take into account differences of degree among bad environments. With respect to "unaffordable housing cost," some might believe the economic problem is better viewed as inadequate income of certain families rather than as a characteristic of the housing unit.) However, the diagram is helpful in that it illustrates the three basic elements of the

problem.[1] We could not agree more fully with the statement above to the effect that Federal housing programs are structured without adequate consideration for the physical and social environments of the communities in which they are implemented. Equally important, they are not structured with adequate consideration to the economic conditions of the Nation's cities and towns, or the economic need of the Nation's lower and moderate income families.

In principle, we see no reason why rehabilitation programs cannot be used to deal with all three problems. As a practical matter, we see many reasons why rehab cannot often be used effectively to achieve the three goals, given the limitations, particularly financial, that have prevailed and are likely to continue to prevail in the subsidized housing field in general, and with respect to rehabilitation in particular.

The next chapter is devoted to an examination of experience with housing rehab under Federal programs during recent years. Given the particular focus of this paper on the issue of whether rehab should be carried out on a concentrated or on a scattered basis, the majority of the chapter is devoted to material relating to that topic.

The case histories, studies, and evaluation reports on Federal rehab programs which are cited in the following chapter are not, on the surface, encouraging about the value of rehab. We urge the reader to understand that the materials have been selected for the purpose of highlighting the problems of rehab programs. Our review of these materials causes us to be highly optimistic that the inadequacies, both statutory and administrative, of the Federal rehab programs can be corrected.

Neighborhood Selection: The Key to Successful Rehab

The Primacy of Neighborhood Over Housing Unit

One of the most fundamental points on which we base our view of the use of housing rehabilitation programs is that the overall quality of life, as well as property values, is more closely tied to general neighborhood conditions than to the condition of the housing unit in which a person or family lives. It is, in general, neighborhoods—not housing units—which attract people and, most importantly, which they later decide to leave. There are, to be sure, families which make intraneighborhood moves in order to find a more suitable housing unit—e.g., a larger one. It seems apparent, however, that most moves are made on an interneighborhood basis and, although such moves may be partially motivated by a desire for a different size or type of housing unit, we believe that in most cases such moves stem from a desire to change one's overall neighborhood environment or condition. Such moves may be positively motivated—the desire to "upgrade" one's condition by living in a more expensive or prestigious community; or they may be negatively motivated—the desire to get away from deteriorating physical or social neighborhood conditions. In the latter case, improvement in the family's housing unit not accompanied by general improvement throughout the neighborhood will rarely be a sufficient incentive to retain the family in the neighborhood. It could well be argued that it is property values that determine neighborhood conditions and that what we have here is a chicken-and-egg proposition. We agree that it is essentially a chicken-and-egg situation; neighborhood conditions and housing conditions *are* inextricably tied together. It is precisely for this reason that we maintain that it is relatively fruitless to attempt to improve one aspect of the problem—the condition of housing units—without at the same time dealing with the other aspect—overall neighborhood environment.

We are pleased to note that this basic view is shared by the Administration. The President's *Fourth Annual Report on National Housing Goals* made the following statement:

> Under normal use, and with proper maintenance, a residential structure can last several generations, limited only by changes in taste and the cost of modernization. *However, no matter how well maintained an individual housing unit or residential structure may be, the surrounding environment ultimately becomes decisive on the continued usefulness and quality of the housing services provided by the structure.* (Emphasis added.)

Improper Areas of Implementation Prevalent in Recent Rehab Efforts

Rehabilitation programs involving both light and heavy (or gut) levels of rehabilitation have been criticized for their inadequate selection of neighborhoods. During 1970 and 1971, Arthur D.

[1] A special, fourth element should be noted, and that is that all persons must have full access to the good housing in the good environments. Various kinds of discrimination limit or prohibit some families from securing such living accommodations even when the family has an adequate income. Racial, religious, and ethnic discrimination may be the most widespread forms, but other persons are discriminated against on such grounds as sex, family size, family composition, (legal) occupations, (legal) source of income, personal appearance, and marital status. Not all of these types of discrimination are prohibited by Federal fair housing laws and regulations.

Little, Inc. (ADL), conducted, under contract to the Department, an extensive program of monitoring and evaluation of HUD's Project Rehab [2] program. ADL's reports constitute a major and valuable addition to our knowledge about rehabilitation. Although the reports have certain limitations when applied to the entire, broad field of rehabilitation, the reports frequently mention the questionable neighborhood selection policies and the lack of selection policies. As one of the "disappointments" of Project Rehab, the ADL report states:

> Many sponsors and HUD office personnel have failed to develop a strategy for rehabilitation which takes into account the condition of inner-city neighborhoods, operating problems, city planning objectives, income, tenants, or the needs of lower income families.[3]

This finding led to one of ADL's "major recommendations," namely: "HUD as well as sponsors should be much more concerned about neighborhood selection and the rehabilitation strategy employed." [4]

In discussing long term rehabilitation strategy, the ADL report states:

> The strategy of rehabilitating scattered single buildings that exists in many Project Rehab cities may be desirable if the surrounding area is sound or in the process of being upgraded. On the other hand, such a strategy in declining inner-city neighborhoods will ultimately lead to social and economically unsound situations. Without general neighborhood renewal and the improvement of facilities and services, single-building or small-scale projects will soon be engulfed by the surrounding decay and problems of poverty. The rehabilitation of a structure or even a block of property may not be enough to stimulate other owners to fix up their buildings or the city to improve services. Many neighborhoods have declined to the point where there is no longer any social fabric and massive disinvestment is occurring. Rehabilitated buildings in such areas cannot sustain themselves over time.
>
> Therefore, greater emphasis ought to be placed on relating rehabilitation to the renewal process. Initially, rehabilitation was conceived of as a tool for upgrading residential properties based on an overall plan and with federal financial assistance for public improvements and land assembly. As the renewal process became involved in delays and complex procedures, and because of the difficulties of coordinating renewal and FHA programs, the two processes—renewal and rehabilitation—have been rarely coordinated successfully. The enactment of the Section 312 and 115 grant programs in the Housing Act of 1964 further discouraged joint efforts.
>
> Project Rehab was supposed to encourage coordination with renewal programs, but this has not occurred. To result in any long-term effect and to sustain itself, it is clear that rehabilitation should be carried out on a larger scale than has been normally attempted and that there are many advantages to rehabilitation's being carried out as part of an overall neighborhood renewal process.
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> The location and concentration of rehabilitation needs to be more closely related to an overall housing strategy by the Department. There are general trends toward central city depopulation and abandonment in many cities. Many neighborhoods are no longer desirable for any income group and they have lost all vitality. Rather than attempt to rehabilitate such areas, it may be more sensible to convert the areas to other nonresidential uses. Unless an area has basic elements of strength, rehabilitation is not appropriate. At a minimum, an area should be judged to have some recognizable stability, identity, locational advantage and character, and the buildings should be of sufficient structural quality and adaptability to justify rehabilitation. Investment in many inner-city areas is probably unwise from both a monetary and social point of view.[5]

An appendix to the *Report Overview* discusses ADL's findings and recommendations at some length. The following selected statements come from the section of the appendix which reports the findings and recommendations on the subject of neighborhood and building selection.

> Key elements of a successful rehabilitation program are the neighborhood and buildings which are selected for rehabilitation.
>
> It seems clear that a successful large-scale rehabilitation project should be undertaken in a neighborhood that has some permanent strength and is capable of maintaining or improving itself over time as a result of Project Rehab.
>
> Generally, most Project Rehab cities do not have a rehab strategy and do not select buildings or neighborhoods systematically. Selection relates more to identifying buildings that are financially feasible to rehabilitate rather than choosing a neighborhood which is particularly suitable or developing a set of rehabilitation objectives. Few sponsors have undertaken surveys or investigated what areas are most sensible.
>
> In most cities, program activity is not concentrated to an effective degree. Only in a few cities is there any meaningful, concerted rehabilitation program. *Because of the lack of focus, many projects will continue to be surrounded by blight, and it is questionable whether the completed buildings can be maintained in such environments.* (Emphasis added.) Greater concentration might stimulate the revival of the surrounding neighborhood, but most rehab efforts are really composed of a number of buildings or houses scattered throughout a neighborhood or, in some cases, throughout the city.
>
> With single-family units rehabbed on a scattered basis, the surrounding area may not be affected by the improve-

[2] Project Rehab was a special and a particular kind of rehab effort; it carried a relatively heavy level of subsidy; many of the programs were conducted in badly deteriorated inner-city areas; local government was to play a special role; relocation services were to be provided regardless of whether or not the rehab was conducted in a Federal program area; Project Rehab projects were to receive expedited handling by FHA, and Project Rehab was to have special emphasis on minority training and hiring programs and the use of minority contractors and subcontractors. For these and other reasons, the findings about the Project Rehab experience are not necessarily applicable to other rehab programs that employ a lighter level of building treatment and subsidy, which operate in less deteriorated areas and which differ from Project Rehab in other respects.

[3] Arthur D. Little, Inc., *Project Rehab Monitoring Report Overview*, "Report to U.S. Department of Housing and Urban Development," HUD-F-22, Washington, D.C., May 1971, p. 24.

[4] Arthur D. Little, Inc., op. cit., p. 30.

[5] Arthur D. Little, Inc., op. cit., pp. 40–41.

ments. In instances where this is true, opportunities for home ownership may be questionable.[6]

As mentioned above, similar criticisms have been directed to light rehabilitation efforts. The Comptroller General's June 1972 report to the Congress, entitled *Enforcement of Housing Codes: How It Can Help To Achieve Nation's Housing Goal,* dealt with the section 312 and 115 program, known both as CCEP (concentrated code enforcement program), and FACE (federally assisted code enforcement). The GAO report is a harsh one, but although we agree with HUD that the 312/115 program is an important and worthwhile program, and although we are sympathetic to the problems of any program administrator who must deal with a major problem with inadequate tools, it appears clear that there are many instances in which the program has been applied in unsuitable neighborhoods. The GAO report stated:

> HUD frequently approved projects in areas where housing was too deteriorated for code enforcement to work. Our review of 10 projects in two HUD regions showed that three were in areas appropriate for code enforcement and seven were in areas obviously more appropriate for rehabilitation or redevelopment. These seven represented a cost to the Federal Government of $13.5 million.
>
> Although HUD had evidence that extensive deterioration existed in proposed project areas, it approved projects for inappropriate areas because its criteria for selecting areas were inadequate. The extent of deterioration in some project areas selected by the cities and approved by HUD and the low incomes of the property owners precluded successful completion of the projects.
>
> HUD officials told us that it was difficult to accept the concept of preventing housing deterioration by code enforcement when slum conditions were extensive and only limited funds were available for all HUD urban renewal programs. They said that insufficient resources had forced HUD to establish priorities and that those areas demonstrating more urgent needs—rehabilitation or redevelopment —had received top priority.
>
> HUD officials told us also that there was a tendency on the part of cities to use code enforcement grants instead of more extensive urban renewal programs. One of the reasons for this was the adverse reaction of citizens toward rehabilitation and redevelopment. As a result, even when those programs were appropriate, area residents often rejected them. Code enforcement was more attractive to cities because it was less costly and required less red tape than rehabilitation or development.
>
> Although these problems exist, we do not believe that they justify using code enforcement in inappropriate areas.[7]

We believe that the 312/115 program is basically an essential tool to cope effectively with the problem of maintaining sound housing and good neighborhoods. We cite the GAO finding (and the examples which follow) primarily to illustrate that a good program has good effects only if it is applied in a neighborhood in which its tools and resources are adequate to deal with the problems that exist in the particular area.

It is important to note that the GAO report takes the same view. In no instance does the report question the essential worth of the program; the major point which the report repeatedly makes is that code enforcement is primarily a slum prevention tool, that it should be used in basically sound areas to eliminate the first stages of blight, and that it is not suited to areas that require more extensive treatment, such as renewal.

The GAO report based its findings on an examination of a number of specific CCEP projects. The study found that, although it was HUD's policy to require that code enforcement be used only in basically sound areas, HUD's criteria for selecting appropriate criteria were inadequate, that the criteria were not adequately applied, and that local governments often wanted to use code enforcement inappropriately.

The report drew examples from four of the seven projects that were found to have used code enforcement in inappropriate areas. The four projects were located in Mansfield, Ohio; Chicago, Ill.; Hamilton County, Ohio; and St. Louis, Mo. Below are excerpts from the GAO report.

> **Mansfield:** HUD closed out the Mansfield project in December 1971, realizing that it had failed.
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> Mansfield's initial application of December 1965 was rejected by the Chicago Regional Office because, among other things, regional planners felt that the area was not suitable for code enforcement. A large portion of the project area was considered by the planners to require major rehabilitation and clearance because the buildings had deteriorated beyond the point where code enforcement alone could arrest the deterioration of the area.
>
> Nevertheless, HUD Headquarters approved a second Mansfield application for the same area 7 months later, upon recommendation from the Chicago Regional Office.
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> The regional office's position differed not only from the comments of HUD planners but also from the finding, in a 1963 Mansfield housing study, that at least half the area required a program of rehabilitation involving some clearance. This study reported that part of the area contained a high percentage of substandard dwellings and that corrective measures must include the removal of many of the structures.
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> HUD's decision to approve this project was subsequently recognized as a mistake.
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> In March 1972 we met with city officials to discuss our report. The Mansfield officials agreed that the project area was inappropriate and should have been an urban renewal area. They said, however, that, although program objectives

[6] Arthur D. Little, Inc., op. cit., pp. 156–159.

[7] United States General Accounting Office, *Enforcement of Housing Codes: How It Can Help to Achieve Nation's Housing Goal,* "Report to the Congress by the Comptroller General of the United States," Washington, D.C., June 26, 1972, p. 27.

were not met, a great deal of good was accomplished for individual area residents. Their goal for the project was to do what they could to make living conditions better.[8]

Chicago: Chicago's code enforcement project, encompassing 33,000 buildings in 10 separate areas, was aimed at bringing all buildings into compliance with housing codes within 3 years; i.e., by July 1969.

In January 1970, more than 3 years after the project was approved, three areas were eliminated from the project because they were too deteriorated for code enforcement objectives to be achieved. In these areas 82 percent of the buildings reported to have code violations were not brought into compliance with Chicago's housing code. A fourth area was eliminated because of opposition to the project by residents of the area. Parts of other areas were eliminated because of extensive deterioration.[9]

Hamilton County: This project was an attempt to upgrade a seriously deteriorated area. HUD officials told us that the area's qualifications for code enforcement were marginal.

Before the project was approved in May 1969, HUD officials visited Hamilton County and reported that:

"A code enforcement project in this area would be fraught with problems. There are approximately 50 structures (18 percent of the structures in the area) which are so dilapidated that they have to be demolished which could be a hardship to at least some of the owner-occupants.

. . . . . .

"In our prior inspection . . . we found 65 (23 percent of the structures in the area) or more severely substandard buildings . . . . I concur in the former findings in that between sixty and seventy buildings are so dilapidated or substandard that code enforcement will not restore them to a condition which will arrest the decline of the area."

The finding that 18 to 23 percent of the structures needed to be demolished conflicted with HUD's criteria, which stated that code enforcement projects should not be approved if the properties to be demolished exceeded 2 to 5 percent of the total structures in the area.

During our inspection of the project area, we noted that extensive work had been done on some homes, some new houses had been constructed, but the area as a whole contained significant blight, such as large numbers of dilapidated houses and littered vacant lots.

HUD officials told us that minimum code standards would not be achieved throughout the area and that their immediate goal was to bring housing in marginal areas up to acceptable living standards. In our opinion, code enforcement for Hamilton County was inappropriate. More extensive urban renewal treatment was needed and would be required in the future.[10]

St. Louis: At June 30, 1970, when the St. Louis project was terminated, only 71 percent of the properties were reported to be in compliance with codes. St. Louis was not able to achieve the project objectives of bringing all properties into compliance within 3 years because the city had selected and HUD had approved inappropriate areas. In our opinion, an adequate study of the area had not been made.

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City officials said that, had they realized the seriousness of deterioration in the area, they would not have selected it for a code enforcement project.[11]

[8] United States General Accounting Office, op. cit., pp. 29–31.

[9] United States General Accounting Office, op. cit., p. 34.

[10] United States General Accounting Office, op. cit., pp. 35–36.

[11] United States General Accounting Office, op. cit., p. 37.

The significance of GAO's findings, for the purpose of this discussion, is not that city and HUD officials failed to make adequate reviews of the areas selected for the CCEP program, but that the areas were not suitable for CCEP treatment. There are, however, two ways of viewing the situation, and each is valid for a particular purpose. The first view is concerned with how a given program was actually used, the benefits it produced, and the extent to which it accomplished its objectives. That examination may lead to altering implementation practices. The second view examines the problems that require solution and assesses the capability of the programs to deal effectively with them. This examination may lead to altering the program itself, rather than the way in which the existing program is used.

In the former instance, GAO or anyone else examining the record of the CCEP program must regard the program as a given and proceed to evaluate how effectively it has been used. Under this approach, it is clear that neighborhoods should have been selected in accordance with the capabilities of the program. That is the approach that GAO took and it resulted, predictably and appropriately, in recommendations to improve the implementation practices for the existing program. The report did not make any recommendations about changing the capabilities of the program or establishing new programs to deal with problems and neighborhoods not suitable for treatment by a CCEP project.

The second view of the situation focuses on the fact that the existing program tools are adequate only for certain neighborhoods and that, by implication, they are inadequate for other neighborhoods. In this view, neighborhoods are the independent variable and the program tools are the dependent variable. After all, it is the neighborhoods which exist: They are there, all over the country, with their various problems and deficiencies. It is the responsibility of HUD, the Congress, as well as local governments, to design tools that are shaped to the problems that exist. The failure to have done so is, for the purpose of this paper, the major problem, rather than the inappropriate use of the program tools that did exist.

Both the ADL and the GAO reports stress the point that the rehabilitation efforts that were studied either should have been coordinated with renewal efforts or that a renewal program should have been used rather than a rehab program. There is nothing magical, however, about "renewal." Whereas the rehabilitation of housing is just one tool, renewal is a set of tools that en-

dows that program with a variety of capabilities, including demolition, land acquisition and assembly, new construction, and others that make it a broader and more capable program than rehabilitation. When GAO (or anyone else) states that a particular area required urban renewal treatment instead of rehabilitation, the statement really means, in essence, that certain other programs were needed in the area in addition to the rehabilitation of the housing units (and whatever other improvements may have been made).

The following chapter deals with the design of new rehabilitation programs, ones that would have far broader capabilities than those that currently exist.

Designing Rehab Programs for Neighborhood Upgrading

The preceding chapter leads rather directly to two conclusions: (1) Housing rehabilitation, if unaccompanied by other neighborhood upgrading programs, should be conducted only in neighborhoods in which no other improvements are needed or in which the rehab by itself will be sufficient to generate the other improvements that are necessary, and (2) in neighborhoods that need improvements in addition to housing rehab and beyond those which the rehab will generate, rehabilitation should be conducted only if accompanied by programs that will achieve the other improvements. These conclusions are premised on the conviction that rehab programs should be designed and implemented on an objective-oriented basis and that the objective should be the upgrading of the whole neighborhood and not just the improvement of housing units. Viewed in this way, the "concentrated vs. scattered" question relates to the impact that the program will have, rather than the question of whether the units themselves are geographically concentrated. In one area, the rehab of units scattered throughout the neighborhood can have an important upgrading effect on the neighborhood—an example of concentrated impact. In other areas, the rehab of units concentrated in one location may have only a minimal upgrading effect on the neighborhood—an example of scattered impact.

In the ideal system, the total set of programs would be capable of treating any neighborhood. In the more severely deteriorated neighborhoods, however, only limited rehabilitation is feasible because of building age and condition and other reasons, and rehabilitation represents only a small portion of the total treatment that is called for. Because of the relatively small role of rehabilitation in the programs to treat such areas, they should not be considered or labeled rehabilitation programs. If, for simplicity's sake, neighborhoods can be divided into four categories of condition—light deterioration, moderate deterioration, major deterioration, and severe deterioration—it would be generally appropriate to consider rehabilitation programs as suitable treatments for the first two. Even though the nonhousing improvements in most cases, would represent a greater dollar cost than the housing improvements, in such neighborhoods rehabilitation of the existing housing would be the key to the program. In the more heavily deteriorated areas, however, the rehab of the existing housing would not be the key to the neighborhood treatment program, although it would in most cases be an important component of the program. In essence, the distinction is being made between neighborhood upgrading projects in which the existing physical characteristics are preserved, and neighborhood redevelopment or renewal projects in which major changes in the physical characteristics are made. To apply somewhat artificial terminology, the following program labels might be considered as means of distinguishing the four kinds of neighborhoods and the treatment programs they require:

Neighborhood Condition	Treatment Program
Light deterioration	Neighborhood preservation
Major deterioration	Neighborhood renewal
Severe deterioration	Neighborhood redevelopment

The balance of this paper will deal only with preservation and revitalization programs. We do not mean to imply that it is less important to meet the needs of the more heavily blighted areas; indeed, the very great problems of those areas and their residents make it more compelling from a moral, if not a political, standpoint to improve those areas. Discussion of programs for those areas is being excluded simply on the grounds that the needed programs are not rehab programs although the rehabilitation of some housing units would be part of those treatments.

At the same time we note the great needs of heavily blighted areas, one must also recognize the equal importance of having programs to treat

the early stages of blight to prevent basically sound neighborhoods from deteriorating into slums and to revitalize neighborhoods that have already reached a moderate level of blight and deterioration.

The design of neighborhood preservation and revitalization programs requires that they have the capability to deal with the three components of the national housing goals; namely, (1) the condition of the housing units, (2) the condition of the neighborhood environment, and (3) the relationship between housing cost and the incomes of the residents and/or prospective residents. If the programs are to be capable of dealing with a variety of neighborhood conditions they must have an array of flexible tools which are able to deal with a number of different conditions, and combinations of conditions, affecting the housing units, general neighborhood conditions, and the cost of the housing.

The broadly capable programs which we envision would be capable of treating, as needed and as desirable, a variety of housing types and conditions; they would be able to provide varying degrees of subsidy so that housing opportunities could be provided for different portions of the market, and they would be able to treat other aspects—particularly physical ones—of the neighborhood environment. HUD's current programs cannot meet these criteria, or can do so to only a very limited extent. For example, the section 235 program offers fairly heavy subsidies and is primarily aimed at a very narrow segment of the market; it is a single family structure program, and it is primarily useful for extensive rehab—a combination of factors which makes it a very narrow program. Similarly, the section 312/115 program is narrow because although it can be used for both single and multifamily buildings, it offers limited subsidies, and can be used for only limited treatment of buildings. The same narrowness with respect to building type, and/or extent of building treatment possible, and/or level of subsidy is true of all the Department's rehab programs. Furthermore, few of the programs include any capability to address other neighborhood problems.

In principle, the Department could assist localities in mounting a broad, flexible rehab program in either of two ways: (1) a combination of a number of narrow categorical programs in various proportions to suit particular neighborhood conditions, or (2) a few broad programs with multiple capabilities. For administrative reasons at both the Federal and local levels, the latter alternative is far preferable. Such a set of programs (each with the capacity to deal with all three aspects of the problem) would help to institutionalize the concept and practice of fitting a program to a given set of neighborhood conditions. The same objective also could be achieved through administrative guidelines and techniques. It would be the multifaceted nature of the programs, however, that would be an even greater force for the tailoring of programs to conditions.

Given broad, flexible programs it would be possible, for example, to provide a moderate level of rehabilitation to single family homes and a heavy level of rehab to the multifamily structures in a particular area, and to provide heavy subsidies to half of the single family structures, minimal or no subsidies to some of the multifamily units, and no subsidy to the balance of the multifamily units.

The creation and use of multifaceted programs would enable local officials to custom tailor programs to each neighborhood selected for rehab and upgrading treatment, and, of course, such tailoring should be required. It could be argued that, if local and Federal officials had difficulty in the past in applying narrow programs involving only a few variables, the task of custom tailoring a program with many variables would be insurmountable. We do not believe that this would be the case, because of the reasons cited above and because the programs would be capable of providing comprehensive treatment to a great variety of neighborhoods. Using the type of programs here proposed, local and Federal officials would virtually be forced to decide how heavily to treat various types of the existing housing, and which units should be subsidized for occupancy by low, moderate, and middle income families. It is certainly possible that in applying the programs local and Federal officials would not do a good tailoring job; they might decide on a level of rehab that was inadequately light or unnecessarily extensive; they might fail to take advantage of opportunities to make housing available in good neighborhoods for low income families, or they might provide too much (with respect to the capacity of the neighborhood to absorb it) low income housing in certain areas. These are potential problems of program implementation, however, and not defects in the design of the programs. Furthermore, such problems will exist in any program; there is no way to insure that reliable data will be available and will be correctly analyzed, that political factors will not modify or outweigh professional judgments, and so forth.

The types of neighborhood environment problems with which preservation and revitalization programs (P&RP's) should be designed to deal is a complex question with two major aspects, physical conditions and social conditions. In each case, a distinction needs to be made between the role of HUD (through the design of the program), and the role and involvement of the local government and other parties, including other Federal departments, private agencies, and others. A third, closely related issue concerns what we might call add-on social goals—for example, the inclusion of a job training program as part of a rehab effort. Although such add-ons are often designed to treat a neighborhood's social condition, it is useful to distinguish them from the larger category of programs used to improve social conditions.

With respect to physical conditions, P&RP's should be designed to be able to deal with a great variety of conditions. The potential applications should be almost limitless in kind, although not in quantity. (One would have to say that any area that needed a great many of the possible aids discussed below would not be a likely candidate for a preservation or revitalization program, but would be more suited to a heavier kind of treatment.) That is, one area may need park and playground development; another, a community center; a third, a rodent control program; a fourth, rerouting of heavy traffic; a fifth, a street lighting program; a sixth, a new neighborhood shopping area; a seventh, street, alley, curb, and sidewalk improvements; an eighth, selective clearance of eyesores and hazards, etc.

Other potential neighborhood improvements which P&RP's should be able to effect would include the provision of public parking, minor convenience improvements such as benches for bus stops and covered bus stops, attractively decorated trash cans; the beautification and maintenance of public areas, including plantings, spraying, and mowing; special amenities and facilities for children, the elderly, and the handicapped, such as ramps and protected street crossings, as well as more major facilities in some circumstances.

Certainly, some limitations have to be made on the possible types of nonhousing conditions with which the program can deal, but the principle involved is that the more uses that are disallowed, the fewer the potentially revitalizable and preservable neighborhoods the program will be able to deal with.

Even the brief list above is sufficient to point up the problem of determining the appropriate role of HUD and the program itself versus the role of the local government and other agencies. The limitations on this paper preclude our further delineating which roles would be appropriate for HUD to assume and which roles would be inappropriate. Two additional points can be made, however. First, almost no matter what the scope of Federal aid that is provided, it will be necessary and desirable for local government to make additional contributions to the program and to devote some measure of special attention to the neighborhood, not only during the implementation phase, but also (and perhaps even more importantly) following the closeout of the program. Second, if it is determined that a certain improvement—the relocation of an arterial road, for example—that is judged to be necessary to preserve or revitalize the neighborhood is beyond the scope of the program and the local government, then the preservation/revitalization program should not be undertaken. More simply stated, if the program cannot reasonably be expected to achieve those improvements that are necessary to preserve or revitalize the neighborhood, then it should not be undertaken in the first place. The principle may sound absurdly simple, but its implementation is quite difficult for several reasons. We have noted previously the tendency, particularly on the part of local officials, to "do something" for the worst areas, and we have made our position clear that the application of rehab programs to areas that need far more substantial treatment is both futile and wasteful of scarce resources that could be effectively used elsewhere.

In areas where a preservation or revitalization program generally appears to be feasible, goals and strategies to achieve it must be set in accordance with the local jurisdiction's plans for its neighborhoods and its housing stock. Not every neighborhood and housing unit need be returned to "like new" condition with a 40-year useful life; shorter periods of serviceability may be desirable in some neighborhoods. A community clearly in the path of institutional expansion, for example, might be suited to preservation for a somewhat shorter period. Once the goals are established for a neighborhood, a second set of difficult decisions must be made to design the neighborhood-specific program to achieve the goals that have been set. What level of housing rehab should be undertaken? Is traffic rerouting necessary? Are redeveloped or additional parks necessary? These questions, and many others similar to them, are the kinds that have to be decided in order to determine whether the program

has the capacity, and can reasonably be expected, to achieve the goals that have been set for the neighborhood.

With respect to social conditions, a somewhat different set of issues is involved, partly because the Department's capacity in this field is limited, and partly because improvements in most social conditions and social services are not essential to a successful neighborhood revitalization or preservation program. P&R programs should be able to assist in the development of physical facilities related to social services, such as community centers, health clinics, and recreation facilities, but the Department is not in the business of operating such programs, with certain exceptions, such as homeownership counseling. The responsibility for operating most social service programs is, and should remain, that of local government with the assistance, in some cases, of Federal aid from other departments and agencies. If a particular social program were judged to be essential to the success of a preservation or revitalization program, it also holds, as in the case of a necessary physical improvement, that the preservation or revitalization program should not be undertaken unless and until the needed social program could be implemented. Such situations are not likely, however, with the possible exception of improved public safety conditions. In general, we must counsel against the tendency to attempt to do too much. In designing or undertaking P&R programs there would be an understandable and laudable temptation to want to deal with all of the physical and social problems of the community. A totally comprehensive approach may be feasible at the local level, but, given the structure of the Federal Government and the form of Federal aid, HUD P&R programs should be largely confined to the physical aspects of the community. Because of the problems imposed by the existing Federal structure, one must be careful not to attempt to do so many good things that very little is accomplished. This view may sound callous or insensitive to human and social needs, but it is based on what we believe is a realistic appraisal of the difficulties we have observed in recent rehab programs' attempts to secure just one other Federal aid—manpower training programs—in coordination with the rehab undertaking. These observations make one very wary of imposing requirements that physical rehabilitation programs be tied to social service programs. It would be wonderful if there were smoothly working procedures that would enable P&R programs to be implemented along with health, job training, education, and other social service programs, where needed, but such procedures do not exist and the attempt to require that they be tied together would be disastrous: Some programs would be tangled in paperwork and delays, others would never get started, and residents' hopes would be raised only to be let down, to mention a few of the difficulties that would result.

Earlier in the chapter, social service programs were distinguished from what we called add-on social goals. Because a great many recent rehab programs have been undertaken in neighborhoods which abounded in social and economic problems, many of these efforts included attempts to improve neighborhood social conditions, and it would therefore seem that they fall into the category of programs to deal with neighborhood social conditions. These efforts, however, have been perceived and implemented as integral parts of the rehab program itself, rather than being viewed as companion programs to be implemented by an agency in the particular field. The distinction is important for several reasons. For one, the agencies implementing rehab programs often are not suited to implementing a related program, nor should they be expected to be. There is no reason, for example, why a housing-oriented agency should be adept at implementing manpower programs or minority entrepreneur development programs, and there is no reason to expect that they will become proficient in these fields in the future.

Even more important is the fact that the rehab programs have not been designed to conduct such programs, and they are not even particularly well suited to accommodating manpower and social service programs. Nevertheless, recent rehab efforts have been expected to achieve or work towards many of these goals. Relocation is a good example; rehab done under sections 235 and 236 does not require the provision of relocation service (unless the rehab is conducted by a public agency or in a Federal program area); yet relocation assistance often had to be provided for both social justice and local political reasons. The use of minority contractors and minority job training programs are also good examples. Many rehab projects have been expected to and have attempted to undertake such efforts, but the Federal programs under which they were conducted contained no special funds or provisions for these attempts. The attempt to secure the needed funds, often from the Department of

Labor, made the rehab program at least partially dependent upon the success of a local agency or organization in obtaining such a grant. The results have generally been that the secondary objectives have been poorly achieved and/or that achievement toward the primary objective—the rehab itself—has been slowed down and made more costly. Another ill effect has been an unnecessarily high level of disappointment and frustration on the part of neighborhood residents. The announcement that these programs—relocation, job training, and so forth—would be part of the rehab program raises expectations for the program beyond what it is designed to do.

Although we must again offer the general caution against attempting to do too much in P&R programs, we recognize that some add-on social goals, particularly relocation, should be provided. In designing P&R programs, the secondary objectives and requirements must be thoroughly sorted out to distinguish those that are required by statute, those that are required by departmental regulation and policy, and those that are necessary and/or desirable in some or all circumstances. Then, the programs should be designed to achieve those objectives by the inclusion of funds, the allowance of time, the hiring of appropriately trained staff, etc.

As noted, the President's *Fourth Annual Report on National Housing Goals* called for an assessment of what has been learned about the Nation's housing problems and the approaches being used to deal with them. In the field of rehab, we believe that enough has been learned to enable HUD and the Congress to modify existing programs and create new ones that will make rehabilitation a valuable and useful means of achieving the national housing goals.

Analysis of Neighborhood Decline in Urban Areas

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Introduction

Many programs for reform have been promulgated in efforts to stem the obvious ills infecting the cities of America; yet these programs have often been formulated in ignorance of the theories of urban change, particularly on the neighborhood level. This document is designed to examine the various hypothetical stages of urban decay and neighborhood decline, and the various theoretical materials which underlie these formulations, and to evaluate the various Federal intervention packages in light of them.

The design of this task is as follows. First we will examine various theories of neighborhood change, attempting to isolate basic processes, explicit indications of change, stages of neighborhood evolution, and key levels of decline. A practical task related to the above theoretical and empirical generalizations is the actual delineation of a neighborhood for intervention efforts. A selection approach has been provided in Appendix B. Also of importance to neighborhood change are the broader considerations of urban spatial structure. Thus Appendix A provides a discussion of the forces of location change currently in operation in America's urban formations.

With this background providing the necessary reference frame, the effect of Federal programs on neighborhood decline is evaluated. A general overview is first provided, followed by a specific inventory of programs and their interpretation within our hypothetical stages of decline. Out of this evaluation certain key guides for future efforts arise in the last section of the report.

Theories of Neighborhood Change

Introduction

This section provides a review of the various theories of neighborhood change with the objective of defining specific evolutionary stages where interventions can be made and evaluated. Providing a background for this task is an initial discussion of the broader context of neighborhood change—migration cycles, family movement patterns, and the influence of regional structure. We will then turn to the work of the human ecologists, whose efforts began at the turn of the century. For our purposes, the end result of their work was the concentric zone model of urban change, the spatial expression of their formulations of the invasion-succession dynamics buffeting Chicago during the early 20th century.

Subsequent developments were made by land economists, particularly Homer Hoyt, who synthesized the sector theory of urban growth in the 1930's. While often held in contrast to the concentric zone model, the sector theory is based on a dynamic not unlike that of the urban ecologists—these compatibilities are given full emphasis. Subsequently traced are the further research efforts carried out along the lines originally specified by Hoyt.

Implicit in both of the above models is the concept of inner zones of decay—thus a comment on "gray areas" and the terminal point is appropriate. Related to all of the above models are the efforts of Blumenfeld, who first coined the term 'tidal wave' of metropolitan expansion in describing urban growth. All of these processes and conceptualizations then become synthesized in the stages of neighborhood evolution put forth by Hoover and Vernon in the New York Region Study. A further refinement by the Public Affairs Counseling Group is then presented.

It also becomes possible throughout the examination to establish the levels at which public policy must be focused. Suggested are general thresholds which may be used to dictate the feasibility of particular approaches. In conjunction with these thresholds are the various zones and sectors of the metropolis which have different potentials for direct intervention. Thus broad considerations are set down for later use.

Based on the literature reviewed to this point, a group of potential indicators of change is continually isolated. The suggested variables

provide a base for the empirical evidence regarding indicators of change. Out of this evaluation, a series of variables with potential as valid indicators are presented. Thus the theoretical base is established from which to move into the examination of Federal programs. A general review is made before that task is begun.

The Broader Context of Neighborhood Change

Neighborhood change is not an exclusively local phenomenon, but is a general process intimately connected with forces whose origins are external to the specific situation. For example, the linkage between migration and the destiny of old neighborhoods is so well recognized that it borders on folk knowledge. The continual movement of old groups outward and new groups into the heart of the metropolis has provided a source of housing for the migrants and a market for the old structures. While some change is operative in this reality at the present time, it is mandatory that the broader context of neighborhood evolution be reviewed. We will respectively, then, make a cursory examination of the historic migration cycles, family movement patterns, influences of regional structure, and changing central city densities.

Of equal significance are the forces bounding the locational decisions of the household and economic institutions of the metropolis. In order to assist the evaluation of neighborhood change and its various paradigms, it is also desirable to review the broader aspect of urban spatial structure. Thus Appendix A will look into the more important processes which affect the locational choices of the various economic activities of the metropolis. Such elements form the bounding environment within which the functions of aging residential neighborhoods are defined and enable the effect of the shift of economic activities on the various neighborhood models to be evaluated.

The Migration Cycle: Some question exists on the current vitality of black migration from the rural South to the urban North. But what it has done is at least impact the central cities to the extent of the previous European migrations.

> Figures on earlier migrations from Europe lend dramatic historical perspective to the current migration. The great Irish and German migrations of the 1850's each brought less than one million people to the United States in a decade. Peak Jewish migrations from 1900 to World War I were at the rate of approximately one million per decade while the Italian migration of 1901–1910 reached two million, but with a considerable backflow occurring simultaneously. Thus the scale of the contemporary Negro migration exceeds that of most of the great European migrations of the past. In relation to total population, and to the housing resources of the big cities, this current migration is of course more limited in scope than the earlier ones. Nevertheless, it is one of the most striking population shifts of our time and perhaps the greatest challenge to the contemporary American City.
>
> Nor is this movement of Negroes the only migration to the cities at the present time. Net migration from Puerto Rico to the mainland was 430,000 in the 1950's and other internal migrations of rural whites to the big cities are as yet uncounted. Taken together, these vast shifts in population have created problems that most of our big cities have not had to face since the early 1900's.[1]

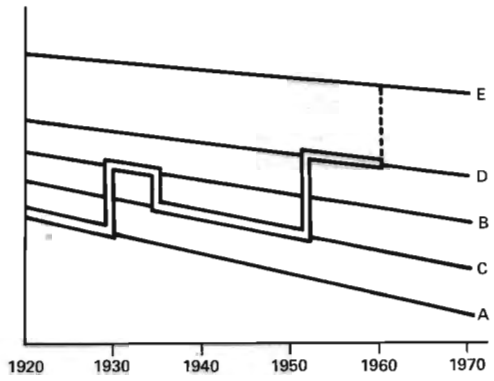
These flows into the city, particularly black and Puerto Rican expansion, have been accompanied by substantial white withdrawal. While this connection appears causal, middle class migration to the suburbs is a longstanding trend that proceeded in the absence of strong nonwhite in-migrations. Nevertheless, urban-suburban redistributions have been a corollary of the rural-urban migrations. But this has not been a singular process; in fact, family movement patterns have been quite complex.

Family Movement Patterns: Despite the widespread notions of urban-suburban movements, to an increasing extent suburbanites will be born suburbanites. Their movements throughout life will be intersuburban when viewing the Nation's population as a whole. The historical pattern still exists, however, and provides an illuminating backdrop to the examination of neighborhood cycles. Poor rural laborers, both black and white, new Puerto Rican arrivals, and immigrants now cluster in the central city because of low rents and racial/ethnic concentrations. Shifting job locations could possibly alter this situation in the future (see Appendix A). In any case, however, Birch suggests the following scenario of family movement patterns:

> The evidence suggests that, once settled in the central city, regardless of how it gets there, a family will seek a better education for its children and, more often than not, a bigger apartment in a better neighborhood. The scraps of data available reveal that the family will move several times in this search. According to census figures, slightly over half of all central-city families move at least once every 5 years, and there are many that move more than once. In a rising economy, when jobs are plentiful, the odds are better than ever that a family's income will be rising and that it will indeed be moving into a better neighborhood rather than into a worse one. Setbacks are always possible, of course. An individual family might thus have experienced the following pattern of moves:

Source: David L. Birch, *The Economic Future of City and Suburb* (New York: Committee for Economic Development, 1970) p. 22.

[1] Bernard J. Frieden, *The Future of Old Neighborhoods* (Cambridge, Mass.: The MIT Press, 1964), pp. 13–14.



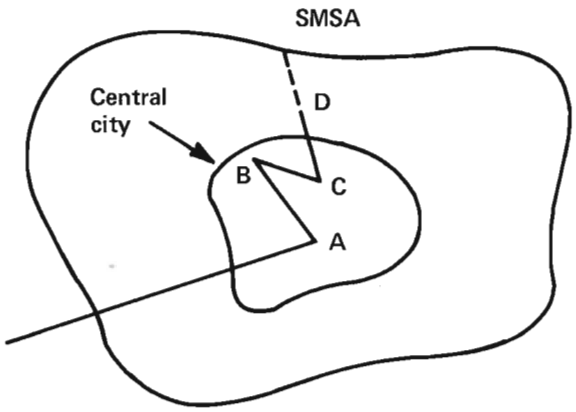
Source: David L. Birch, The Economic Future of City and Suburb (New York: Committee for Economic Development, 1970) p. 22.

In Birch's example, a family moved into neighborhood A in 1920, arriving there from a host of possible origins—a rural farm, Europe, other locations abroad, or possibly another central city. Although the neighborhood was already crowded and declining, the family lived there for 10 years. But during this period, the family's income and capital accumulation enabled them to make the move to neighborhood B at the termination of this first time period. Unfortunately, the gain turned out to be a temporary one as the Depression soon engulfed the Nation—our household was forced to move this time back to neighborhood C. The war years brought the Nation out of the Depression and our household head a better job. The eventual result was the move to neighborhood D, where the family remained until the father or the mother died. However, the children had married by this time, and had set up residence in neighborhood E, or beyond. Overall, the family has experienced substantial change but, for the most part, an economic and social upward mobility was demonstrated. More often than not this scenario was the general case.

Meanwhile, the central-city neighborhoods were decaying. Neighborhood A, at one time a nice block of apartment houses, had become a tightly packed slum by the time our family moved there in 1920. By the time the family left, the area had gone downhill still further, and more people were moving out than in. While Neighborhood A was declining, of course, so too were Neighborhoods B, C, D, and E; and, in fact, it is their decay that kept the rents down and facilitated the movement of the family into them.

This facilitating property assumes great importance when we examine where in the region the family started and where it ended. There is a good chance that the pattern might have looked as follows:

Neighborhood A was in the heart of the central city. By the time our family reached Neighborhood D, it was already a declining suburban community, and the children were thinking of moving farther still. The motivation for this out-movement is already partially in evidence. Jobs are far more plentiful, "reverse" commuting is very difficult and expensive, schools in the suburban area are generally better, and the housing tends to be in better condition.[2]



Not every family, of course, followed this path during the first half of the 20th Century, but, on the average, it is probably a valid generalization. Certainly this pattern of moves to the periphery is also strongly related to the general stages of the family life cycle.

From the time of its formation by a marriage, until shortly after its dissolution by death of one of the mates, a family tends to go through this typical sequence of changes of residential status:

1. Rental of small furnished apartment, perhaps briefly prefaced by living with parents of one mate.
2. Rental of larger unfurnished apartments, connected with changes of husband's jobs.
3. Purchase of small secondhand house, building of small equity.
4. Purchase of larger new house, often coincident with further changes of husband's jobs or income; further increase of equity.
5. Expansion of house by some remodeling; completion of payments; "settling down," often while children are in high school.
6. Sale of house longest occupied; purchase of smaller house or rental of apartment near center of city.
7. Death of one mate; brief retention of separate home by survivor.
8. Sale of house, surviving mate moving in with a child or into an institution.[3]

But even the family life cycle model has linkages to neighborhood decay; in the latter instance, decay is viewed (stage 7) from the perspective of potential decline in family assets. In the former example of Birch, it was viewed as a mechanism for keeping rents low and for facilitating upward movements of new households to the city.

[2] Ibid., pp. 23–24.
[3] Nelson N. Foote, et al., *Housing Choices and Constraints* (New York: McGraw-Hill, 1960), p. 362.

Decay is thus a double-edged sword. It is disastrous for the family that is rooted to an area and must watch its assets and environment decline. To a family in search of a better job, a better apartment, and a better school, however, decay—particularly suburban decay—is a great facilitator. It gives the black in Harlem a chance to move to Mount Vernon.[4]

The Influence of Regional Structure: Each of the above patterns of family movement, and consequently neighborhood change, may operate differently in different metropolitan areas, and differently within different parts of a single metropolis. Obviously, the economic vitality of the core or CBD is a critical parameter in this regard; thus Appendix A discusses the general variables affecting employment and residential suburbanization. Thus a major precondition for alterations of neighborhood change depends in part upon the characteristics of individual metropolitan regions. Regional structure is influential in several ways:

1. "The older areas which are generally near the center of the region, may or may not derive special advantages from their location. Depending upon the strength and functional significance of the downtown core, the value of inlying housing sites may be considerable." [5] This is most vividly emphasized in comparing Newark and Manhattan, with the vitality of the latter fostering many valuable inlying housing sites. Moreover, a general consensus has emerged that the driving force of change in regional structure is the spatial location of employment opportunities. Population and housing are taken to be a function of jobs. So the decentralization of employment has direct impact on various aging neighborhoods close to the urban core (see Appendix A).

2. Overlapping metropolitan areas, wherein a secondary urban center is dominated by a larger one, generate sharp differentials in potential for intervention in neighborhood change. In essence, commercial and business functions desiring an urban location (and these are a decreasing proportion of the total) would most likely choose the larger urban center due to their greater array of central location amenities. Newark and Manhattan again aptly serve as illustrations. A secondary city such as Newark cannot successfully compete with Manhattan for major urban functions due to its tremendous infrastructure of urban services.

3. "Alternate vacant sites may or may not be competitive with clearance areas, depending upon their respective locations and regional transportation." [6] Sections of Brooklyn have experienced substantial rebirth due to their proximity to Manhattan and the subway transportation system. The status of radial and circumferential metropolitan freeways is directly related to job location, and hence the desirability of various neighborhoods as a residential choice.

4. "The density of existing development, which influences its earning power and therefore the cost of site acquisition, varies considerably in the older residential areas of different regions, as well as within regions." [7] Similarly, the quality of the existing stock, and the potential amenities therein, is a major variable. Consider, for example, the brownstone townhouse of Brooklyn Heights with the frame five-family structure in Newark or the Bronx new low tenement.

Also of strong importance is the residential demand as a function of continuing additions of newcomers to the city. In the previous section it should have been evident that immigration may be a positive force for neighborhood utilization. Moreover, migrations to the city most likely have slowed down over time, particularly in comparison with population flows from the city. Evidence on this factor is partially presented in the accompanying exhibit, which shows population and population densities in cities of constant land area since 1890. In all cases, peak densities have passed, except in New York City. However, the latter could be construed as a metropolitan area, with Manhattan the central city, an island whose density was at its maximum in 1910. Consequently, the demand side of the housing market equation probably has slackened in almost all older central cities.[8] Therefore, housing at the bottom end of the condition hierarchy may be losing its economic rationale for being.

So, in terms of broader regional considerations, several critical variables emerge. Of prime importance is the commercial strength and dominance of the urban center, a variable to which an intervention process would be particularly sensitive. The further significance of this precondition will again be emphasized in the following section as various theories of neighborhood change are reviewed. In any case, linked

[4] Birch, op. cit., p. 25.
[5] Frieden, op. cit., p. 9.
[6] Ibid.
[7] Ibid.
[8] We cannot make this conclusion precisely, since households are increasing at a greater rate than that of the population. But in many of the observations, pressures clearly have slackened.

Exhibit 1. Population and Population Density of Cities Showing Little or No Change in Land Area Since 1890

City	1890 Total (1,000)	1890 Per sq. mi.	1900 Total (1,000)	1900 Per sq. mi.	1910 Total (1,000)	1910 Per sq. mi.	1920 Total (1,000)	1920 Per sq. mi.	1930 Total (1,000)	1930 Per sq. mi.
New York, N.Y.:										
Manhattan	1,441	63,490	1,850	81,502	2,332	102,711	2,284	100,621	1,867	82,260
Balance, N.Y.C.	1,066	3,849	1,587	5,730	2,435	8,792	3,336	12,043	5,063	18,278
Boston, Mass.	(NA)	*	574	13,352	686	16,693	748	17,197	781	17,795
Philadelphia, Pa.	1,047	8,091	1,294	10,115	1,549	11,897	1,824	14,248	1,951	15,242
Buffalo, N.Y.	256	6,556	352	8,390	424	10,949	507	13,028	573	14,732
St. Louis, Mo.	452	7,358	575	9,369	687	11,189	773	12,670	822	13,475
San Francisco, Calif.	299	7,085	343	7,372	417	8,966	507	12,064	634	15,105
Baltimore, Md.	(NA)	*	(NA)	*	(NA)	*	734	9,289	805	10,225
Minneapolis, Minn.	165	3,186	203	4,104	301	6,016	381	7,658	464	8,385
Washington, D.C.	230	3,328	279	4,645	331	5,518	438	7,293	487	7,853
New Orleans, La.	(NA)	*	287	1,463	339	1,730	387	2,175	459	2,341

City	1940 Total (1,000)	1940 Per sq. mi.	1950 Total (1,000)	1950 Per sq. mi.	1960 Total (1,000)	1960 Per sq. mi.	1970 Total (1,000)	1970 Per sq. mi.
New York, N.Y:								
Manhattan	1,890	83,257	1,960	86,348	1,698	74,814	1,525	67,160
Balance, N.Y.C.	5,565	20,091	5,932	21,415	6,084	21,963	6,343	22,900
Boston, Mass.	771	16,721	801	16,767	697	15,157	641	13,936
Philadelphia, Pa.	1,931	15,183	2,072	16,286	2,003	15,584	1,949	15,164
Buffalo, N.Y.	576	14,617	580	14,724	533	12,869	463	11,205
St. Louis, Mo.	816	13,378	857	14,046	750	12,255	622	10,167
San Francisco, Calif.	635	14,227	775	17,385	740	16,307	716	15,764
Baltimore, Md.	859	10,916	950	12,067	939	11,993	906	11,568
Minneapolis, Minn.	492	9,152	522	9,697	483	9,043	434	7,884
Washington, D.C.	663	10,800	802	13,065	764	12,442	757	12,361
New Orleans, La.	495	2,480	570	2,861	628	3,184	593	3,011

NA Not Available *Land area not comparable with later years.
Source: U.S. Department of Commerce, Bureau of the Census, Sept. 15, 1971.

strongly to the above are the dominance or subdominance of the urban center, the continuing residential demand generated by migration to the city, the regional transportation network, particularly public transit, and the quality, durability and density of the existing housing stock. All of these parameters essentially bind the matrix of neighborhood evolution, and different combinations of these factors can serve to inhibit or stimulate intervention efforts. In the following examination of neighborhood evolution patterns, the above and additional constraining factors will continually be cited.

Human Ecology and the Concentric Zone Model [9]

Conceptual Background: Ecology is a much overused rubric which has been adopted by the popular media in all forms. It is perhaps worthwhile, then, to clarify its historical usage in relation to the present discussion. The physical sciences of botany and zoology originally applied the term to their study of the relationships of plants and animals with their physical environment. At the turn of the century, plant ecology in particular had developed a substantial theoretical base and a vast compilation of empirical research material. It was by the application of the principles and processes culled from this biological inquiry to the study of human communities that gave rise to human, or social, ecology. Thus the theory of human ecology was based on the use of biological analyses in the study of human populations. More specifically, the analogy between plant communities and human communities flowered in the context of Chicago, thus giving rise to the label "Chicago School" of ecology.

The founders then worked in a setting—Chicago—that was—while perhaps an accident of history—characteristic of the most rapid expansion of urban America in the early stages of the

[9] This discussion is based heavily on D. W. G. Timms, *The Urban Mosaic* (Cambridge, England: Cambridge University, 1971) and B. T. Robson, *Urban Analysis* (Cambridge, England: Cambridge University Press, 1960).

20th century. Explosive urban growth generated severe change and stress, thus presenting context for the dynamic processes with which human ecology is concerned. Chicago at that time represented the ideal urban laboratory in which the early years of inquiry focused on empirical surveys of the city, including tabulations and mapping of a series of social and economic phenomena. This foundation provided the starting point for the theoretical generalizations of Park, Burgess, and McKenzie.

Park initially started his synthesis with Darwin's concept of the web of life: The interdependencies between organism and organism, and between organism and environment.[10] Arguing that man, an organic creature, was subject to the general laws of the organic world, Park set the stage for the use of the biological analogy. He recognized, however, that this alone was inadequate to establish relevant theory. He perceived social organization as occupying two levels—the biotic and the cultural—two distinct aspects of human life which were interrelated but analytically separable. The cultural level corresponded to society and was viewed as a superstructure which "imposes itself as an instrument of direction and control upon the biotic substructure." Cultural forces such as moral order and tradition served to distinguish man from other living elements in nature. The biotic level corresponded to the community and was based on the subsocial forces of competition—the basic natural force of plant ecology. Its guiding laws were those of survival. Park focused on the community, or biotic, level rather than on the more complex societal, or macro, level, regarding the structure of the city as a consequence of local biotic forces. We will turn to this limitation shortly.

The Underlying Processes: Translating the biotic forces into human terms established several critical processes. First and most important was competition, a fundamental principle by which each organism struggles for survival against the environment, other species, and even its own kind, due to an overall lack of resources. Park assumed that man's economic competition for limited space and access for his residences and businesses was a direct social counterpart of the plant world's survival struggle. He regarded such competition as contributing to homogeneous land uses and the segregation of subpopulations into distinct areas.

[10] Robert E. Park, *Human Communities* (New York: The Free Press of Glencoe, 1952).

Change in such areas was construed by Park as the result of three intimately connected processes: dominance, invasion, and succession. In the biological community, the dominant species controls the environment to the extent that it controls the community and subordinates other species. The human counterparts are industry and commerce (CBD). Dominance results when environmental changes create conditions amenable for other species to thrive, invade an area of the environment, and finally succeed the original species. Invasions are of two general types: Those resulting in a change of land use and those resulting simply in changes of occupant. This dominance, invasion, succession process would translate itself into the human context as follows: The expansion of the CBD into residential areas or the takeover of a specific neighborhood by successive ethnic groups.

The Concentric Zone Model [11]**:** These processes were brought together by Burgess' concentric zone model of city growth based on a spatial expression of the above mentioned processes—competition, dominance, invasion, and succession. His model suggests that the city, in the process of expanding radially from its center, forms a series of concentric zones, or annules. McKenzie describes the process as follows:

> As the community grows there is not merely a multiplication of houses and roads but a process of differentiation and segregation takes place as well. Residences and institutions spread out in centrifugal fashion from the central point of the community, while business concentrates more and more around the spot of highest land values. Each cyclical increase of population is accompanied by greater differentiation in both services and location . . . the structural growth of community takes place in successional sequence not unlike the successional stages in the development of the plant formation . . . . And just as in plant communities successions are products of invasion, so also in the human community the formations, segregations, and associations that appear constitute the outcome of a series of invasions . . . . The general effect of the continuous processes of invasions and accommodations is to give the developed community well-defined areas, each having its own peculiar selective and cultural characteristics.[12]

The spatial expression of this urban extension comprises five main zones or concentric rings of city expansion, each representing a type of area differentiated in the growth process. The first and smallest is the central business district (CBD), which is the area of highest land values, greatest accessibility, and the focus of the

[11] Discussion also based on James W. Hughes, *Urban Indicators, Metropolitan Evolution, and Public Policy* (New Brunswick, N.J.: Center for Urban Policy Research, 1973). Chapter 2.

[12] R. D. McKenzie, "The Ecological Approach," in Robert E. Park, Ernest W. Burgess, and R. D. McKenzie, *The City* (Chicago: University of Chicago Press, 1925), pp. 73–77.

city's business and cultural life. The heart of the zone is the downtown retail district where higher order retailing, financial activities, governmental functions, and business headquarters' operatives flourish. This area is the locus of the main transport terminals and has the largest number of people commuting into and out of it each day.

Surrounding this highly centralized area is a wholesale business district of factories, warehouses, and light industries. The CBD was the regional city embryo which has since expanded in all directions. Pockets of the original heritage remain, however, although they may be obscured by new and perhaps undesirable uses, i.e., a once proud mansion used as a funeral parlor.

The second zone is the zone in transition, adjacent to and encircling the central business district. At one time, this ring may have comprised fashionable "suburbs" for the city's well-to-do. However, as pressures for commercial expansion of the center came with the growth of the city, business and industry invaded this zone and the "chic" residential fabric deteriorated. The inner portions of the ring industrialize while the outer neighborhoods decline—a cheek-by-jowl mixture of land uses predominates. Residential accommodations, at one time on the city's periphery, lost their once substantial residential value as the area became attractive for alternative uses. Repairs and upkeep became unprofitable; the decay which ensued created conditions in which substantial profits could be made by high density, subdivided housing. Thus the area was not only invaded by business and industry; it became the area of invasion of newly arriving racial and ethnic groups to the city as well. Here were found cheap accommodations and a lack of social controls. The owners of properties were assumed to be only interested in the long term profits to be made from the expansion of the CBD and the short term profits obtainable from subdivided residential units. The population of the zone, then, is quite heterogeneous: Ethnic villagers, the remnants of the first inhabitants who are bewildered by the change engulfing them, and cosmopolites. It is also a highly mobile population. Those whose movement will be upward as they prosper or raise families will filter into the third zone.

The third zone, the "zone of workingmen's homes," comprises the small, inexpensive frame houses of factory and shop workers. This zone was considered to be a second generation phenomenon, housing those who have prospered sufficiently to flee the transitional zone, but who still require cheap, fast, and easy access to their jobs in the CBD. Thus immigrants who became culturally acclimated and began their trek of upward mobility in the zone of transition eventually moved outwards to this third zone. The move itself solidified their assimilation into American society.

The fourth zone is an area of "better residences" and can be viewed as a continuation of the process of increasing social status as distance from the city center increases. This zone was a predominantly middle-class area of substantial private houses and good apartment blocks. Within the zone, secondary shopping nodes have emerged that form small-scale correlates of the fashionable downtown emporiums.

The commuter's belt was the fifth ring, an area of 30 to 60 minutes of travel time from the CBD. This is a highly suburban or exurban zone of single family dwellings which in essence was a dormitory zone as the household heads spent their days in the CBD returning only at night. Often, these neighborhoods were outside of the city's formal political boundaries.

Such, then, was the geographical expression of the ecologists' theories. But it is not the spatial pattern which is of prime importance for our purposes, but the obsolescence-invasion-succession dynamic. The critical element of the scheme lies in the tendency of each inner ring to expand its territory outwards into the next outer ring—the invasion-succession process. The model in essence represents an ongoing process rather than a static, rigid structure. Its dynamics appear analogous to the spreading ripples resulting from dropping a stone into a body of water. The graphic display of zones is but a snapshot of a single point in time of an ongoing situation.

Public Policy Ramifications: The driving force of the concentric zone model is the expansion of the inner zones generated by the severe demand for central city locations. A tremendous expansive force outward is fostered by the powerful competition for central locations. Underlying this notion is the proposition that accessibility is greatest in the center of the city and that it declines monotonically with increasing distance from the center. Assuming a transportation surface where movement is equally rapid, cheap, and easy from any direction to the center of the city, then the more central the location, the greater is its accessibility, demand, and land value. It is the dominance of the city center and the gradient of land values towards the periphery of the city which are seen as the determinants of residential zonation. Thus the basic question that should be directed toward this theoretical model

is the effect of the collapse of its principal driving force—the demand for a central city location. Indeed, at a time when the commercial cores of our major cities are, at best, struggling, and when the great rural-urban migrations are coming to an end after their 50-year run, the response of this model becomes critical.

If the commerical pressures outward slacken, then it is the zone of transition surrounding the central business district that becomes immediately affected. With little prospect for expansion of commercial and industrial facilities into its domains, the zone itself loses its economic rationale. Already blighted and with little prospect of exploiting a new mass wave of immigration, it is not wanted for any type of use except, perhaps, for parking lots. New residential construction is questionable because the value of a new home placed in such surroundings may be less than its reproduction cost. If the zone in transition were to be redeveloped through the wholesale condemnation and purchase of obsolete structures, the cost would be such as to limit the feasibility of low cost housing without extensive public subsidy. Consequently, the area does not become reclaimed; it progressively deteriorates, and perhaps leads to abandonment. The weakening of the driving force of the CBD in essence produces a collapse in the zone of transition. Thus, changing the parameters of the ecologist's model to reflect current realities produces a response that approximates the present deteriorations of this Nation's metropolitan centers.

Shifting preferences for the location of commercial and industrial facilities, and also in transportation modes, produce other responses by the model that are not unreasonable in terms of current observations of the urban scene. The third zone, for example, that comprises small homes for factory and shopworkers, would have its rationale for being also placed into question. It should be recalled that this area functioned as a second generation setting for those of moderate means requiring fast and cheap access to the CBD. However, with the dispersion of jobs and the ownership of private automobiles—both ubiquitous phenomena—neighborhoods of this zone rapidly become obsolete. In fact, such neighborhoods appear to be quite susceptible to deterioration and abandonment as outlying rural areas beyond the metropolitan beltways are emerging to perform similar functions.[13]

[13] See Appendix A for an examination of the forces of location change.

The shifting locus of commercial and industrial pressures obviously makes difficult the current direct application of the overall model. However, some of the dynamics are still applicable regardless of shifting spatial patterns of economic activity. The obsolescence-invasion-succession processes still provide a useful model for viewing neighborhood change. However, the scheme does not reveal the critical pressure points for either slowing, stopping, or reversing these forces once in motion.

Accordingly, only a vigorous economic center will prolong the usefulness of neighborhoods in the inner zones of the model. To attempt direct action on aging residential areas when the basic driving force—the CBD—is losing its motive power would be perhaps a most important public policy implication of the ecological model as originally formulated. Moreover, the decline in migration to the city reinforces this supposition. So urban centers whose cores are viable and where new waves of immigrants generate some level of residential demand may possess the threshold conditions for potential neighborhood stabilization.

Criticism: The basic critical theoretical attack against urban ecology centers on its distinction between society and community and its analytical focus on the latter. Although Park contended that society formed a superstructure lying above the competitive biotic community, he never clearly established the relationship of societal forces to community structure. This narrow focus on the city, without concern for its social environment, precipitated widespread criticism. For example, Milla Alihan rejected this dichotomy as unacceptable, viewing both aspects of urban structure as highly interdependent.[14]

In more practical terms, this line of theoretical criticism thus contends that focusing on the micro level while ignoring the broad macro-scale forces which comprise the environment of urban regions is an oversimplification. Thus, Federal policies, intra- and international migrations, the growth of large-scale organizations, and other national trends vitally affect urban structure. Somewhat paradoxically, later developments in social area analyses were criticized for making just such a linkage.[15]

The most widely known of the many empirical studies that followed was that of Walter Fiery, who maintained that culture could not be

[14] Milla Alihan, *Social Ecology* (New York: Columbia University Press, 1939).
[15] Hughes, op. cit.

separated from community. His analysis of Beacon Hill and other cultural areas in Boston concluded that sentiment and symbolism are strong forces which can effectively counteract biotic processes. Competition in space was simply inadequate to explain complex cultural phenomena, much less the change in land values resulting from zoning or political boundaries. Thus Fiery attempts a noneconomic explanation for persistence in the face of otherwise unfettered economic parameters. This phenomenon of persistence will be further explored in a later section. Empirical criticisms also were extensive.

Probably the most severe misgivings about the utility of the Burgess scheme have been generated over the empirical status of the zone as a meaningful classificatory device. Each zone in the Burgess scheme is presented as if it were a relatively homogeneous area, notwithstanding the fact that a number of different types of land use and population are said to characterize zones I and II and that zone V is said to include a wide variety of subcommunities, differing considerably in income. Empirical tests of zonal homogeneity have generally been negative. Moreover, Alihan has suggested that the concept of the zone is directly contradictory to another concept used by Burgess, that of the gradient.[16]

What has been cited most often in connection with the evaluation of the urban ecologists, however, has been the corollary efforts of Homer Hoyt and his sector theory of neighborhood change.

Land Economics and the Sector Model

Introduction: While the ecological formulations of Burgess were put forward as a general model summarizing much of urban life, the sector model by Homer Hoyt was somewhat less encompassing. A land economist working outside the sphere of human ecology itself, Hoyt in 1939 produced a Federal Housing Administration report, *The Structure and Growth of Residential Neighborhoods in American Cities.* This report was based on rental data secured from a large number of U.S. cities and presented the sector model of urban growth. The latter was an empirical generalization based on the distribution of rental classes, not an ideal general model. It was designed as a practical instrument which could be used as the basis for making financial decisions about future developments. And it still remains an important tool for making neighborhood forecasts.

The Sector Theory: The sector theory describes how high rent residential neighborhoods move slowly but predictably across the urban landscape, exerting a gravitational pull on the middle class, leaving behind the structures by which slums are made.

The high rent neighborhoods of a city do not skip about at random in the process of movement—they follow a definite path in one or more sectors of the city.

Apparently there is a tendency for neighborhoods within a city to shift in accordance with what may be called the sector theory of neighborhood change. The understanding of the framework within which this principle operates will be facilitated by considering the entire city as a circle and various neighborhoods as falling into sectors radiating out from the center of that circle. No city conforms exactly to this ideal pattern, of course, but the general figure is useful inasmuch as in our American cities the different types of residential areas tend to grow outward along rather distinct radii, and new growth on the arc of a given sector tends to take on the character of the initial growth in that sector.

Thus if one sector of a city first develops as a low rent residential area, it will tend to retain that character for long distances as the sector is extended through process of the city's growth. On the other hand, if a high rent area becomes established in another sector of the city, it will tend to grow or expand within that sector, and new high grade areas will tend to establish themselves in the sector's outward extension. Generally speaking, different sectors of a city present different characters according to the original types of the neighborhoods within them.[17]

This spatial expression of the sector model, as in the case of the zonal model, has often been given primary emphasis rather than the more important dynamics giving rise to it. Changes in rental area patterns over time are a function of the movement of high rent neighborhoods and the successive moves of a filtering process. As the elite of a city move outwards, the middle and lower classes filter into their previous residences.

High rent or high grade residential neighborhoods must almost necessarily move outward toward the periphery of the city. The wealthy seldom reverse their steps and move backward into the obsolete houses which they are giving up. On each side of them is usually an intermediate rental area, so they cannot move sideways. As they represent the highest income group, there are no houses above them abandoned by another group. They must build new houses on vacant land. Usually this vacant land lies available just ahead of the line of march of the area because, anticipating the trend of fashionable growth, land promoters have either restricted it to high grade use or speculators have placed a value on the land that is too high for the low rent or intermediate rental group. Hence the natural trend of the high rent area is outward, toward the periphery of the city in the very sector in which the high rent area started. The exception to this outward movement is the development of de luxe apartment areas in old residential areas.[18]

Hoyt suggested that the point of origin of the high rent sector was determined by the location of the retail and business center where the

[16] Timms, op. cit., p. 218.

[17] Homer Hoyt, *The Structure and Growth of Residential Neighborhoods in American Cities* (Washington, D.C.: Federal Housing Administration, 1939), p. 114.

[18] Ibid., p. 116.

elite population tended to work. Movement started close to this center on the side farthest removed from that containing industries or warehouses.

In all of the cities studied, the high grade residential area had its point of origin near the retail and office center. This is where the higher income groups work, and is the point that is the farthest removed from the side of the city that has industries or warehouses. In each city, the direction and pattern of its future growth then tends to be governed by some combination of the following considerations:

(1) High grade residential growth tends to proceed from the given point of origin, along established lines of travel or toward another existing nucleus of buildings or trading centers.

(2) The zone of high rent areas tends to progress toward high ground which is free from the risk of floods and to spread along lake, bay, river, and ocean fronts, where such water fronts are not used for industry.

(3) High rent residential districts tend to grow toward the section of the city which has free, open country beyond the edges and away from "dead end" sections which are limited by natural or artificial barriers to expansion.

(4) The higher priced residential neighborhood tends to grow toward the homes of the leaders of the community.

(5) Trends of movement of office buildings, banks, and stores pull the higher priced residential neighborhoods in the same general direction.

(6) High grade residential areas tend to develop along the fastest existing transportation lines.

(7) The growth of high rent neighborhoods continues in the same direction for a long period of time.

(8) Deluxe high rent apartment areas tend to be established near the business center in old residential areas. [One apparent exception to the rule that high rent neighborhoods do not reverse their trend of growth is found in the case of deluxe apartment areas like Streeterville in Chicago and Park Avenue in New York City. These exceptions are very special cases, however, and apply only to intensive high grade apartment developments in a few metropolitan centers. When the high rent single family home areas have moved far out on the periphery of the city, some wealthy families desire to live in a colony of luxurious apartments close to the business center. Because of both the intensive use of the land by use of multiple family structures and the high rents charged, it pays to wreck existing improvements.]

(9) Real estate promoters may bend the direction of high grade residential growth.[19]

In considering the effects of this movement on neighborhood change, Hoyt stressed the fact that change was centrifugal as the city expanded. As houses became older and more deteriorated, different subpopulations sequentially invaded them. Within this outward movement, however, sectors of different types of houses vacated by various income groups were distinguished. An extraordinary rate of obsolescence was recognized in the highest status housing, since, when the footloose elite moved on, few were able or willing to occupy their obsolescent dwellings singly because of their prohibitive upkeep. With no population group able to filter upward into such dwellings for single family use, they were converted into boarding houses, clubs, offices, and the like. In fact, the roominghouse district was usually found at the apex of the high rent sector because here were the large old mansions ripe for conversion and decline. In contrast, houses within the median rent sectors were occupied by households of slightly lesser means as the former residents moved on to more fashionable accommodations. The invaded neighborhoods remained viable. Finally, the deterioration of low rent sectors led to great change as the worst structures were demolished. Furthermore, unless subsequent waves of poor immigrants entered the city to create a demand, many obsolete structures would be removed from the market. "The erection of new buildings on the periphery of a city, made accessible by new circulatory systems, sets in motion forces tending to draw population from the older houses and to cause all groups to move up a step leaving the oldest and cheapest houses to be occupied by the poorest families or to be vacated." [20]

Hoyt's scheme thus suggests the basic parameters necessary to predict the future tendencies of residential development. In his dynamic formulations are many of the forces that are recognized to produce neighborhood change in urban America—rapid growth, suburbanization, a mobile upper class, refugees to the city from both rural America and Europe, and ineffectual public policy in shaping the pattern of land uses. In fact, the dynamics of the sector model do not radically differ from Burgess'. The essential difference is the addition of a directional component which distinguished sectors of growth in addition to rings. The recognition of outward centrifugal movement is the same in both cases, although in the sector model there is an emphasis on a strong pull element, the high rent neighborhood, while in the concentric model, more weight is thrust on the push element, the expansion of the commercial core.

Public Policy Ramifications: If we view the Burgess model as providing the threshold conditions of CBD vigor and immigration housing demand, then the sector model further refines the potential for neighborhood stabilization in terms of specific radial sectors. High rent sectors, for example, were found to possess an extraordinary rate of obsolescence for reusing the structures for single family housing due to their size and potential upkeep. However, this does provide an opportunity for reuse that may be based on zon-

[19] Ibid., p. 114–120.

[20] Ibid., p. 122.

ing changes. Large parcels of land may be suitable for office or commercial rebuilding without assemblage problems, and the actual reuse of the existing structures for viable activities may have some potential. So the high rent sector may at least provide the opportunities for public policy changes.

At the same time, the intermediate rental sector, where invasions take place by subpopulations of just slightly lesser means than the vacating populations, appears to present the greatest potential for future residential maintainance.

> . . . houses in intermediate rental neighborhoods designed for small families can be handed down to a slightly lower income group as they lose some of their original desirability because of age and obsolescence. There is a loss of value when a transition to a lower income group occurs, but the house is still used for the essential purpose for which it was designed; and the loss of value is not so great. There is always a class filtration to occupy the houses in the intermediate rental neighborhoods. Hence, a certain stability of value is assured.[21]

In marked contrast, buildings in low rent areas are occupied by the poorest unskilled or casual worker, leading to collection losses and high vacancy rates. The worst buildings tend to be removed from the market. With the decline of immigration, this submarginal fringe of housing is either wrecked or boarded up as the residents filter up to better houses. Hoyt thus suggests that intermediate rental neighborhoods tend to preserve their stability better than either the highest or lowest rental areas.

In terms of the reversibility of the various processes of the sector model, Hoyt asserts that the wealthy seldom reverse their steps and move backward into the obsolete housing they are giving up. One exception was the high rent apartment complexes built in downtown areas. They were felt to be a very special case, however. Indeed, this statement appears to depict current reality, as evidenced by a recent report of high rent housing in New York City.

> The bulk of the high rent households cluster closest to where the jobs and entertainment facilities are with three out of five in Manhattan; an additional one out of five is in Queens, and these typically are at the lower end of the price scale. It is interesting to note that Bronx and Brooklyn, which in terms of total population nearly match the first two boroughs, have less than one in six of the higher rent households. This clearly as a whole is not a population which is going to be attracted to gray areas or their fringes.[22]

Thus substantial reversibility of neighborhood is not really considered a valid possibility, according to Hoyt.

Criticism: Timms provides an extensive critique of the flak directed at Hoyt.

> The prime mover in the pattern of residential growth outlined in the sector theory appears to be attraction to the leaders of society. The identity of these leaders is, however, somewhat indistinct, as is the nature of their appeal. Rodwin has pointed out that the Hoyt scheme rests on an ambiguous and over-simplified view of the stratification system characteristic of the city. The homes of the leaders of society are variously equated with the highest rental areas, the high grade districts, and the most fashionable areas . . . these areas are not always synonymous . . . . The operational measure of social rank adopted by Hoyt is rent . . . . The exact nature of the relationship between rent, income, and prestige is not explored . . . .[23]

Also somewhat troubling to critics was the ambiguous definition of sectors, a comment analogous to the zone delineations in the Burgess model. But because we are concerned with processes, the significance of these criticisms is minor.

Further Research: Wallace F. Smith, in 1963, asserted that some of the assumptions which originally governed the sector theory had become obsolete. Particularly questioned was the plausibility of the explanation of slum development in terms of new construction, obsolescence, immigration, and filtering.

> However, some of these assumptions can no longer be accepted. Public policy, particularly in the form of mortgage credit assistance has had a perceptible influence on urban growth. Class structures and class attitudes toward housing seem to have changed, making the concept of "obsolete mansions" itself obsolete. Immigration of minority groups in many cities probably far outpaces the outward-migration of the well-to-do so that filtering today more often represents a transition of middle class neighborhoods.[24]

For these reasons, Smith saw the need for a reconstruction of Hoyt's theory of neighborhood change. Studied and analyzed were 76 residential neighborhoods of Oakland, California, at three points in time between 1936 and 1960. From this investigation was derived a set of principles that apparently govern neighborhood change. The first of these is persistence, where a neighborhood tends to retain its socioeconomic characteristics even in the face of major changes in the composition of the community as a whole. The second is accommodation, where a shift in the composition of communitywide housing demand is accommodated by changes in

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[21] Ibid., pp. 121–122.

[22] George Sternlieb and James W. Hughes, *Housing and People in New York City* (New York: Housing and Development Administration, 1973), particularly Chapter 11.

[23] D. W. G. Timms, *The Urban Mosaic* (Cambridge, England: Cambridge University Press, 1971) p. 227.

[24] Wallace F. Smith, "Forecasting Neighborhood Change," *Land Economics*, August 1963, p. 292.

the socioeconomic characteristics of particular neighborhoods. The last principle was that of gradual transition, where neighborhood changes required to accommodate a shift in the composition of aggregative housing demand are selective. That is, the affected neighborhoods would more likely be those already in a process of transition.

In terms of empirical verification, Smith found that the proportion of nonwhite households rose markedly during the period of observation. Those neighborhoods originally "all white" had a tendency to retain that characteristic, suggesting principle 1, persistence. At the same time, a sufficient number of neighborhoods did undergo change, exemplifying principle 2, accommodation. Finally, neighborhoods which had a high proportion of nonwhites at the end of the study period were those which had an intermediate rather than low proportion at the beginning, suggesting principle 3, gradual transition.

In terms of the method employed, the proportion of nonwhites in a neighborhood was viewed as a significant factor of urban American life. However,

> Along with racial composition, other social and economic factors play important roles in characterizing individual residential neighborhoods and predictive technique should be applied to these as well. This study identifies two such factors: the proportion of owner occupants to the total number of households in a neighborhood and the relative value of representative dwelling units.[25]

Thus three key indicators of neighborhood change are isolated: Racial composition, degree of owner occupancy, and unit value.[26] Moreover, the direction of change for each neighborhood is influenced by conditions outside of the neighborhood itself. Thus the in-migration of new subpopulations which shift the composition of the community as a whole and thereby altering the previously established patterns of neighborhood transition is a major argument of Smith. Thus he returns emphasis to the push factor as originally emphasized by the urban ecologists and away from the pull factor as suggested by Hoyt.

Most critical for this review, however, are reasons for neighborhood shifts beyond that of accommodation to changes in the composition of citywide housing demand. In terms of neighborhood stability as evidenced by the indicators of ownership and relative value, Smith presumes that structural durability would provide an explanation. No reason was put forth for racial stability.[27] At the same time, those neighborhoods accommodating change were those already in a process of transition—areas of current high proportions of nonwhites were those at the intermediate level in the previous accounting period. "The new pattern reflects the old in that expanding segments of housing demand gravitate toward neighborhoods in which those segments were already represented." [28]

Furthermore, Smith saw little chance of reversibility once changeover was underway. Only in areas such as Park Slope in Brooklyn or Society Hill in Philadelphia have substantial rebirths occurred. But the generalizability of these examples is perhaps gauged by our ability to simply list them off the top of our heads—they are unique sectors of dwellings of historical value or of redeemable amenities. These traits are not generic to vast areas of the metropolis designed originally for the working class.

Two caveats regarding this latter research effort should be noted. First, an assumption of population flow into the city greater than that going out may be questionable for the early 1970's. Second, filtering may be a unique process to different political areas of the metropolis. The entire city may be susceptible to filtering but only to its political boundaries.

Additional Comments: In each of the models reviewed, immigration and filtering are isolated as key dynamics. Under such assumptions, the newest arrivals to the city occupy the oldest residential structures in the older neighborhoods. These households, although having the lowest incomes relative to society in general, typically provide the economic rationale for at least a modicum of housing maintenance. As the occupants slowly are able to afford better quarters, they cannot be anchored to these residential neighborhoods—they move on. But this is not a singular process. Moynihan, for example, suggests a bimodal phenomenon affecting newcomers to the city.[29] That is, among a subpopulation introduced into a situation of like means, some will rise in circumstances and some will decline. Thus an 'up and down' hypothesis is suggested where newcomers differentiate themselves along an economic continuum.

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[25] Ibid., p. 293.

[26] Rental units were capitalized by using a gross rent multiplier of 100.

[27] Here we can return to Fiery's concept of persistence and ethnic stability in the face of socioeconomic change.

[28] Ibid., p. 297.

[29] Daniel P. Moynihan, "The Schism in Black America," *The Public Interest*, Spring 1972 (No. 27), pp. 3–24.

So if the lowest end of the newcomer population is ultimately left behind, the oldest and most obsolete housing tends to be filled with the least competent households. If there is no new population group entering into the urban system, then the economic rationale for owning and operating the housing at the bottom of the ladder is removed. Not only is the pool of exploitables reduced, but what is available may be the worst in possible tenantry, unrestrained by social controls. Thus a setting is provided for the terminal point in a neighborhood or housing cycle—abandonment—in either of the inner concentric zones or the apex of the various rental sectors. So changing the assumptions underlying these early models produces results not out of line from current reality.

One final comment on this subject should also be made. New population groups added to the city may not only be distinguished along racial and/or ethnic lines, but they may also be in the form of, say, college students. Such a subpopulation, added to cities whose educational institutions have rapidly expanded—particularly where those institutions do not provide ancillary dormitory facilities—can be an important element in stabilizing the economic usefulness of bottom-of-the-line neighborhoods. Boston may be the foremost example of this process, which took place while much industrial activity was shifting to the Route 128 circumferential beltway. So the in-migration of identifiable subgroups such as college students can in a sense perform the same function as previous historical migrations to the city.

The Gray Area and the Terminal Point

Closely related to the "zone of transition" and the zone of workingmen's homes is the concept of "gray areas," a term referring to the area of deteriorating real estate in American cities lying between the CBD and the suburbs. Described by Marris and Rein in terms of its broad function, the literature of the urban ecologists is again suggested:

> In these grey areas, the newcomers to the city have always settled, and presented their claim upon the American promise of dignity, prosperity, and freedom for all. But here, too, the disappointed have remained or returned; and here racial discrimination has mostly contained the Negro migrants from the South. As technology raises its demands on human skill, and turns indifferently from those who cannot readily meet its standards, the grey areas become a symbol of hope abandoned, alienation, and retreat.[30]

[30] Peter Marris and Martin Rein, *Dilemmas of Social Reform* (New York: Atherton Press, 1969), p. 14.

Implicit in this statement is also the recognition that the processes of filtering and upward movement out of the city are closely interrelated with racial considerations. The urban ecologists, focusing on "biotic processes," avoided analysis of this question, viewing race simply as an extension of ethnicity. Nevertheless, Paul Ylvisaker, then Director of the Public Affairs program at the Ford Foundation and a prime mover of the gray areas projects, had laid down this line of thought several years earlier in discussing the several "cities" of the city.

> Another is the City of the Gray Area, that growing wasteland which starts at a moving point uncomfortably close to the central business district and extends to a moving point uncomfortably close to the better residential suburbs. "Mice Country," as former Louisville Mayor Charles Farnsley has so compassionately named it. This City, too, is being abandoned; but that in itself is nothing new. It has been abandoned two, three, and, in some cases, four times before, by the successive waves of migrants who have come looking for the City only to be told that it was still a suburb or two ahead of them. Certainly, the City of the Gray Area, the Mice Country, is being abandoned; but that is its function. For this is not really a city; it is a social process wrapped up in an appropriately shabby form. It is a process of transition and aspiration and self-improvement—for the immigrant from abroad, for the rural uprooted, for a wide assortment of human beings who are at the bottom rung of their life's ambitions. The irony is that we are abandoning the process, but preserving the form. By restrictive national legislation we are cutting down the intake of those immigrants we have been historically willing to assimilate; at the same time we are blocking the suburban exit for the increasing numbers of in-migrants whose humble services we want but whose company we would prefer not to keep. Now we have tenements without a trail—mile after growing mile of tenements, shabbier by the year, a wretched form that has lost the saving grace of a noble function.[31]

Out of this reasoning came the Ford Foundation projects, efforts at renewing gray area neighborhoods, not physically, but in terms of process—the stimulation of the school systems and other public responses to foster processes of assimilation and upward mobility. In fact, these attempts were the genesis of the later model cities programs.

Returning, however, to our schemes of neighborhood change, we can identify several possible modifications to the broader dynamics. First is the recognition of the powerful variable of race and its effect on filtering and mobility. At the same time, the decline of a driving force—in-migration of new subpopulations—weakens outward pressures while barriers correspondingly strengthen to prohibit new invasions. While particularly focusing on declining immigration

[31] Paul N. Ylvisaker, "The Deserted City," *Journal of the American Institute of Planners*, Vol. XXV, No. 1 (February 1959) pp. 1–2.

from abroad, the reasoning of Ylvisaker is certainly applicable to changing internal rural-urban migrations. In total, then, several questions have been raised concerning the validity of processes once taken as basic propositions. The recognition has been made of possible "impending statics," the loss of function of the inner ring neighborhoods, and the concern with the process of movement and not with empty neighborhood form.

Moreover, the earlier models were formulated on the basis of a metropolis being coterminous with that of a city. As urban regions have grown to encompass many suburban communities, and as the expansion and filtering of new racial groups move toward the periphery of the center city, a new significant element is introduced into the overall process—the political boundary. So the interrelationship of this variable and race may produce serious alterations in the notions of filtering and upward mobility.

The Tidal Wave of Metropolitan Expansion

In the early 1950's, Hans Blumenfeld attempted to isolate and measure the population shifts that have occurred in metropolitan areas in order to predict the future distribution of population. What was found lent credence to the concept of growth areas and cyclical change and successions. Blumenfeld described the process as the "tidal wave of metropolitan expansion" in which the concentric zones of rapid population growth migrated outward from the city center.[32]

Population growth in Philadelphia was examined for a 90-year period to 1950, with particular emphasis on the 20th century. Plotting population growth rates for each decade by distance zones, Blumenfeld shows that the five curves, representing changes during five decades, follow a similar pattern, regardless of their precise shape. They all rise steeply to a peak, then decline more slowly and flatten out. In every decade there is a zone of maximum growth which is defined as the tidal wave of metropolitan expansion. This crest moves slowly and regularly over time from the city center to its periphery. This zone of most rapid growth is also characterized by the highest percentage of owner-occupied homes and by the highest average value of homes.

[32] Hans Blumenfeld, "The Tidal Wave of Metropolitan Expansion," *Journal of the American Institute of Planners*, XX, No. 1 (February 1954). See also Hans Blumenfeld, "Are Land Uses Predictable," *Journal of the American Institute of Planners*, XXV, No. 2 (May 1959), and "The Modern Metropolis," *Cities* (New York: Alfred A. Knopf, 1965).

Thus the different zones are in different phases of growth. The "older" inner zones have passed their peak, the following ones are approaching it and are leveling off, the next ones are in full growth, and the last are just entering the latest growth phase. Consequently, in the process of expansion, the concentric zones, from the center out, one after another go through subsequent phases of slow growth, rapid growth, leveling off, and decrease. Blumenfeld gave particular attention to the long term trend toward the population losses of downtown Philadelphia. But it is the growth wave concept and the cycles of change which are most important for the study of neighborhood evolution. In fact, this laid the basis for the work of Hoover and Vernon, who modified this growth wave concept to take into account the two widely separated rings of residential growth which had been pointed out earlier by Hoyt—one marked by single family housing and the other by apartments. They carried this development further as a refinement of the notions of concentric zonation and hypothesized a series of stages of neighborhood evolution. This is the subject of the next section.

The New York Region Study

Hoover and Vernon attempted to develop a concept of the whole process of the evolution of the pattern of metropolitan populations that could be tested by its ability to account for observed facts and which could serve to suggest the directions that further development was likely to take. Their starting point was the ecological model of Burgess:

> The shifting pattern of metropolitan residence areas has often been schematically described in terms of gradually widening concentric zones pushing out in all directions from a growing central business core like ripples from a splash. Nonresidential "downtown" land uses, preempting the very center of the metropolitan area almost exclusively, expand into the immediately surrounding old residential areas, and also extend an aura of blight far beyond the range of their actual land-taking. Housing nearest the center is mainly slum—because it is the oldest, because it is cramped, because the street traffic and other aspects of downtown development make it undesirable for residence, and because it comes to house a concentration of disadvantaged people who are shunned as neighbors by those more fortunate or longer in residence. These slum characteristics are persistent, even cumulative, since the economics of slum property deters extensive replacement, modernization, or even maintenance of the antiquated housing.
>
> The near-central slum area, eroded from the inside and along its main streets by competing land uses, and having to accommodate an influx of bottom-income people, expands outward into the next nearest and next oldest zone, mainly by the down-grading and conversion of old apartments and houses to higher densities. This pressure, as well as overall population growth, forces the population of

the next zone to push outward in turn, and so it goes til we reach the out-crawling fringe of urban development where new houses replace farms, woodland, or golf courses.[33]

Stages of Evolution: Recognizing this process as operative at several scales in the New York Region because of the interpenetration of major and minor urban centers—i.e., Newark lies under the dominance of Manhattan—they shifted their analysis to sequential patterns of development of specific areas. This resulted in the delineation of the stages of evolution of a neighborhood, a five-stage process directed toward explanation and not merely description.

Stage 1 is residential development in single family houses. The initial stage of development, it currently is just beginning to appear in the outlying parts of metropolitan regions, is in full swing in areas of moderate distances from the center of a region, and was passed a long time ago in most urban centers and the inner rings of most metropolitan areas.

Stage 2, in contrast, is a transition stage of very substantial new construction and high population growth. But a high and increasing proportion of this new construction is in apartments, so that average densities rise significantly. Often much of the apartment construction replaces older and larger single family homes. Most areas in a region where this transitional process is evident are in the inner zones.

Stage 3 is a downgrading stage, in which old housing (both single and multiple dwellings) is being adapted to higher density usage than that for which it was originally designed. Referring specifically to the New York Region, Vernon and Hoover suggest that:

> In this stage there is usually little actual new construction, but there is some population and density growth through conversion and crowding of existing structures. This stage appears most clearly in areas of recent "slum invasion" located on Manhattan's upper West Side, in sections of the Bronx and Brooklyn, and in certain old urban areas in and around Newark, Paterson, Passaic, Elizabeth, and the Hudson County cities.
>
> Of course, the sequence to this stage from the preceding one is not always clean-cut. Thus in the down-grading stage there may be a certain amount of new housing construction too, involving the replacement of single-family homes by apartment houses at the same time that other structures are being subdivided. Moreover, Stage 2 does not inevitably lead to Stage 3: an area converted to apartments may not undergo any down-grading then or later. The Riverdale area of the Bronx, for instance, promises to hold its present quality for some time to come. The stretch of Fifth Avenue facing Central Park was almost entirely transformed from one-family residences to towering apartment buildings after about 1910 and has maintained its character. On the other hand, Riverside Drive, similarly redeveloped at about the same time, has been subject to down-grading.
>
> The down-grading stage is often associated with the spread of districts occupied by more or less segregated ethnic and minority groups. In the spread of such districts, conversion of structures to accommodate more families plays a significant part, but not always a decisive one.[34]

All of this leads eventually to Stage 4, the thinning out stage where density and dwelling occupancy are gradually reduced. This reduction may come about through a decline in household size, but it may also reflect the merging of dwelling units, demolition, vacancy, or abandonment. Thus a characteristic of this stage is little or no construction and a decline in population.

> To find the reasons for this thinning-out process, we shall have to retrace our steps and have another look at the families which characteristically participate in the preceding stage of slum invasion. Those families are, on the whole, recently-arrived in-migrants to the Region, with low incomes and a limited housing choice. The limitations are imposed not only by their income levels but also by restrictions and prejudices against many of them in various parts of the Region, by an inadequate knowledge of the housing market, and by uncertain employment alternatives. At the same time, these in-migrants tend to be predominantly young married couples or marriageable individuals in their twenties, that being the time of life when mobility is much the greatest for all classes of people.
>
> Households with these characteristics expand rapidly in size through the arrival of children and also, commonly, by taking in relatives or other lodgers even more recently arrived in the City and seeking a foothold. As a result, at the stage when a down-grading neighborhood is having an increase in the number of dwelling units that is, households) per structure, it is likely also to have—either at the same time or very shortly after—an increase in the number of persons per dwelling unit.
>
> But once settled, the main couple of the household does not characteristically move soon again. The tendency to stay put strengthens fast after people pass their early twenties. Also . . . dwellers in central-city areas are distinctly less mobile than residents of other types of areas in the Region.
>
> Once the in-migrant couples have settled down and raised families, the continued aging of them and their neighborhoods leads to the "thinning-out" stage characteristic of slum areas after they reach peak density—a thinning-out provided in considerable part by the shrinkage of household size.
>
> The thinning-out stage began several decades ago in some of the Region's oldest slums, and those areas are now far less crowded than they were, both in absolute terms and in comparison with more recently created slums.[35]

Finally, Stage 5, the stage of renewal, arrives. Perhaps during the heady and optimistic days of the late fifties, it was assumed that obsolete areas of housing arriving at Stage 4 would eventually be replaced by new multifamily housing. In fact, while only few examples were avail-

[33] Edgar M. Hoover and Raymond Vernon, *Anatomy of a Metropolis* (New York: Doubleday Anchor, 1962), p. 183–184.

[34] Ibid., p. 188.

[35] Ibid., pp. 191–92.

able of this stage, Vernon and Hoover saw it growing in magnitude in the future. Renewal would take two specific forms: Subsidized medium and low income housing, and second, luxury apartments. But of the latter, they recognized its unique concentration almost exclusively in the middle east side of Manhattan.

> Still another slum-renewal process, less important to date but with significant further potentialities in a few parts of the Region, is exemplified in Greenwich Village. Old areas of felicitous design and conveniently central location, originally high-income but deteriorated, are restored piecemeal to high-grade occupancy by extensive repair and remodeling, merger of dwelling units, and a little new construction.
>
> To a large extent, however, Stage 5 has depended on public intervention: on the use of condemnation powers to assemble the site, on the use of public grants to bring down the site costs to levels at which medium-income rentals could be charged, and in some cases on the use of continuing operating subsidies to bring the rentals within reach of low-income families.[36]

In the absence of public intervention, however, the alternatives were not at all clear—this may be the stage of abandonment affecting many of the Nation's core neighborhoods.

These then were the five stages in Vernon and Hoover's neighborhood cycle: (1) New single family subdivisions, (2) apartment development, (3) downgrading generally associated with conversion, (4) thinning-out, and (5) renewal.

Most of the housing of a metropolis is a product of earlier eras, designed, built, and located to conform with the tastes and needs of its time. Looking ahead 20 years from the vantage point of 1960, Hoover and Vernon saw a massive pool of housing entering the obsolescence stage, housing built between 1910 and 1930. It was during this time period when the New York region increased in population by 4 million people. The sheer absolute size of the housing stock built in response to this population expansion, which is probably larger than any created during a period of comparative length in the region's history, indicates that during the current time period the increase in the supply of obsolescent housing may be greater than in any other period in history. Most of the units built during the 1910–1930 period were built without much regard for the existence of the automobile, an extreme liability at present. So, by virtue of an extreme fluctuation in construction about 60 years ago, a severe problem is generated for the 1970's.

Hoover and Vernon were specifically focusing on the New York Region in this analysis, but the generalizability of this finding may be substantial. It reveals, perhaps, an indicator of advanced warning. In essence, the recognition in 1960 of a good portion of the housing supply of a metropolis reaching obsolescence at one time in the 1970's underscored, perhaps, the abandonment phenomenon which is currently a growing problem. Thus, the historical study of construction periods in a region can possibly bring an awareness of when the increase in the supply of obsolescent housing will be at its greatest.

Public Affairs Counseling Model

Stages of Neighborhood Decline: In a study for HUD of the abandonment process, the Real Estate Research Corporation isolated convenient description points along a continuum of neighborhood change, running from new, healthy, high social status neighborhoods to old, wornout, dilapidated, social status areas.[37] The narrative of the key parameters of these stages is as follows:

Stage I: Healthy and Usable Neighborhoods: Areas that are thriving and relatively free of problems are divided into two types.

New Thriving Areas: New and relatively new neighborhoods recently constructed both of single family units and garden apartments or multifamily structures. This classification appears to be the updated analogy of Hoover and Vernon's Stage 1. Future evolution of neighborhoods of this type is viewed as dependent upon the original cost range of the housing and the subsequent socioeconomic status of the occupants.

Old Stable Areas: Older prestige neighborhoods with residents of high socioeconomic status comprise this classification. These areas provide superior residential environments and exhibit excellent structural maintenance. While high quality services are evident, these neighborhoods may be located in relatively central locations closer to expanding areas of blight.

Stage II: Neighborhoods of Incipient Decline: Generally, older areas undergoing functional change; that is, the structures may be approaching functional obsolescence and the social composition changes. As older families whose children are raised move out to accommodations of more manageable size, newer, less affluent households move in. As fewer expenditures are put into housing maintenance, minor deficiencies begin to infect the dwellings.

[36] Ibid., p. 196.

[37] Public Affairs Counseling, *HUD Experimental Program for Preserving Declining Neighborhoods: An Analysis of the Abandonment Process* (San Francisco, Calif.: Public Affairs Counseling, 1973).

The decline in socioeconomic status of the residents, their changing tastes, and increased density of existing units put increased pressure on the neighborhood's infrastructure while overall services may decline. Additionally, conversions to nonresidential uses may occur as well as increases in multifamily structures and conversions.

Stage III: Neighborhoods with Decline Clearly Underway: Changes initiated in Stage II become more marked and defined. Interior deficiencies increase and minor deficiencies become ubiquitous. Decline in social status continues, bringing in households with lower economic levels while ethnic changes accelerate. Services, the physical environment, and social needs exhibit increasing discontinuities. The economic rationale of the neighborhoods becomes increasingly focused on renters rather than owners. As the social and physical gulf grows between investors/owners and tenants, there is less awareness of tenant problems, deteriorating tenant-landlord relationships, and rising management and operation costs. Conversions to increased density, and nonresidential uses multiply and overall confidence in the area slackens. Minor problems become general and service problems emerge in proportion to the rapidity of change.

Stage IV: Neighborhoods Accelerating into Late Stages of Decline: Physical decline becomes pervasive as housing becomes progressively deteriorated and dilapidated, requiring major repairs to most structures. This in itself contributes to and is reinforced by a poor neighborhood physical environment. Further social shifts, particularly toward minorities, make the neighborhood marketable only to those of the lowest socioeconomic rank able to make rental payments. The resultant cash flow eventually declines, owner disinvestment ensues, and further strains are placed on the landlord-tenant relationship. The general household type is one existing at subsistence levels, and one of many social problems, often of such severity that they threaten the general safety and well-being of the neighborhood community. Pessimism about the neighborhood's future becomes endemic.

Stage V: Nonviable and Heavily Abandoned Neighborhoods: Essentially, areas reaching this stage are at the terminal point—abandonment, behavioral problems, and severe decline prevail. Stage V neighborhoods are at the bottom rung of the urban hierarchy. Their residents have the lowest social status, the least economic means, and little leverage to improve the area. If no further pool of exploitables arrives on the scene, residents and landlords will abandon the worst of the buildings, leaving gaps among the inhabited structures and underscoring fear of the finality of change. This ultimately leads to the eventual abandonment of the remaining sound structures interspersed in this matrix of decline. All hopes for the future of the neighborhood are extinguished.

Each of these stages appears analogous to those hypothesized by Hoover and Vernon. However, what is different is the recognition of a Stage V as a terminal point rather than a setting for public renewal.

Underlying Processes: Also of importance is the recognition of five basic processes underlying the evolution of a neighborhood into an abandoned shell. Several of these processes appears congruent to some of the potential early warning indicators isolated in previous sections of the literature review:

Physical Maturation Process: The process of decay and change in building types and neighborhoods as they age and are susceptible to other nonphysical influences. (This relates to two indicators of change suggested by Smith, degree of owner-occupancy and regular unit value. The concept of Hoover and Vernon, a pool of obsolescent housing reaching maturity during a relatively short period of time, suggests an analogous measure).

Racial Change: The dynamics of racial change in a neighborhood and its effects on other variables. (This racial variable has also been isolated by Smith and Ylvisaker.)

Decline of Socioeconomic Status: A decline in the prevailing social and economic resources available to residents and consequently the respect accorded them and their neighborhoods by others. (Unit value is again indicative, along with measures of income, education, and occupation of neighborhood residents relative to some larger political or census unit.)

The above three processes are susceptible to measurement by use of relatively standardized measures whose compilation is repetitive and relatively assured over time, i.e., the census. Indicators of the next two processes are much more difficult to obtain, and in any case probably would be evident at a time when the process is beyond reversibility.

Waning Confidence: A perceived lack of confidence in the future of the area, accompanied by various kinds of fear, prejudice, alienation, and assumed beliefs in regard to neighborhood reputation.

Exhibit 2. Strategies for Various Levels of Decay

Types of Areas	Predominantly Clearance & Redevelopment	Immediate Improvement Actions	Predominantly Rehabilitation: Long Term High Cost	Predominantly Rehabilitation: Moderate Term Low Cost	Predominantly Rehabilitation: Long Term Moderate Cost	Neighborhood Conservation
1. Building Dilapidation Frame Structures	X	X				
2. Building Dilapidation Obsolete Structures Neighborhood Deficiencies	X	X	X			
3. Building Deterioration and Dilapidation Obsolete Structures Neighborhood Deficiencies	X	X	X			
4. Building Deterioration and Dilapidation Obsolete Structures	X	X	X	X		
5. Building Deterioration and Dilapidation Substantial Structures Neighborhood Deficiencies			X	X	X	
6. Building Deterioration and Dilapidation Substantial Structures			X	X	X	
7. Building Deterioration Mixed Obsolete and Substantial Structures Neighborhood Deficiencies				X	X	X
8. Building Deterioration Substantial Structures						X
9. Early Evidence of Building and Neighborhood Deterioration						X

Source: *Between Promise and Performance,* Community Renewal Program, The City of New York, December 1968, p. 74.

Disinvestment: The process of declining investment in buildings and neighborhoods by various types of owners, investors, lenders, insurers, brokers, government agencies, indicating what influences the process and its consequences.

New York City Community Renewal Program: In the course of the New York City Community Renewal Program, a series of renewal options based on physical conditions were made. These physical conditions, depicted in the accompanying exhibit, were presented without a supporting theoretical framework. Yet if one aggregates these various types of areas, the resulting typology produces a series of types consistent with the previous formulations. This synthesis of approaches is presented in Exhibit 3.

Indicators of Change: Empirical Evidence

Introduction: In the preceding review, several advanced indicators of change were suggested, principal among these being social/ethnic composition, owner-occupancy, unit value, and socioeconomic status. In order to test and refine these elementary notions, an empirical analysis of the question will be reviewed.[38] While this is one analysis in one city at one point in time, it does offer potential insights that may have wider applicability, either directly or by at least suggesting a methodological approach of determining early warning symptoms.

What will be attempted is the delineation of the terminal point of the evolutionary process—abandonment—and its relation to the status of various indices as they were measured some 11 years previously. The extent of the geographic pattern of residential abandonment will thus be measured and related to earlier characteristics of neighborhoods in which it occurred. This analysis is intended to offer insight into the environmental precursors of abandonment. The scene of the study is Newark, New Jersey.

[38] Analysis adapted from George Sternlieb and Robert Burchell, *Residential Abandonment: The Tenement Landlord Revisited* (New Brunswick, N.J.: Center for Urban Policy Research, forthcoming); Franklin James, Robert W. Burchell, and James W. Hughes, "Race, Profit, and Housing Abandonment in Newark," forthcoming, *Proceedings of the American Real Estate and Urban Economics Association,* 1973.

Exhibit 3. Synthesis of Neighborhood Stages of Decline

Model 1*	Stage 1 Single Family Houses	Stage 2 Transition	Stage 3 Downgrading	Stage 4 Thinning Out	Stage 5 Renewal
Model 2**	Healthy-Viable New Thriving Areas; Old Stable Areas	Incipient-Decline	Decline Clearly Underway	Acceleration into Late Stages of Decline	Non-Viable Heavily Abandoned
Model 3***		9 Early Evidence of Building and Neighborhood Deterioration 8 Building Deterioration Structures	7 Building Deterioration (mixed substantial and obsolete structures, neighborhood deficiencies) 6 Building Deterioration and Dilapidation (substantial structure)	5 Building Deterioration (substantial structures and neighborhood deficiencies) 4 Building Deterioration and Dilapidation (obsolete structures)	3, 2 Building Dilapidation a Deterioration (obsolete structures and neighborhood deficiencies) 1 Building Dilapidation (frame structure)

Source: * Edgar Hoover and Raymond Vernon, *Anatomy of a Metropolis* (New York: Doubleday Anchor, 1962).
** Public Affairs Counseling, *HUD Experimental Program For Preserving Declining Neighborhoods: An Analysis of the Abandonment Process* (San Francisco, Calif.: Public Affairs Counseling, 1973).
*** *Between Promise and Performance,* Community Renewal Program, the City of New York, December 1968, p. 74.

The Environmental Aspects of Residential Abandonment: The task is to establish the relationship of structure abandonment and the earlier characteristics of the neighborhood in which the structure is located. The 1960 census tract population and housing characteristics will be distilled via factor analysis into the basic dimensions differentiating tracts. A large array of basic indicators is reassembled into a few clusters of intercorrelated variables. These estimated factors or clusters are used as a set of quantitative indices gauging the principal independent ways census tracts can be differentiated from one another. In the terminology which has grown up to describe this process, the "factorial ecology" of the city of Newark will thus be delineated.

Each census tract has a measure (factor score) on each of these indices—these scores will be employed in a regression analysis of their relationship to the percent of residential structures in the tract which have been abandoned by landlords over the period 1967 to 1971. This regression analysis is intended to identify the relationships of abandonment to the characteristics of the census tracts.

Thirty population and housing characteristics of these tracts were thus utilized in a factor analysis; the resulting factors were subjected to orthogonal rotation with a selective criteria of eigenvalues greater than one employed to determine rotation.

Static Precursors of Residential Abandonment: The factor structure of Newark's residential patterns in 1960 is quite similar to those which have been found in other older core areas. Three principal factors appear in two groups: (1) a Social Status factor correlated with the percentage of professional and managerial employment, income levels, educational attainment, rental payments and housing value, and residential crowding. This factor thus serves as a way to index census tracts according to their

Exhibit 4. Factor Analysis of Selective 1960 Socioeconomic Variables Employing Newark, N.J., Census Tracts as a Data Base

Variable	Factor: Race and Resources 1	Social Status 2	Stage In The Life Cycle 3	Puerto Rican Segregation 4	Housing Stability 5	Male Unemployment 6
1. % Housing Units: Occupied					.723	
2. % Population: Negro	−.919					
3. Median Age Female	.807					
4. Median Age White Female		.471				−.616
5. % Housing Units: No Bath or Share					−.713	
6. % Housing Units: 1.01 Persons/Rm	−.767	−.413				
7. Median Contract Rent		.775			.422	
8. Median House Value		.732				
9. % Housing Units: Single Family	.444					
10. % Population: 65+ Years of Age	.771	.400				
11. % White Pop.: 65+ Years of Age	.872					
12. % Population: Married	.685					
13. % Population: 5 Years of Age	−.837	−.400				
14. % Housing Units: Owner Occupied	.705				.458	
15. Median Rooms/Unit				.658	.488	
16. % Labor Force: Female				.684		
17. % Population: Puerto Rican Parentage				−.736		
18. Median Education		.774				
19. Median Family Income	.579	.401				
20. % Labor Force: Male Unemployed						−.787
21. % Labor Force: Female Clerical	.722					
22. % Labor Force: Professional Managerial		.777				
23. % Population: Foreign Born	.817					
24. Population per Household		−.458	.472			
25. % Population: Elem. School Enrollment			.776	−.463		
26. % Population: H.S. Graduate		.746				
27. % Population: College Graduate		.849				
28. % Population: Income $3,000	−.646					
29. % Population: Income $10,000	.609	.595				
30. % Labor Force: Manufacturing		−.787				
Variance Explained by Factor (%)	29.6	21.5	8.9	8.3	5.3	4.6

Source: U.S. Bureau of the Census, *U.S. Census of Population and Housing: 1960. Census Tracts.* Final Report PHC(1)–11. U.S. Government Printing Office, Washington, D.C., 1962.

socio-economic character; (2) a Race and Resources factor measuring the presence of nonwhite population, housing crowding, and low income; and (3) a Puerto Rican Segregation factor correlated also with low income, high levels of female labor force participation, and a relatively large median number of rooms per housing unit. These latter two factors serve to measure the concentration of each of the two minority groups within census tracts.

Three factors of less importance resulted from the analysis. These are: (4) A Housing Stability factor, gaging housing vacancy rates, the proportion of housing units lacking a private bathroom, rental levels, and degree of owner-occupancy; (5) a Stage in the Life Cycle factor, delineating family-raising areas of the city, i.e., areas with relatively large families with numerous school-age children; finally, (6) a Male Unemployment factor.

Census tract scores of each of these factors were entered into the regression equation as independent variables. The results of this analysis are presented in Exhibit 2. Only three factors proved to be significantly related to abandonment. These three factors are: Race and Resources, Puerto Rican Segregation, and Social Status. In each case, the regression coefficient displays the expected sign. Of these, by far the most significant is the Race and resource factor. The coefficient suggests that abandonment is positively related to a tract's concentration of nonwhite population, crowded housing, and poverty. Abandonment is also highly associated with the concentration of the Puerto Rican Population in a census tract—those tracts scoring highly on the Puerto Rican Segregation dimension. Furthermore, abandonment is inversely correlated with a tract's socioeconomic character, i.e., Social Status. Not surprisingly, areas with high rent and high value housing and with upper middle class populations tend to experience little housing abandonment.

Exhibit 5. Environmental Precursors of Residential Abandonment

Dependent Variable: Percent Structures Abandoned Per Census Tract

Variable #	Name	B	F	F to Reject Randomness
Factor 1 (X_1)	Race and Resources	−5.49	32.93	3.99
Factor 2 (X_4)	Puerto Rican Segregation	−2.15	4.39	3.99
Factor 3 (X_2)	Social Status	−1.21	2.13	3.99
Factor 4 (X_5)	Housing Stability	−1.44	1.68	3.99
$R^2 = 0.78$	$F = 0.05$			

Source: Center for Urban Policy Research, Rutgers University, Newark Area Resurvey, Spring 1972.

So the characteristics of neighborhoods most closely associated with abandonment some 10 years later are, not surprisingly, very similar to those hypothesized to be correlated with neighborhood decline. That these indicators of decay define the web of characteristics of low social status racial/ethnic minorities is not unusual in terms of our immigration hypotheses. That is, these subpopulations in 1960 were at the low end of the socioeconomic continuum. As the more upwardly mobile members filtered into more adequate housing over the decade, there was no newcomer population to replace them. Thus their 1960 neighborhoods begin to lose their economic rationale and were subject to heavy losses of structures from the residential housing market by the end of the decade.

So, very simply, bottom-of-the-line neighborhoods as defined by the above characteristics would appear to have limited potential for stabilization in the absence of new arrivals to the city.

Neighborhood Precursors of Abandonment (The Dynamic Case): Two types of analysis are possible of the dynamics of neighborhood change in Newark. The first is the analysis of interrelations of changes in individual variables over time—change in race, income, or age composition, for example. The second is the analysis of changes in the structure of interrelations among variables over time. This involves examining the relationships of race, income, and age in 1960, and again in 1970, for example. This latter analysis would attempt to identify change in neighborhood structure. The first type of analysis attempts to identify the structure of neighborhood change. We will employ principal components factor analysis to estimate the structure of neighborhood change in Newark between 1960 and 1970.

The analysis is based on the correlation of the changes in the variables over the decade. A matrix of relative change quotients gages the degree of change in each descriptive variable during the intercensal period. The factors of change are interpreted in the light of both shortrun local processes and major societywide changes occurring in the decade in the 1960's.

The factoring of the relative change quotient matrix results in eight factors accounting for 72.2 percent of the total matrix variance. The great complexity of the change phenomenon and the degree of random noise in the system are attested to by the high number of factors emerging in the analysis (only those factors with eigenvalues exceeding unity were included). The most significant dimension of change summarizes a number of variables relating to the age succes-

sion dynamic currently buffetting Newark. This age succession factor differentiates census tracts according to how rapidly an aging population is vacating to younger and larger families. Thus this factor measures the degree of change in the age and family structure characteristics of neighborhood residents. At the same time, areas of the city are also experiencing change in degrees of their level of socioeconomic status, the second dimension. Of vital importance in indexing such a neighborhood status change is the degree of housing occupancy. It appears that areas of declining socioeconomic condition are also characterized by declining occupancy rates.

Longitudinal change also has important racial components of some complexity. Change in Negro population is not a singular phenomenon, but appears as two distinct, independent elements. Factor 3, young black families, differentiates census tracts according to the increase or

Exhibit 6. Factor Analysis of Selective Change Variables (1960–1970) Employing Newark, N.J. Census Tracts as a Data Base

Variable *	Age Succession (X_1)	Social Status (X_2)	Young Blacks (X_3)	Black Poverty (X_4)	Ethnic Neighborhoods (X_5)	Multi-Unit Female Employment (X_6)	Poverty (X_7)	Young Puerto Rican (X_8)
1. % Housing Units: Occupied		−.856						
2. % Population: Negro			−.676	.522				
3. Median Age Female	.84		.406					
4. Median Age White Female	.428							−.684
5. % Housing Units: No Bath or Share				.624				
6. % Housing Units: 1.01 Persons/Rm			−.872					
7. Median Contract Rent		−.792						
8. Median House Value					.601	.410		
9. % Housing Units: Single Family						−.711		
10. % Population: 65+ Years of Age	.864							
11. % White Pop.: 65+ Years of Age	.897							
12. % Population: Married	.579				.619			
13. % Population: 65 Years of Age	−.472		−.786					
14. % Housing Units: Owner Occupied					.841			
15. Median Rooms/Unit	−.585							
16. % Labor Force: Female						.683		
17. % Population: Puerto Rican Parentage								.740
18. Median Education	−.416	−.632			−.476			
19. Median Family Income							−.700	
20. % Labor Force: Male Unemployed							+.600	
21. % Labor Force: Female Clerical					−.697			
22. % Labor Force: Professional Managerial		−.821						
23. % Population: Foreign Born	.652				.501			
24. Population per Household	−.764							
25. % Population: Elementary School Enrollment	−.689							
26. % Population: H.S. Graduate		−.632						
27. % Population: College Graduate		−.821						
28. % Population: Income $3,000				.754				
29. % Population: Income $10,000		−.416		−.495				
30. % Labor Force: Manufacturing			−.808					
Variance Explained by Factor (%)	18.2	12.9	10.1	9.7	6.8	5.5	5.0	4.0

* Change Quotient: The ratio of the 1970 percentage to the 1960 percentage for each variable characteristic.

Source: U.S. Bureau of the Census, *U.S. Census of Population and Housing 1960, 1970*, Final Reports PHC 111–1.

decrease of young Negro families, crowded housing, and manufacturing jobholders. A second element of racial change gages the penetration of particularly poor Negroes into the city's neighborhoods. This process is indexed by the fourth factor: Black poverty.

There is a definite element of social segregation of black households in the process of neighborhood change. This suggests some validity for the hypothesis that more successful black households are continually attempting to segregate themselves from those who are less successful (exactly as do white households), but that such segregation is too unstable to persist within the geographic confines of the ghetto.

Housing characteristics are important in factors five and six. The fifth factor is positively related to increasing homeownership, families with young children, stable or increasing home values, and proportions of foreign-born. There are also important inverse correlations with increases in median education and female labor force participation in clerical occupations. Thus, this factor appears to index low-middle class family-rising neighborhoods with a pronounced ethnic flavor. It is termed Ethnic Neighborhoods.

The sixth factor indexes areas where increasing importance of multifamily units, increasing labor force participation by female residents, and, at the same time, increasing home value exist. It is termed multiunit female employment. The final two dimensions concisely index changes in regard to poverty and Puerto Rican segregation.

These several dimensions of neighborhood change between 1960 and 1970 are used in our analysis of abandonment between 1967 and 1971. As above, regression analysis will be used. Census tract scores on each of the eight dimensions of change will be employed as independent variables. Again, the dependent variable is the percent of total residential structures which were abandoned between 1967 and 1971. Stepwise regression will be used and only variables significant at the 0.05 level will be allowed to enter the final equation. The results are presented in the exhibit.

The dimensions of change which explain the greatest amount of variance in residential abandonment are respectively: The Ethnic Neighborhood Factor (X_5), Age Succession (X_1), Black Poverty $(X)_4$, the Multiunit Female Employment Factor (X_6), and finally, the Young Black Factor (X_3). Together these five variables explain 65 percent of the variance of census tract abandonment rates.

Exhibit 7. Dynamic Environmental Precursors of Residential Abandonment

Dependent Variable: Percent of Structures Abandoned Per Census Tract

Factor	Name	Coefficient	F Statistic[a]
X_5	Ethnic Neighborhoods	−7.79	68.92
X_1	Age Succession	−2.94	18.15
X_4	Black Poverty	−2.51	13.43
X_6	Female Employment	−2.48	6.98
X_3	Young Blacks	1.46	5.65
$R^2 = 0.65$	Intercept = 8.54		

Source: Center for Urban Policy Research, Rutgers University Newark Area Resurvey, Spring 1972.
[a] F (0.05) = 3.99

These results must be interpreted with some care. It must be kept in mind that these factors describe change rather than level. For instance, census tracts scoring highly on the black poverty factor are neighborhoods where poor black households are becoming more prevalent. However, the tracts need not be predominantly poor or black. In fact, just the opposite might be true. Also, it must be emphasized that it is not possible to infer causality from these correlations. The above example does not imply that an influx of poor black households reduces residential abandonment in a neighborhood; an equally valid interpretation would be that they are fleeing areas devastated by abandonment.

The regression results complement the analysis of the static neighborhood structure presented above in important ways. The ethnic neighborhood dimension of neighborhood change is most importantly related to abandonment. The sign of the coefficient (−7.8) and of the factor loadings suggest that the evacuation of ethnic families from neighborhoods has extremely destabilizing effects on the city's housing market. There are areas within the city where the strong ethnic and family character of neighborhoods has held. These areas suffer least from abandonment.

Each of these dimensions of neighborhood change comprises a complex network of cause, effect, and coincidence. The Ethnic Neighborhood factor loads heavily on homeownership. Homeowners' attitudes and behavior with respect to a property may be much different from those of an absentee landlord. The homeowner values the characteristics and maintenance of a property not only with the profit signals of the real estate market, but also for his own consumption

and enjoyment. Homeowners may inhabit and maintain a property far past the point of profitability, and thus tend to retain unprofitable housing in active use. As a result, the institution of homeownership may have important affects on abandonment.

Several elements of the Ethnic Neighborhood factor identify powerful stabilizing forces against neighborhood change. Homeownership, the presence of children, and ethnic ties all tend to preserve the identity of neighborhood. Homeowners tend to be far less mobile than tenants, and to have a much greater stake in their home than do tenants. The presence of children may strengthen these ties to the community. Similarly, ethnicity offers a shared culture which potentially is sufficiently strong to cement residents in common bond against newcomers. This represents the persistence phenomenon in the fact of economic forces previously identified by Fiery.

Neighborhood change can have great direct and indirect effects on property values. Moreover, the durability of real estate implies that its value is determined not only by its characteristics at any point in time, but also by hopes and fears of future change. In Newark, hopes are rare; stability guarantees against adverse change, and thus can be expected to buoy property values and retard abandonment. Whatever the exact causal relationships are, the strength of the relationship between the Ethnic Neighborhood factor and abandonment is considerable.

The rate of housing abandonment is also significantly related to the age succession factor. This factor indexes increases in the relative importance of small aged householders, and diminishing numbers of children. It also loads heavily on increases in the foreign-born population. Tract scores on this dimension of neighborhood change are inversely related to the incidence of abandonment. It appears that, in part, this factor identifies the same sort of destabilizing change mapped by the Ethnic Neighborhood factor. Aging ethnic households appear to be a positive force for the preservation of housing in Newark. The factor breaks new ground by introducing the effects of household age and size. Increasing neighborhood habitation by younger and larger households accelerated abandonment. Housing serving these larger and more active households must be subjected to a great deal of wear and tear. The factor offers no evidence that this increased wear is matched by increased maintenance costs or higher rentals. As a result, housing serving these households must deteriorate relatively rapidly. Abandonment appears to be the end product of this deterioration.

The earlier analysis of neighborhood characteristics and abandonment showed that abandonment tended to be higher in predominantly black neighborhoods. The dimensions of neighborhood racial change are also significantly related to abandonment. Both suggest that the abandonment of housing occurs at higher rates in neighborhoods experiencing an influx of black households. Apparently an increase of even the more affluent blacks in a local area is associated with higher rates of abandonment.

The black poverty factor further loads heavily on changes in the percent of housing units lacking a private bathroom. This is, of course, one of the principal defining qualities of substandard housing. As a result, units lacking a private bath are prime targets of urban renewal demolition. There is some evidence that rental premiums paid by households in Newark for bathrooms are quite large.

Landlords are offered little incentive to operate these substandard units. Thus, low end housing not retired via public programs ultimately seems to experience a similar fate through housing abandonment. The regression analysis shows quite similar results for the Young Black factor (X_3). This factor appears to represent the influx of blue-collar black families and an increase in crowded housing. Once again, the regression coefficient implies that the influx of such households is associated with higher rates of abandonment.

Only one other factor is significantly related to abandonment, the Multi-Unit Female Employment Factor. This factor loads most heavily on changes in the percent of housing units in tracts which were in single family structures, with secondary loadings on changes in female labor force participation and home value. In Newark, changes in the importance of single family units occur principally through patterns of demolition in housing, and limited construction of multi-family structures. The factor appears to index areas on the periphery of the city, where home values have been relatively stable, and where new construction has been concentrated.

The relationship of neighborhood change and abandonment is quite complex. This is particularly true with respect to racial and ethnic change. Analysis of both the Ethnic Neighborhood and Age Succession factors suggested the Newark's immigrant population is a powerful stabilizing force in the city. At the same time, the

complementary increase in the black residents in a neighborhood is associated with a higher incidence of abandonment. The picture that seems to emerge is a complex social process of initial neighborhood solidity and subsequent dissolution.

So in viewing neighborhood change in the dynamic case, further evidence is presented on indicators of change that have been isolated previously. Of vital importance as on a leverage point for stability appears to be ethnic persistence in the face of socioeconomic change. This is a factor identified by Fiery in our previous survey raised in protest against the purely "social Darwinistic" arguments of the urban ecologists. As an indicator of neighborhood decline, changing ethnic concentrations may signal the gradual loss of confidence by a very stabilizing subpopulation.

What may reflect this same phenomenon is the changing age structure parameters of a neighborhood. The invasion succession dynamics, whereby older foreign born populations are vacating their neighborhoods to younger, family-raising minority groups, is a process which can be gaged by census demographic variables. Overall, the dynamic analysis has given added emphasis to the strategy of identifying existing ethnic compounds and to anchor stabilization efforts on these social territories.

Summary: The accompanying tabular summary presents a more structured review of the parameters which have been isolated in the literature and in the empirical review of indicators of neighborhood decline.

Indicators of Decline or Stability

Variable	Concept
1. Socioeconomic Status Income Education Occupation	A neighborhood's change in the specific variable in relation to change in the city as a whole. To identify the evacuation of an area of the more affluent populations and the in-migration of poorer groups.
2. Ethnic Persistence Ethnic Groups	Maintenance of ethnic preserves in the face of socio-economic-racial change may be a pressure point for stabilization efforts. Declining ethnic concentrations an early warning of impending decline.
3. Age Demographics Household Age Household Size School Enrollment	Changing age characteristics indicate invasions of young family raising groups and evacuation of older foreign born households. Increasing stress placed on neighborhood infrastructure.
4. Racial-Ethnic Minorities (of low social status) Racial Groups	Reveals the path of diffusion of ghetto concentrations or the vacation of a neighborhood by white subpopulations.
5. Structure Characteristics Owner Occupancy Unit Value	A high degree of owner occupancy may indicate a potential for a high degree of maintenance. Declining rates may signal impending decline. Unit values can either indicate persistence or change.

Summary: Neighborhood Change Literature

General Thresholds: In reviewing the body of literature which addressed itself to the question of neighborhood change, it becomes evident that the formulation of public policy alternatives must focus on several levels. The first involves that of general thresholds regarding the potential of the broader metropolitan region. Is the city a necessary economic linkage within the Nation's economy or has it lost most of its significant functions? Within this setting, the viability of the Central Business District must also be determined in relation to suburban economic growth. The magnitude of the concentration of economic activity of central areas is a function of high trip-making density which cannot exist without commuter railroads and rapid transit. It is difficult, for example, to conceive of New York and Chicago supporting their central area economic functions without these special transportation facilities. Thus a well developed downtown core is undoubtedly dependent on commuter railroads and rapid transit.

Several general thresholds must initially be considered, the first of which is the broader national economic function of the metropolis.[39] Thus the strength of the CBD within that metropolis, generally a function of mass transit in older urban centers, must be compared against dispersed economic activity, which except in the case of the metropolitan areas of the southwest may be external to city political boundaries. Even if some threshold of economic viability is present, its degree of concentration or dispersion has an important bearing on which neighborhoods may have future usefulness. Finally,

[39] A driving force of neighborhood change is the presence and location of the jobs.

Exhibit 8

THRESHOLDS	Metropolitan Region: Strong Economic Function, CBD Oriented Immigration		Strong Economic Function, Suburban Oriented Immigration		Weak Economic Function, CBD Oriented Immigration		Weak Economic Function, Suburban Oriented Immigration	
AREAS	YES	NO	YES	NO	YES	NO	YES	NO
Zone of Transition								
Low Rent Sectors	X							
Intermediate Rent Sectors	X							
High Rent Sectors	X	X						
Inner Zones								
Low Rent Sectors	X		X		X			
Intermediate Rent Sectors	X	X	X	X	X		X	
High Rent Sectors	X	X			X			
Suburban & Exurban Zones								
Low Rent Sectors	X	X	X	X	X	X	X	X
Intermediate Rent Sectors	X	X	X	X	X	X	X	X
High Rent Sectors	X	X	X	X	X	X	X	X

Note: (X) Indicates potential of neighborhood viability based on thresholds.

the last general threshold involves the level of immigration by racial/ethnic groups and other specialized subpopulations. Each of these general thresholds interacts to form a matrix within which the evolution of different neighborhoods must be viewed.

Specific Areas of the Metropolis: The parameters isolated in the previous section essentially define the levels of potential of neighborhood stabilization in the various zones and sectors of the city. Exhibit 8 presents for each of these thresholds an initial approximation of whether the potential exists for valid residential usage among the basic spatial areas of the metropolis. General observations from the literature suggest that the inner zones have little long-range usefulness in the absence of CBD strength —either due to the viability of the region as a whole or to suburbanization of economic activity —or new subpopulations arriving in the city. Intermediate rent sectors are more likely to preserve their stability than either low or high rent areas. Unique neighborhoods of structural durability and original amenity also may provide opportunities for stabilization not otherwise feasible. Moreover, the maturation and obsolescence of large inventories of housing where origins were the boom periods of previous eras is a problem with ever-strong overtones.

Stages of Neighborhood Decline: Some light is shed on the general process of change which affects each of the above sectors and zones by getting down to the neighborhood level to attempt to isolate the various phases through which they have passed. Most of the formulations reviewed involved substantial risks of oversimplification and much too easy generalization. Each neighborhood is to some extent unique; each matures and decays by some special path. Yet common elements are present, and general stages in the evolution of a neighborhood have been delineated. In fact, what seem to be independent constructions of this process appear quite congruent.

Stage 1: Healthy-Viable-Single Family Homes or Higher Density Communities

Stage 2: Transition-Incipient Decline

Stage 3: Downgrading-Decline Clearly Underway

Stage 4: Thinning Out-Acceleration Into Late Stages of Decline

Stage 5: Renewal-Nonviable, Heavily Abandoned

Indicators of Change: A review of the historical literature on urban change and neighborhood decline reveals a relative paucity of empirical and theoretical developments on advanced indicators of decay. Perhaps the most significant characteristic of impending deterioration is the presence of low socioeconomic status minority group members. Neighborhoods of the city showing the highest concentrations of this subpopulation 10 years ago most likely would be the most heavily abandoned today in the absence of substantial new in-migration.

Also closely related to these parameters are the structure characteristics of owner-occupancy and unit value. Areas of low unit value or rental, and low degrees of owner-occupancy would appear to be particularly susceptible to decay over time. In fact, neighborhoods with low unit values, low owner-occupancy percentages, with an inter-

mediate level of minority group presence would appear to have the secondary threshold characteristics for decay on the immediate period and abandonment in the long-range time frame.

In contrast, ethnic persistence may provide a toehold for stabilization efforts. In such instances, the age demographic variables would appear constant, as would the socioeconomic status of the neighborhood. However, ethnic decline, changing age parameters, and declining socioeconomic status give evidence of a declining urban neighborhood.

Processes of Decline: Out of the various explorations into the question of urban change and neighborhood decline, a series of causation processes were emphasized. While each of these is important in itself, the decay and deterioration of a residential subarea undoubtedly can be the result of any number of permutations and combinations of the factors. There is no all-encompassing scenario. Nevertheless, the following list comprises the principal contributing elements of decline:

1. Aging, obsolescent, residential structures.
2. A mobile, footloose upper and upper middle class population.
3. Changing tastes, fashions, and innovations in housing techniques.
4. The movement of high rent, residential neighborhoods outward.
5. Rapid urban growth—newer fashionable areas drawing populations from aging neighborhoods.
6. The successive upward movement (filtering down of housing) by all groups following the initial upper class moves, leaving the oldest and cheapest housing as the least useful.
7. Suburban blockages to outward flows.
8. Racial and ethnic prejudices.
9. Broad inter- and intranational migrations generating increased lower level housing demand.
10. While new arrivals to the city may have caused stage 1 and stage 2 neighborhoods to decline to stages 3 and/or 4, a decline in magnitudes of these arrivals may cause the latter stages to accelerate to stage 5.
11. Shifting transportation modes from public transit to private vehicles. Ubiquitous ownership of automobiles.
12. The subsequent reorientation of economic activities to suburban freeway locations, reducing the spatial advantages of older, yet serviceable inner city neighborhoods. The general phenomenon of job dispersal and the decline of the CBD.
13. Forced dispersion of lower income residents, i.e., forced invasions, through clearance, etc.
14. Declining neighborhood and citywide services.

The Effect of Federal Programs on Neighborhood Decline: General Overview

Introduction

In the previous section, a matrix was compiled with one axis representing the economic status of a metropolitan region subdividing areas by strong and weak economic functions, or more simply, fast or no-growth regions. These categories were further disaggregated into the central city or suburban economic orientations, but for the task at hand, let us simply leave the dichotomy to regions that are growing or are not growing. Too fine a breakdown at this point will merely add complications and complexities that would substantially distort the larger picture we are trying to grasp.

For the evaluation of Federal housing programs, envision a second axis comprising housing programs inside the central city and outside. These are further divided into subsidized and unsubsidized programs with resulting impact on income and race of users.

Negative Impact

The extreme case of the negative impact of housing programs, whether subsidized or otherwise, is the no-growth region no-growth city, in which the focus of housing programs has been suburban. In the simplest of terms, we have an overall limited demand for housing accommodations; the relatively older central cities compete —usually ineffectually—with new additions in the suburbs. The result is very clear and very evident. There will be a decline in the population base of the central city—particularly in terms of households—a consequent weakening of the housing market, and a reduction of essential capital improvements in maintenance within the city. The ultimate conclusion is the abandonment phenomenon.

Empirical Evidence: One example of the immense change generated by a government-aided housing program has been evaluated by Greenberg: Co-Op City in Bronx County, New York

City.[40] While within the confines of New York City per se, it is built on a large tract of land, formerly an amusement park, very close to the Westchester County border. Adjacent to Pelham Bay Park, it is physically distinct from the rest of the city, and is designed to house over 15,000 families in a virtually self-contained community. Although built under the Mitchell-Lama program of New York State, it still serves as an example of a large-scale development essentially external to the city. An analysis of tenant files and a resident survey determined that substantial migration to Co-Op City was associated with perceived neighborhood deterioration of the tenant's former locale within New York City. Persons who had lived in apartments in the southwest and southeast Bronx moved to Co-Op City because of neighborhood decline. They also believed that most of their friends living in the vicinity wished to move.

The movement of about 6,000 middle class families to Co-Op City by June, 1970 has contributed to the rapid turnover of the origin areas to middle income blacks and Puerto Ricans. While Morris Heights and High Bridge are exemplary, the same process is occurring northeast of Hunts Point. In Soundview over 5 percent of the 1960 population filed applications for Co-Op City. With their departure, the area has become a middle income Puerto Rican settlement. Crime and Co-Op City have been suggested as major contributing factors.[41]

In his analysis, Greenberg attempted a quantitative measurement of the qualitative assessment of neighborhood deterioration.

One possible indicator was minority group encroachment. Many persons perceive such a movement as an inevitable sign of decay. A direct way of testing this perception is to determine the relative growth of minority group members, yet several forms of this variable yielded insignificant results. Rather, the evidence specifically suggested that the flight was away from selected minority group socio-economic classes identified with deteriorations. New York City public housing projects are located in a number of northern Bronx areas, but stable or increasing white middle class populations are found in these same areas. Second, the literature suggests that minority group pioneers comprise the higher status elements of their own groups. This contention was verified by the authors in the areas vacated by Co-Op City residents. And third, Co-Op City contains approximately 20 percent minority group residents. Therefore we concluded that mere presence of blacks and Puerto Ricans was not a sufficient condition to cause substantial outmigration. Instead, extreme fears would be engendered by rapid movement of the entire, lower class, minority group ghetto. With it comes fears of the associated syndrome of factors leading to neighborhood deterioration.[42]

[40] Michael R. Greenberg and Thomas D. Bosewell, "Neighborhood Deterioration as a Factor in Intraurban Migration: A Case Study in New York City," *The Professional Geographer*, Vol. XXIV, February 1972.
[41] Ibid., p. 13.
[42] Ibid., p. 14.

While the specific measure of neighborhood deterioration—areas of greater than 25 percent minority group membership with median family incomes below $4,500—is important in itself in verifying previous indices of deterioration, the important element of the study is the documentation of a housing program draining other neighborhoods of middle class residents. In this case, many areas have declined significantly due to the influence of Co-Op City. On the other hand, it could be argued that the City, by promulgating this development, is regrouping a middle class population, although in an enclave, that would have eventually moved outside its political boundaries. In any case, the neighborhoods vacated most likely experienced an accelerated decline. Thus, neighborhood stabilization programs may not be expected to have great success in the shadow of a new large-scale development draining a tributary area of its moderate-middle income residents.

This example is not ideal because of the development's spatial positioning within the political confines of the city. Yet it has essentially created havoc in vacated neighborhoods in the same sense as a suburban project.

This particular model, then, of suburban housing programs in a no-growth context, and its partial representations in the Co-Op City example, seems substantially to characterize the older northeastern cities. They tend to be embedded in a region which has less than its natural share of growth either in jobs or population. While the level of housing starts which they have enjoyed, particularly in the subsidized areas, has been less than that of the balance of the country, the overall housing starts have been somewhat larger than the commensurate growth in household count. The result has been a substantial diminution in central city housing demand.

The Long Term Negative Effect

This process is far from unique to our own time; in the work of Blumenfeld—"The Tidal Wave of Metropolitan Expansion"—which we previously reviewed, the outmigration from the central core of Philadelphia was traced back to the turn of the century. And there are analogies in many other older cities. What has been unique in our own day, however, has been the impact of the self-liquidating FHA guaranteed mortgage (and, more recently, the development of privately insured mortgages, particularly in suburban areas which do not have some central city problems) which has generated a vast increase in housing supply outside the central city.

After World War II the Federal Government, through its mortgage insurance programs, made the ownership of new, single-family dwelling units extremely easy. The FHA and VA programs produced lower down payments and longer periods of loan (thus lower monthly payments) through guaranteeing loans, so that no risk remained to the investor. The HHFA has been severly criticized for this policy, yet there seems little doubt that most Americans with freedom to choose want the owner-occupied, single-family unit. . . .

The two programs subsidizing the housing industry, FHA and VA, have been administered through private lending agencies. They are essentially insurance schemes that guarantee mortgages. Through their commitment to private agencies they have shored up the preferences of private lenders—for *new* houses, for *single-family* houses, for *younger* families and for *white* families. In this way they have been discriminatory against those whose preferences vary from the mode, who want more urban living, in older multiple-unit structures, in older parts of the city . . . .

In short, the changes brought about by greater locational freedom and greater social choice have resulted in the "trickling down" of the central city plant on the continuum of values. Housing no longer desired by the white middle class is handed on to lower income populations; stores and plants no longer desired by prosperous growing enterprises are handed on to marginal enterprises. Rents decline as this occurs, and taxes are apt to decline with them. Declining taxes, in turn, lead to declining public services—which feed back upon the general desirability of the property.[43]

While the vast bulk of this new housing has been occupied by whites, the partial vacuums left behind by the out migration have enabled minority groups to filter up the housing ladder, leaving areas such as Harlem or Hough at not much more than 60 percent of their peak population. Thus it should be noted that the filtering process in central cities has been working and as yet we do not have an effective takeout mechanism for unused or underutilized or archaic facilities.

The Effect of Subsidized Housing on this Package

The bulk of the section 235-financed housing has been erected outside of the central city.[44] On the other hand, the bulk of the rehabilitation done under the 235–236 programs, as well as some of their more recent antecedents, have been constructed in the central city and have provided a funding mechanism to speed up the filtering process. This has been done by generating an accelerated supply of cash buyers for properties held by middle class whites who were locked into their areas by lack of purchasing power on the part of the potential applicants. The Federal Government provided this bridge through the subsidy programs.

The effects have been twofold. On the one hand, in many cases they have permitted minority group members, particularly, to secure housing that is probably better than that which they previously occupied, and, at least when these processes took full cognizance of the market and were at reasonable prices, to become homeowners in reasonably satisfactory fashion. To the typically white sellers, on the other hand, the monies received were not uncommonly on properties held for a long period of time and substantially paid for. Therefore, they provided the essential nest egg for the suburban downpayment.

Since the HUD mechanism was very limited in the geography of the acquisition process, much of it took place in very limited and concentrated geographic areas. In one neighborhood of Kansas City, for example, which has approximately 1,500 houses, nearly 500 were subjected to the process described above. The results in altering the neighborhood ecology, which at best was a delicate one—the housing in this case (and it was not unique) was relatively old but substantially maintained by the small, aged, white ethnic households who predominated the area—caved in under the new demands of the young families with children. The impact upon the balance of the homes in the area needs little comment. In a municipality such as Kansas City with a gross vacancy rate somewhere in the order of 10 percent or more, the delicacy of the market and the withdrawal of capital in the face of such massive shifts can have horrendous consequences for its surrounding environs.

It is essential therefore that we differentiate the cities in terms of their various stages of decline, since much of the response of their several markets will be dependent upon the vigor of demand. Growth cities can absorb abrupt governmental inputs. Nongrowth situations—and the bulk of our cities' are well represented by this latter category—require much more delicacy of handling. Contrast the impact of the 312 program, which typically involved substantial benefits to resident owners and essentially kept tenants and residents through the process of upgrading the housing, with the coupling of grants-in-aid and long term, relatively inexpensive rehab loans, to the 235(j) program, which typically involved much heavier levels of rehabilitation and most commonly several shifts for a

[43] Scott Greer, *Urban Renewal and American Cities* (New York: Bobbs-Merrill Company, Inc., 1965), pp. 133–136.

[44] Section 235 refers to single family home ownership either new or rehabilitated. Section 236 refers to multifamily new or rehabilitated rental housing. These programs are detailed in a later section.

Exhibit 9. Where the Subsidies Went in 1971

	Northeast (9 States)	North Central (12 States)	South (16 States and Washington, D.C.)	West (13 States)
1970 Population	49-million	56-million	62-million	34-million
Volume of FHA insured new construction (Section 235, or ownership)	6,391 units	29,398 units	66,095 units	24,488 units
Volume of the above per million inhabitants in region	130.4	519.4	1,052.5	703.6
Volume of FHA insurance for rehabilitated housing (Section 235)	1,056 units	3,034 units	7,278 units	4,298 units
Volume of the above per million inhabitants in region	21.6	53.6	115.9	123.5
Volume of FHA insured new and rehabilitated (Section 236)	20,604 units	30.051 units	33,821 units	20,797 units
Volume of the above, per million in region	400.5	530.9	538.5	597.6
Vacancy rates 1971 (year-round vacant)	4.1	5.6	7.1	6.7

Source: *New York Times*, December 24, 1972, Section 8, p. 1.

very brief period of time. In weak market areas the 235 program found a shortage of buyers. The market responded by creating buyers, sometimes out of welfare recipients and frequently, at best, from people who had no real interest nor capacity to own and manage something as complex as a house.

While we have specific instances of great change produced by subsidized packages, we must put these efforts into reasonable perspective. In the fiscal years 1971–1972, as many new federally subsidized housing units were placed into production as had been started during the previous 35 years of Federal housing production efforts. But, what has been the significance of these efforts? Let us take the Northeast sector. The number of households in this region increased from 13,552,000 in 1960 to 15,482,000 in 1970, an increase of about 192,000 households per year. If we assume this increment is valid for 1971 and compare this to the 28,051 subsidized units that year, the latter represents 14.6 percent of the household increase. The basic question involved the impact of this magnitude on the long term trends affecting the older core cities of the region.

New housing by itself may not deal with the underlying reasons of decay in central cities and may have only limited effect on the long term evolutionary parameters of neighborhood change. The concentration of 15,000 units in a single urban area—say, Co-Op City in New York, where the Borough it affected (Bronx) had almost no household increase over the past 10 years—had effects which were particularly devastating to the neighborhoods from which the regrouped population was drawn. But the essentially one-shot spurt of federally affected construction produced volumes not nearly so great as to produce any equivalent impact in any of the other no-growth urban cores—neither the positive effect of creating a new stage 1 neighborhood nor the negative effect of fostering middle class withdrawal from stage 2–3 neighborhoods.

A Further Caveat

A better idea of the impact of the subsidized programs can be obtained if we look at their output over time. The total direct output over time is indicated in Exhibit 3.

If the approximate 5-year output for the period indicated—1,461,952 units—is compared to the base to which they have added, some idea of potential impact can be gaged. In 1970, there were 247 SMSA's (Standard Metropolitan Statistical Areas) containing a total of 43,858,775 occupied housing units, of which 21,378,708 were in the central city portion of the metropolitan area. If we construct an average SMSA by dividing these totals by 247, then the typical metropolitan area contains 177,566 occupied housing units, 86,553 of which are in the central city. Over the time period indicated, 5,919 units were added to the average SMSA overall, or about 1,184 per year. While some adjustments would have to be made to make this estimate totally precise, they are approximate indications of the basic realities

Exhibit 10. Directly Subsidized Housing Production (in numbers of units)

Construction	1968	1969	1970	1971	Jan-Apr 1972	Total	Percent
Section 235	647	28,127	116,073	140,728	41,486	327,051	22.4%
Public housing							
Conventional	42,240	27,598	30,563	18,022	3,146	121,542	
Turnkey	18,353	31,095	52,286	38,375	3,307	143,416	
Leased	7,600	8,368	16,044	11,634	2,116	45,762	
Total	68,193	67,061	98,866	63,031	8,569	310,720	21.3
Section 202	6,440	7,423	2,984	947	—	17,794	1.2
(Rent supplement							
excluding 236)	16,720	17,912	22,919	9,861	2,011	69,423	4.7
Section 221(d)(3)	45,403	33,439	16,544	5,659	222	101,267	6.9
Section 236	—	10,168	105,160	108,681	16,489	240,498	16.5
Insured state projects	796	2,881	10,817	24,927	2,001	41,422	2.8
Dept. of Agriculture	27,170	29,920	57,630	74,670	19,824	207,214	14.2
Total new units	163,359	196,931	430,993	433,504	90,602	1,315,389	90.0
Total units rehabilitated	28,417	29,433	40,093	38,043	10,578	146,566	10.0
Total Units	191,776	226,363	471,086	471,574	101,180	1,461,952	100.0%

Note: Data did not include subsidized occupancy of 172,330 existing decent quality housing units provided for by direct housing subsidies during fiscal years 1969-71. Nor do figures include housing provided by Departments of Defense and Interior.
Source: "Federal Housing Subsidies," *Savings and Loan*, January 1973, p. 60.

of impact. So, at most (and this is probably an overestimate), the subsidized production of the peak period currently accounts for 3.3 percent of the total occupied stock of the SMSA, or—if it all went into the central city—6.8 percent of the city's occupied stock. These figures are not overwhelming, to say the least. The approximately 6,000 units per SMSA could conceivably be considered one or at most two neighborhoods in an urban context. So, when we speak of the impact of these programs on neighborhood decline, we may be presumptuous in attributing too much effect to the subsidized efforts.

This may be particularly so in the Northeast region, which, as the exhibit in the previous section showed, had proportionally a much lower share of subsidized units than their population totals would indicate. So, in the urban cores of the Northeast, where neighborhood decline has been most severe, the impact of federally subsidized housing programs has been considerably less than that indicated above.

Housing Programs Within Cities

Much of the new housing generated by either direct or indirect subsidy—e.g., Mitchell Lama in New York State or the New Jersey Housing Finance Agency Programs and the like—may represent more of a regrouping of extant middle class elements within the city than newcomers to the city. Again, the Co-Op City case observation is the prototype example of a housing program within the city which essentially brought together middle class subpopulations from older diverse-neighborhoods into a new neighborhood. Developments of this scale generated within the city an essentially new neighborhood at stage 1 in the evolutionary cycle. However, the human input into this new urban "subsystem" has been assembled at the expense of other, more fragile elements of the urban complex. Thus, several other neighborhood areas may advance to later stages of decline much faster than would have been the case without the new added development. Yet the middle class elements have been kept within the city and the city has a new neighborhood at the initial stages of the evolutionary cycle. So a net overall benefit may accrue to the city, although highly visible change and dispersed deterioration may be the cost.

While the above type of housing effort essentially draws a specific subpopulation from diverse areas to concentrate them in a specific locale, the urban renewal-clearance approach has produced a dramatically opposite effect. In this case, stage 5 neighborhoods, or those purported to be approaching the terminal point in the change cycle, are cleared through direct public action and the low income inhabitants dispersed. While direct evidence of their movement patterns has, at best, been scanty, we would hypothesize that stage 5 neighborhood residents would be

dispersed into stage 4 neighborhoods, some of whose residents would jump to stage 3 neighborhoods, and so on. Martin Anderson hints at the overall process as follows:

> The federal urban renewal program attempts to rebuild rundown areas of cities by feeding large subsidies of public money and government power into the normal operations of the private market . . . the law of eminent domain gives the state the power to appropriate private property for public use without the consent of the owner. Compensation must be given.
>
> Once the city has acquired title to the property, the process of urban renewal begins—the people living in the urban renewal area are either forced to move or to rehabilitate their homes, buildings are destroyed, the rubble is cleared away, new streets and lights and other public facilities are installed, the cleared and improved land is sold to the private developer by either direct negotiation with city officials or by competitive bidding. . . .
>
> The federal urban renewal program allows those in control of the operation of the program to change one kind of neighborhood into another kind by destroying the old buildings and replacing them with new ones. Naturally the new uses they choose for the cleared land—perhaps high-rent apartments instead of low-rent apartments, for example—are those they feel are desirable, from their viewpoint of what the public good is . . . government officials use taxpayers' money and the power of eminent domain to scatter residents of run-down areas of cities, demolish the buildings they once lived in, and then guide the reconstruction according to aesthetic, social, and economic standards which they feel to be more suitable.[45]

Thus one could hypothesize that clearing those areas at the end of the neighborhood cycle would generate repercussions successively through the heirarchy of city neighborhoods, creating a push factor hastening the decline of recipient neighborhoods. Moreover, the recreated neighborhood ecology in the cleared area may have the additional effect of regrouping the extant middle class residents from neighborhoods subject to pressure of invasion.

A replication of these effects, but to a lesser extent, would be the logical consequence of rental rehabilitation and code enforcement efforts. Rising rents may force a dispersion of lower income residents and forced expenditures may hasten the outmigration of remaining white owners.

> For a considerable number of the residents of the slum area, rehabilitation will mean an increase in monthly payments. Homeowners who do not wish to fix up their homes extensively, yet have enough money to do so, have two choices:
>
> 1. They can sell their home and move.
> 2. They can divert money from other uses and spend it on improvements.
>
> For those people who are unable to afford the increase in monthly payments, there is no choice; they will be required to move. The local renewal agency has the power to seize the property, rehabilitate, and then sell it to some other private individual. In essence, the federal rehabilitation program forces the property owner either to fix up or sell out. If the property owner is an occupant, he is forced to fix up or move out. For tenants the edict is pay more or move out.
>
> The problems created by rehabilitation are directly analogous to those created by the typical redevelopment project that acquires properties, destroys the buildings, improves the land, and then sells the land to other private individuals. The people who are required to move by rehabilitation must, of course, move to a neighborhood that they can afford. This can easily lead to overcrowding and deterioration in the neighborhood to which they move.[46]

Broad Programmatic Synthesis

This section, then, attempts to provide an overall conceptual framework of broad processes induced by various program designs in alternative contexts. Efforts can be dichotomized into central city and suburban foci and further subdivided into subsidized and unsubsidized categories. Moreover, they may operate in both growth and no-growth contexts to different conclusions. The overall effects of programs embedded within this typology of approaches probably can be subsumed under several general processes. Many permutations of these processes conceivably would emerge under the specialized conditions, i.e., growth vs. no-growth, economic centralization or decentralization, migration, and other localized vagaries. We will briefly isolate more of the striking qualifications which must be made but in order to keep the task within manageable bounds we will keep the descriptions succinct.

Central City

Urban Renewal: The effects of urban renewal—clearance and dispersal—have pushed low income residents into other neighborhoods of the city, generating successive moves throughout the neighborhood hierarchy, ultimately pushing middle and upper class whites out of the city. The rebuilding of the vacated area into a new stage 1 neighborhood is really a function of the growth/no-growth setting, which determines the marketability of the site for new residential construction. But the most significant externality of the program is the unplanned dispersion of low income site occupants to other neighborhoods—a push factor.

[45] Martin Anderson, *The Federal Bulldozer* (Cambridge, Mass.: The M.I.T. Press, 1964), pp. 2–5.

[46] Ibid., pp. 156–157.

Rehabilitation (Rental) and Code Enforcement: These broad programmatic elements produce effects analogous to urban renewal but to a markedly less degree. Associated with these programs are rent rises which, while returning a neighborhood from stage 3 to stage 2, for example, may push out the current low income residents to surrounding areas. And in the no-growth context the marketability of the final product could be questionable, with substantial vacancies occurring. Aged white ethnics also could be forced from the area.

Rehabilitation (Subsidized Ownership): This attempt to stem neighborhood decline provides an accelerated supply of cash buyers and a takeout mechanism for inner city whites and perhaps middle class blacks which enables them to suburbanize. While this represents a speedup of the filtering process, in no-growth contexts a faster decline of lower level neighborhoods may be fostered.

Regrouping: New, large-scale projects, with or without subsidy, represent a pull factor. These programs represent a regrouping of extant middle class elements within the city, perhaps accelerating the decline of older, more fragile neighborhoods.

Suburban

Any housing built in suburban areas usually forms a strong market competitor to the available supply in central city neighborhoods. The direct effect on neighborhood decline becomes particularly a function of the economic strength of the CBD and the growth of the entire metropolitan region. But whatever the growth context of the suburban housing program, the partial vacuums left behind by the outmigration have enabled minority groups to filter up the housing ladder. Thus those bottom-of-the-line neighborhoods in stages 4 or 5 of the evolutionary cycle may lose their economic rationale in the extreme no-growth, or no-new-arriving subpopulation situation.

The Effect of Federal Programs on Neighborhood Decline: Specific

Introduction

This section will take a closer look at specific Federal approaches by presenting an overall inventory of programs and evaluating the effect of the broader program categories in terms of the neighborhood decline model which we previously constructed. The basic framework for examination attempts to cover a number of the key points made in previous sections of this document.

1. Function within the neighborhood decline model
2. Neighborhood focus vs. the housing unit
3. Indications of change leading to intervention
4. Spatial location considerations
5. General threshold conditions

These variables should serve as our model evaluation criteria, yet key empirical evidence on many points of discussion is clearly lacking. This forces a more subjective, probabilistic evaluation to be made at times. Yet this limitation should not be binding, especially if one takes a closer look at what would comprise valid definitive evidence of the effect of a Federal program.

Assume that a neighborhood can be adequately delineated. The neighborhood is not an isolated entity, but part of a broader whole within which it functions and interacts. What happens in the neighborhood is to some degree determined by events and changes of the whole (this is essentially what Smith means by "accommodation"). Furthermore, many occurrences may be specific to the neighborhood, inputs such as levels of public services, migrations in, migrations out, new construction, and various capital flows.

Thus the structure of a neighborhood is determined by a web of interpenetrating forces as well as its internal parameters. The introduction of a Federal program into this "subarea" of the city is just one more input variable operating concurrently. Can we validly attribute change only to this public action while the web of forces defining the neighborhood are in a continual state of flux? The only way to establish irrefutable scientific evidence of the effect of a direct public input is a very vigorous methodology of evaluation. This would require a control group—an identical neighborhood affected by the same combination of forces and inputs. To assess the impact of Federal intervention, all the forces would have to be kept constant, or at least at the same level across both observations while the program package is added to one. Hypothetically, the emerging difference could be attributed to the Federal intervention.

A controlled experiment of this nature is obviously impossible because of the dynamics of change of complex socioeconomic entities such

as residential neighborhoods. This is particularly so with respect to the time frame comprising the various programs, long periods during which many permutations and combinations of change are occurring. It appears, then, that less rigorous evaluations are essential, rather than being compromises. In fact, probably no evaluation has been made according to the ideal model depicted above. The available evidence of effect must be considered fragmentary at best. And reasoned evaluations are not an unrealistic alternative.

Catalogue of Programs

The following exhibit is a partial catalogue of Federal governmental programs relevant to neighborhood evaluation and decline. Each of these is discussed in turn.

Federal Programs

The broad packages of programs are evaluated specifically with regard to the accompanying exhibit depicting Federal programs and neighborhood evolution.

Housing conservation represents an attempt to focus on an entire neighborhood in either stage 2 or stage 3 of decline and upgrade it, respectively, to stage 1 or stage 2. Attention is on both the unit and its neighborhood setting. Advanced indicators of areas requiring this type of action would perhaps be slight decreases in owner-occupancy, value, or rental relative to the larger municipality, and increases in minority group residency. In no-growth contexts, the outer rings of the city and the intermediate rental sectors would theoretically be the most useful spatial focus. Code enforcement has been the principal aid to conservation and has been considered as necessary to produce an environment conclusive to housing rehabilitation efforts.[47] In fact, the President's Committee on Urban Housing observed that rehabilitation could be effected only in conjunction with a concerted public campaign to enforce housing, health and other codes.[48]

Exhibit 11. Selected List of Intervention Packages

Housing or Neighborhood Strategies	Government Programs		
	Program	Legislative Origin	Description
Housing Conservation	117 Code Enforcement Program	Section 117, Housing Act of 1949 (Public Law 81–171), as added by the Housing and Urban Development Act of 1965 (Public Law 89–117)	Grants of up to two-thirds of program cost for municipalities over 50,000 population and up to three-fourths of program cost for municipalities 50,000 or under in population are made for planning and administering concentrated code enforcement programs in deteriorating, but basically sound, selected local areas. Eligible project expenses include administration, and public improvements, such as necessary streets, sidewalks, curbs, street lighting, tree planting, and similar improvement. Direct Federal 3 percent rehabilitation loans, rehabilitation grants, and relocation payments are available.
Housing Rehabilitation	Title I Home Improvement	1934 National Housing Act	Insures loans made by private lenders to property owners who make home improvements in either single or multifamily dwellings.
	Title I Urban Renewal Rehabilitation	1949 Housing Act as amended 1954	Compensates either two-thirds or three-quarters of the eligible project costs incurred by the local public agency administering an urban renewal rehabilitation program. Eligible project costs include public improvements, surveying properties, and planning and implementing a code enforcement program.

(Continued on p. 1151.)

[47] This discussion is based on a review of code enforcement by David Listokin, *The Dynamics of Housing Rehabilitation* (New Brunswick, N.J.: Center for Urban Policy Research, 1973).

[48] U.S. President's Committee on Urban Housing, *A Decent Home* (Washington, D.C.: U.S. Government Printing Office, 1969), pp. 105–106.

(Exhibit 11—Continued from p. 1150.)

Housing or Neighborhood Strategies	Government Programs		
	Program	Legislative Origin	Description
Housing Rehabilitation (Continued)	203k–220h	1961 Housing Act	Insures loans made by private lenders to property owners who make major improvements. Maximum loan amounts are $12,000 per family unit ($17,400 in high cost areas) with a term from 5 to 20 years with a 7.5 percent interest rate. The 203k and 220h programs differ only in that the latter can be used only in urban renewal areas.
	312, 115 Programs	The 312 and 115 programs were established by the 1964 and 1965 Housing Acts respectively.	Both programs can be used only by owners of properties in urban renewal or intensive code enforcement areas; or by owners of properties deemed uninsurable because of physical hazards after an inspection by a state FAIR plan. The 115 program grants up to $3,500 to owner occupants with incomes of $3,000 or less. Under the 312 program owner occupants of properties can obtain a $12,000 loan per dwelling unit ($17,400 in high cost areas) at a 3 percent interest rate and a maximum 20 year term.
	235	1968 Housing Act	The 235 program provides interest subsidies on loans to families with incomes not exceeding 135 percent of the limits prescribed for admission to local public housing for the purchase of new, existing or substantially rehabilitated houses. A Federal interest subsidy reduces the effective mortgage interest rate paid by the moderate-income mortgagor to as low as one percent, but the mortgagor must pay 20 percent of his adjusted income for the mortgage payments.
	221h–235j	The 221h and 235j programs were established by the Demonstration Cities and Metropolitan Development Act of 1966 and the 1968 Housing Act respectively. The 221h program has been phased out and has been replaced by the almost identical 235j program.	Direct below-market interest rate loans are made to nonprofit sponsors for purchasing and rehabilitating properties. The properties are then sold to families with the same income limits as in the 235 program who can obtain long term (up to 40 years) mortgages with an interest rate as low as one percent.
	221d3 236	The 221d3 and 236 programs were established by the 1961 and 1968 Housing Act respectively.	Nonprofit or limited profit sponsors can obtain long term (up to 40 years) low interest rate mortgages (as low as one percent) for rehabilitating multifamily housing to house moderate income families.
		1968 Housing Act	Provides interest-free, seed money loans for nonprofit sponsors of new or rehabilitated housing for low or moderate income families to cover preconstruction costs involved in planning and obtaining financing for a proposed project. The loans are repayable when the permanent mortgage proceeds become available as the costs they cover are generally included in mortgage financing.
	502 504 Rural Housing Loans	Title V of the 1949 Housing Act	Both programs provide below market interest rate loans for the purchase or improvement of rural homes.

(Continued on p. 1152.)

(Exhibit 11—Continued from p. 1151.)

Housing or Neighborhood Strategies	Government Programs: Program	Legislative Origin	Description
Housing Rehabilitation (Continued)	223 (e)	Section 223(e), National Housing Act (Public Law 73–479), as added by the Housing and Urban Development Act of 1968 (Public Law 90–448)	The Federal Housing Administration is authorized to insure mortgages financing the repair or rehabilitation (as well as construction or purchase) of housing in older, declining urban areas where conditions are such that certain normal eligibility requirements for mortgage insurance under a particular program cannot be met. Normal economic soundness and economic life requirements in such areas may be waived, and decisions concerning location eligibility may be based on individual merit and the need for housing for low- and moderate-income families. No property will be rejected for FHA insurance solely on the basis of its being in an older neighborhood. Mortgages for housing eligible under this special program may be insured under any one of several FHA programs. The maximum amount of the loan, the downpayment, and other mortgage terms vary according to the FHA program under which the mortgage is insured.
	241	Section 241, National Housing Act (Public Law 73–479), as added by the Housing and Urban Development Act of 1968 (Public Law 90–448)	Supplemental loans may be insured by the Federal Housing Administration to pay for alterations, repairs, additions, or improvements to any multifamily housing project financed with an FHA-insured mortgage.
Other programs, e.g., 221(d)2, 221(d)(4), that can be used for rehabilitation as well as for new construction are listed below			
New Construction	Public Housing	U.S. Housing Act of 1937 (Public Law 75‑412), as amended	Financial and technical assistance is provided by HUD to local housing authorities to plan, build and/or acquire, own, and operate low-rent public housing projects. Federal annual contributions are made to cover the debt service on local authority bonds sold to pay for the development or acquisition of public housing. HUD financial assistance is also provided in the form of preliminary loans to the authority for planning, temporary loans to build low-rent housing, as well as annual contributions subsidies. The local housing authority provides housing in various ways—by construction, by rehabilitation of existing structures, by purchase from private developers or builders (the Turnkey method), and through lease from private owners—and then rents these dwellings to low-income families.
	236 106	See description under rehabilitation programs	
	220	Section 220, National Housing Act (Public Law 73–479), as added by the Housing Act of 1954 (Public Law 83–560) and as amended	Mortgages are insured by the Federal Housing Administration on new (or rehabilitated homes) or multifamily structures located in designated urban renewal areas and in areas with concentrated programs of code enforcement and neighborhood development. Supplemental loans are insured by FHA to finance improvements that will enhance and preserve salvable homes and apartments in designated urban renewal areas.

(Continued on p. 1153.)

(Exhibit 11—Continued from p. 1152.)

Housing or Neighborhood Strategies	Government Programs: Program	Legislative Origin	Description
New Construction (Continued)	221(d)(2)	Section 221(d)(2), National Housing Act (Public Law 73–479), as added by the Housing Act of 1954 (Public Law 83–560) and as amended	Mortgages bearing market interest rates are insured by the Federal Housing Administration to finance the construction, purchase, or rehabilitation of one- to four-family homes. The mortgage amount on a single-family home may be up to $18,000 ($21,000 in high-cost areas—plus another $3,000 for large families). Families displaced by governmental action or by natural disaster may pay as little as $200 down on a single-family home. A 3 percent downpayment is required from others.
	221(d)(4)	Section 221(d)(4), National Housing Act (Public Law 73–479), as added by the Housing Act of 1959	Mortgages on rental housing projects of at least five dwelling units are insured by the F.H.A. For new housing the mortgage amount may be up to 90 percent of estimated replacement cost up to an amount of 12.5 million dollars; for rehabilitated housing 90 percent of the sum of estimated repair costs and property value before repairs. This housing is intended for low- and moderate-income families, persons aged 67 years or over, and handicapped persons although there are no family income limitations or eligibility requirements for occupancy.
Clearance and Demolition Programs	116	Section 116, Housing Act of 1949 (Public Law 81–171), as added by the Housing and Urban Development Act of 1965 (Public Law 89–117)	Grants are made to pay up to two-thirds of the cost of demolishing structures which, under State or local law, have been determined to be structurally unsound, harborages of rats, or unfit for human living. The applicant must have an approved Workable Program for Community Improvement and must show that the demolition proposed is on a planned neighborhood basis and will further the overall renewal objectives of the community. The local governing body must certify that other available legal procedures to secure remedial action by the owners of the structures involved have been exhausted and that demolition by governmental action is required. Relocation assistance and Federal relocation payments must be provided for individuals, families, and businesses displaced by the demolition.
	Urban Renewal	Title 1, Housing Act of 1949 (Public Law 81–171), as amended	Grants, planning advances, and temporary loans are made to help finance blight elimination through land acquisition and clearing (as well as surveys and planning, rehabilitation of existing structures, new building construction, and the installation of public improvements). Technical and professional assistance for planning and developing local urban renewal programs is provided.
Neighborhood Improvement	Urban Renewal	See above	
	118	Section 118, Housing Act of 1949 (Public Law 81–171), as added by Section 514, Housing	Grants are made to assist localities in taking interim actions to alleviate harmful conditions in slums and blighted areas. Generally, these are areas for which urban re-

(Continued on p. 1154.)

(Exhibit 11—Continued from p. 1153.)

Housing or Neighborhood Strategies	Government Programs: Program	Legislative Origin	Description
Neighborhood Improvement (Continued)	118 (Continued)	and Urban Development Act of 1968 (Public Law 90–448) and as amended	newal is planned in the near future but in which some immediate public action is needed until permanent action can be taken. The grant may be up to two-thirds (three-fourths for cities, other municipalities, or counties with a population of 50,000 or less, according to the most recent decennial census) of the cost of planning and carrying out programs which may include: repair of streets, sidewalks, parks, playgrounds, publicly owned utilities and public buildings to meet needs consistent with the continued short-term use of the area; demolition of structures determined to be structurally unsound or unfit for human habitation; establishment of temporary public playgrounds on vacant land or cleared lots within the area; collection, on a special basis of refuse (garbage and trash) and bulky junk as part of an area-wide clean-up campaign, street cleaning, and similar activities.
	706	Section 706, Housing Act of 1961 (Public Law 87–70), as added by Housing and Urban Development Act of 1965 (Public Law 89–117)	Grants are made to expand community activities in beautifying publicly owned or controlled land in urban areas. These grants may be up to 50 percent of the amount the applicant increases expenditures for beautification activities above the average amount of such expenditures for the preceding two years. The grant may be used for park development, upgrading and improvement of malls and similar public areas, street improvements, and the beautification and improvement of other public places. The beautification activities must be capable of providing long-term benefits.
	Title II	Title II, Housing Amendments of 1955 (Public Law 84–345), as amended	Loans for up to 40 years and covering up to 100 percent of project cost are made for use in financing a variety of public works projects—street improvements, public buildings (except schools), recreation facilities, or other public works. Loan aid under this program is available only for those parts of a project not covered by aid provided under other Federal agency programs. Priority is given to applications of smaller communities for assistance in construction of basic public works.
	Model Cities	Title 1, Demonstration Cities and Metropolitan Development Act of 1966 (Public Law 89–754)	Grants are made and technical assistance is provided for cities to carry out comprehensive programs attacking the social, economic, and physical problems of blighted neighborhoods in selected localities. Cities are required to use and coordinate existing Federal grant-in-aid programs and State, local, and private resources, and to involve neighborhood residents in planning, monitoring, and evaluating comprehensive five-year plans. Grants may cover: (1) Up to 80 percent of the costs of planning and developing comprehensive city demonstration programs; (2) up to 80 percent of the cost of administer-

(Continued on p. 1155.)

(Exhibit 11—Continued from p. 1154.)

Housing or Neighborhood Strategies	Government Programs: Program	Legislative Origin	Description
Neighborhood Improvement (Continued)	Model Cities (Continued)		ing the approved programs (but not the cost of administering any project or activity assisted under a Federal grant-in-aid program); (3) costs of projects and activities included in the approved programs, not to exceed 80 percent of the total non-Federal contributions required for all federally aided activities carried out in connection with the comprehensive Model Cities program.
	Crime Insurance	Title XI, Housing and Urban Development Act of 1968 (12 U.S.C. 1749 bbb-1749 bbb-21) as amended by Title VI, Housing and Urban Development Act of 1970 (12 U.S.C. 1749 bbb-1749 bbb-21)	HUD conducts a continuing review to determine whether crime insurance is readily available at affordable rates either through normal insurance markets or through a suitable program adopted under State law. After August 1, 1971, if market review discloses that crime insurance availability does not meet the above requirements, HUD will make such insurance available through the facilities of the Federal Government or such other facilities as HUD may elect to utilize. Such insurance will be available only with respect to insurance property for which reasonable measures meeting standards established by HUD to prevent loss have been followed. HUD will determine terms and conditions of the insurance including any deductibles and/or other restrictions and limitations. Eligible applicants may expect to apply for policies through local insurance agents and brokers.
	Fire Insurance	Title XII National Housing Act (12 U.S.C. 1749 bbb–1749 bbb–21)	HUD provides reinsurance to insurance companies for excess losses in standard lines of property insurance coverage resulting from riots or civil disorders. Reinsured losses are shared among the insurance companies, the States, and the Federal Government. The sale of reinsurance is limited to those companies that cooperate with State insurance authorities in developing and carrying out FAIR plans—statewide plans to assure property owners fair access to insurance requirements.
	703	Section 703, Housing and Urban Development Act of 1965 (Public Law 89–117)	Grants covering up to two-thirds of the development cost (three-fourths in designated redevelopment areas) are made to develop facilities to be used for neighborhood health, welfare, educational, cultural, social, recreational, or similar community service activities.

Housing code enforcement is considered an essential spur to rehabilitation because its sanctions provide a "stick" to force landlords to improve their properties. Municipal code enforcement is expected to bolster an owner's attitude regarding the long term future of the neighborhood, thereby increasing the likelihood that he will rehabilitate his property. The President's Committee on Urban Housing concluded that code enforcement would instill confidence among private owners, investors, and lenders that neighborhood quality would improve.[49]

Several examples bear out these expectations. In the Harlem Park rehabilitation effort in Baltimore, code enforcement was used to force recalcitrant property owners to rehabilitate their properties; in fact, each rehabilitation area director was administratively responsible for enforcing

[49] Ibid.

Baltimore's housing code,[50] and each rehabilitation area office had a housing inspection division. Similarly, the successful rehabilitation efforts in New Haven's Wooster Square and Dixwell neighborhoods were aided by strict enforcement of the municipal housing code.

Even if an intensive code enforcement program were effectively implemented, the results might be disappointing. Confronted with an intensive code enforcement program, a property owner can follow a number of strategies. If he chooses to retain ownership, he can evade and delay enforcement, he can repair the property up to code standards, or he can improve it beyond code standards. He can sell the property to a private party. Or he can abandon his property. The effect of intensive code enforcement unfortunately has frequently been to encourage the choice of housing abandonment over the other possible owner strategies.[51]

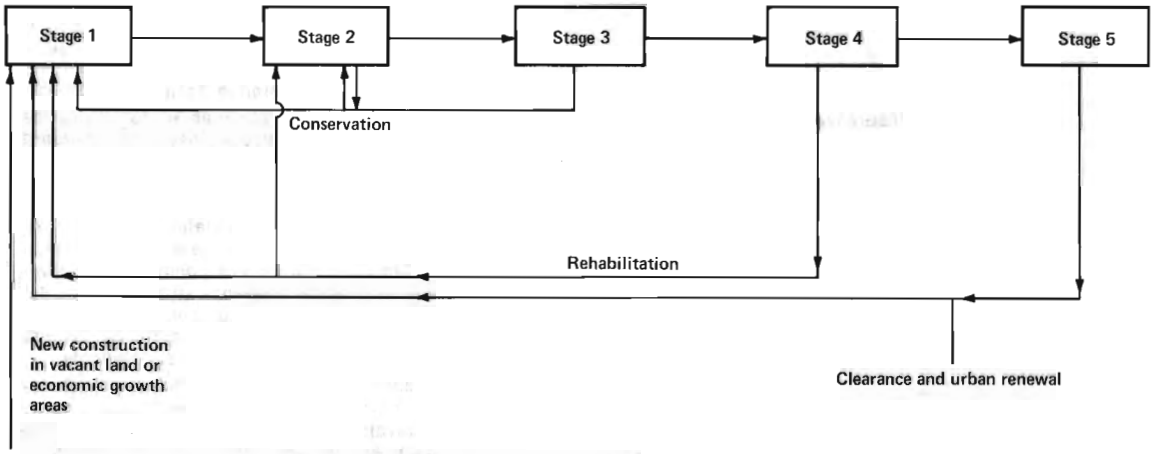
ment program forced owners of neighboring properties to make repairs.[52]

Many property owners, however, find it financially difficult to make even code repairs because of the extreme difficulty in obtaining conventional financing. If they do obtain a conventional loan, it will often have a high interest rate and a short term.

The governmental programs that can be used to finance code repairs are sometimes inadequate. The Federal 115 program is limited to families with extremely low annual incomes—($3000 or below); the 312 program restricts refinancing; Title I loans have a high interest rate; and few lenders make 203k or 220h loans. If owners cannot obtain a liberal loan to finance code repairs, they will often be unable or unwilling to make such repairs.

Scenario II: Selling the Property. A property owner confronted by a code enforcement program could sell his property without making improvements. In many urban neighborhoods, however, there may be a very weak market and demand for properties; in an intensive code enforcement area, they may be especially difficult to sell since any potential buyer will face the need to make immediate improvements. The tenants themselves may hesitate to purchase and rehabilitate their present dwellings because of the undesirability of owning properties in inner city neigh-

Exhibit 12
Federal Programs and Neighborhood Evolution



Listokin outlines 4 possible strategies:

Scenario I: Making Improvements. A property owner confronted with code enforcement can meet housing code minimum specifications or even exceed them. William Nash cites an example of one Philadelphia property owner who extensively rehabilitated his property when a code enforce-

borhoods. To absolve themselves from the legal obligations of ownership therefore, some property owners have sold their properties to a "straw man."

Scenario III: Evasion. A strategy of evasion is, in fact, a widespread practice. If intensive code enforcement were implemented effectively such evasion could be sharply curtailed. Were the maximum court sanctions applied, property owners would find it expensive to continue violating the code.

Scenario IV: Abandonment. Many urban property owners, pessimistic about the future value of their parcels, have chosen simply to walk away from their properties. Intensive code enforcement, with its threat of stiff fines and even jail terms for violators, may often be "the straw that broke the camel's back" in leading owners to abandon

[50] M. Carter McFarland and Walter K. Vivret, *Residential Rehabilitation* (Minneapolis: School of Architecture, University of Minnesota, 1966), p. 227–229.

[51] See Jerome Rothenberg, *Economic Evaluation of Urban Renewal* (Washington, D.C.: The Brookings Institution, 1967), p. 244 and A. H. Schaaf, *Economic Aspects of Urban Renewal: Theory, Policy and Area Analysis* (Berkeley: Real Estate Research Program, Institute of Business and Economic Research, University of California, 1960).

[52] William Nash, *Residential Rehabilitation: Private Profits and Public Purposes* (New York: McGraw-Hill, 1959), p. 100.

their properties.[53] Philadelphia's code enforcement program, for example, has been accused of "literally wiping out entire blocks where the intent of the city has been just the opposite—to revivify them." [54]

It has been suggested that the menace of owner abandonment could be reduced if the municipality were to temper enforcement so it would not constitute an undue hardship on landlords. In other words, owners might be willing to rehabilitate their properties gradually if they had the assurance full and immediate code compliance was not demanded.

Such a strategy of enforcement, however, may be politically difficult to implement because tenants may accuse the municipal government of "cuddling slumlords." Furthermore, there may be legal difficulties in enforcing only certain provisions of the housing code. Finally, given the aforementioned depressed market and owner pessimism in many urban neighborhoods, even a tempered enforcement of a housing code in such areas may increase the abandonment rate.

Removal of the geographical restrictions and income limitations of the 115 and 312 programs has also been suggested as a deterrent to owner abandonment in the face of an intensive code enforcement program. Even if these financing programs were expanded, however, owners may be unwilling to bring their properties up to code standards because they fear a rise in their property taxes or because they cannot sustain continued maintenance and management of their properties.[55]

Rehabilitation programs represent more of a focus on the individual unit and not on the neighborhood. Structures characteristic of stages 3 and 4 are to be brought back to conditions of stages 1 and 2, respectively. When in code enforcement or urban renewal areas, the neighborhood focus is obviously an important element. In rental structures, the rising rents of this program may cause a dispersal of the initial occupants ultimately affecting other neighborhoods, i.e. the acceleration of other neighborhood decline problems.[56] But the neighborhood of application, if the intervention is sufficiently concentrated, may realistically be revitalized if the area meets threshold and spatial conditions—a viable CBD, structurally useful nonobsolete buildings, and intermediate rental contexts. Generally, the weaker the growth position of the region, the weaker the CBD focus, and the weaker the flows of new residents to the city, the more limited are the opportunities for this package to reverse the trend of neighborhood evolution.

A possible negative impact on specific neighborhood decline has been put forth by the United States Commission on Civil Rights.

The Commission's survey of 235 houses revealed that, in most cases, the only attractive housing made available to minority families was located in "changing" neighborhoods. The sole alternative which real estate brokers offered minority families was housing in ghetto areas, much of which was in poor physical condition. And many 235 buyers who have been trying to get out of similar ghetto neighborhoods which they consider unsafe, have chosen "changing" neighborhoods.

In some of these "changing" areas, residents have opposed the movement of 235 buyers into their neighborhoods. Disregarded by local counseling services, overwhelmed by the discriminatory separate housing market maintained by the housing and home finance industry, and ignored by FHA, they find themselves alone in attempting to stop the funneling of Section 235 buyers into their areas.

They maintain that they are not trying to preserve all-white neighborhoods since their neighborhoods are already integrated. They are also not opposed to racial integration since, if they were, they would move elsewhere. Rather, they are concerned with upgrading the quality of their neighborhood and its facilities. They see the influx of large numbers of lower-income minority families as a threat to these efforts, leading inevitably to neighborhood deterioration and resegregation.[57]

So it may be possible that Section 235 rehabilitation efforts would "tip" a transitional neighborhood and facilitate ultimate decline. This scenario is an ever-present possibility.

But other outcomes clearly are possible. In an area of more advanced decay, there is always a chance of a project's being engulfed by the broader forces of decay.[58] This does not always have to happen; the Camden Housing Improvement Project (CHIP) is a case in point.[59] A frequent objective of housing rehabilitation sponsors is for their efforts to serve as a catalyst to stimulate other homeowners in a neighborhood to improve the maintenance of their parcels. In the opinion of many CHIP homeowners, there has been a positive effect of property maintenance by non-CHIP homeowners. In fact, most viewed the overall rehabilitation effort as having a positive effect on improving their neighborhood.

Often the success was due to the presence of the threshold conditions previously isolated. In a Boston example, the effect of CBD vitality and nonobsolete structures was pivotal.

[53] See William Nachbaur, "Empty Houses: Abandoned Residential Buildings In the Inner City," *Howard Law Journal*, Vol. 17, No. 1, 1971, pp. 39–42.

[54] William Grigsby, "Economic Aspects of Housing Code Enforcement," *The Urban Lawyer*, Vol. 3, No. 4, Fall 1971, p. 535.

[55] These strategies are taken directly from Listokin, op. cit., pp. 54–56.

[56] For an example see: Peter Rohrbach, "The Poignant Dilemma of Spontaneous Restoration," *City*, August/September 1970, pp. 63–68.

[57] United States Commission on Civil Rights, *Home Ownership for Lower Income Families* (Washington, D.C.: U.S. Government Printing Office, 1971), pp. 74–5.

[58] This was one of the findings of the Committee on Charter and Governmental Operations, *Report on the Municipal Loan Program Blueprint for Future* (New York: The Council of the City of New York, February 1972).

[59] Listokin, op. cit.

"In the South End of Boston," says Wilfred Shepherd, "it was the Prudential Center that brought the neighborhood to life four or five years ago. Ten years ago, four-story buildings were worth $4,000–$5,000. Today, these same buildings, vacant, are worth up to $25,000, and renovated, they bring $75,000–150,000. The neighborhood has changed from low-income blacks to middle-income integrated. Most of the buildings are converted to owner-occupied two-, three-, or four-family buildings. The area now has become so popular that families are moving back into it from the suburbs."

But the type of building can be important to success, says Walter Coletti. "A large undistinguished multifamily building, even after it's rehabbed, may not appeal to the affluent newcomers moving into brownstone revival areas. More than one rehabbed multifamily has gone into foreclosure because it couldn't attract the same kind of tenants that were flocking to smaller more charming buildings nearby."

Harry Standel points out that nonprofit organizations may compete with builder/owners for property to rehab. "After the revival started in the South End of Boston, the tenants already living there realized that they had to get sponsors to provide low cost housing, or else they would be driven from the neighborhood. Now church groups are sponsoring the rehab of buildings under FHA 236. The end result is that moderate income tenants live in rehabbed buildings on the same block with upper-middle income owners and tenants." [60]

Clearance and Urban Renewal represent a surgical approach to neighborhood decay—a neighborhood in the terminal throes of stage 5 decay is removed, and a stage 1 transplant is inserted. The focus of the overall package is on the entire neighborhood and all of its comprising elements, particularly the housing unit. The indicators of decay for the type of intervention are probably the most clear-cut, since the neighborhoods involved are either at the bottom of the citywide hierarchy or are spatially desirable for reutilization. The spatial location of this approach has historically been in or adjacent to the CBD; therefore, its potential for residential neighborhood reconstruction is a direct relationship to the strength of the CBD; the latter is the main threshold condition.

The externalities of this approach have been discussed previously. The relocation of the original inhabitants of an area can possibly accelerate the decline of the new areas of residence. The urban renewal reconstruction can also generate a regrouping effect, drawing elements of middle class stability from aging, and declining, city neighborhoods. At the same time, a vigorous growth context may provide a real opportunity to create a new residential subarea with new residents to the city.

[60] Michael Robinson, "Urban Rehabilitation: Are the Profits Worth the Risk?" *House and Home,* November 1972, pp. 68–72.

New Construction: Public Housing, Section 235, Section 236. New construction has as its obvious objective the building of a new stage 1 neighborhood. Each of these categories of intervention is typically oriented to the housing unit per se, and only secondarily to the neighborhood. The spatial positioning of these efforts is clearly related to the overall metropolitan thresholds—that is, in no-growth contexts, a suburban focus for projects would severely weaken central city markets. As discussed earlier in the rehabilitation section, recipient neighborhoods of fragile balance could possibly be tipped by such approaches, if only through the generation of rampant negative feelings. Witness, for example, the still-raging Forest Hills controversy in New York City, where a dispersed public housing project is now under construction. The effect of this construction on the "neighborhood psyche" may, in reality, cause a net loss of middle class population to the city.

It is not difficult to envision an analogous loss of confidence and security by neighborhood residents whose areas would be recipients of the latter two program elements listed above. Again, this could cause a tipping or decline of the recipient neighborhood if the area is transitional to begin with and the new development represented a decline in the current level of socioeconomic status. In contrast, if these programs are built entirely in deteriorated areas, they are susceptible to being overwhelmed by existing neighborhood conditions. If built in suburban territories, they have the potential of weakening inner city markets. So, many of the possible directions of these programs level to substantial externalities. The best opportunity for success, it appears, is to couple these housing programs with overall neighborhood improvement strategies to insure a stable context—this would be the inner city approach. For a suburban strategy in growth regions, adequate services to a completely new neighborhood must be insured.

New Construction: Without a doubt, the largest housing subsidy is favorable tax treatment of homeowners.

The murky provisions of the Internal Revenue Code contain the most important housing programs currently administered by the Federal Government. One program cost the Treasury $7 billion in 1966, and may well cost it $10 billion today. It subsidizes nearly every homeowner in the United States. Other tax programs provide $270 million in additional benefits to most renters. Despite their cost and pervasiveness, these programs receive negligible scrutiny

within Government and except for occasional academic analysis, almost none from outside the Government.[61]

The design of personal income tax deductions encourages homeownership over rentership. It does this by making the tax bill of homeowners smaller than that of renters in otherwise similar circumstances. Being able to use mortgage interest and property tax payments as deductions for Federal income tax purposes significantly reduces the cost of housing for selected economic groups.

Moreover, the relaxation of terms on home mortgages by lenders due to FHA and VA mortgages makes homeownership more accessible and opens up tax benefits to many families. This has led, since World War II, to increasing freedom of choice for the urban population, and ultimately led to the selection of the single family dwelling unit. Much empirical evidence has been gathered on this point.[62]

In any case, the choice can only be satisfied in suburban and rural areas. This has led to the increasing suburbanization of the American population and the slackening of residential demand in the central city in the absence of substantial migrations. The movement has left partial vacuums behind which have accelerated the movement of various city neighborhoods through the evolutionary cycle.

Neighborhood Improvements: The need for a neighborhood focus in conjunction with the upgrading of housing is not solely a recent concept. Over 30 years ago, this idea was promulgated:

> To wipe out existing slums and to check the spread of blight is a major goal of our housing programs. To reach this goal we must remove houses and clear areas of our cities which are beyond recall; we must restore to sound condition all dwellings worth saving. In this way, we can establish as healthy neighborhoods vast areas of our cities which are now blighted or badly threatened by blight. A piecemeal attack on slums simply will not work—occasional thrusts at slum pockets in one section of the city will only push slums to other sections unless an effective program exists for attacking the entire problem of urban decay. Programs for slum prevention, for rehabilitation of existing houses and neighborhoods, and for demolition of worn out structures and areas must advance along a broad unified front to accomplish the renewal of our towns and cities. This approach must be vigorously carried out in the localities themselves and will require local solutions which vary widely from city to city.[63]

Twenty years ago, this thrust was given additional emphasis.

> For maximum and assured success, action must be undertaken as a united community enterprise, based on a broad, carefully planned and therefore relatively costly pattern which embraces the district as a whole and each dwelling in it. If it is to be genuinely effective the pattern must be developed under experienced technical guidance; must include detailed recommendations for repair, modernization, and embellishment, by the owners, of all residential units which need rehabilitation or architectural revision; must directly or indirectly provide a financing medium, easily and cheaply available to those who cannot themselves supply the funds necessary to defray the cost of such repair and reconstruction; must deal with community problems such as the opening and closing of streets, the establishment of recreational areas, and the voluntary acceptance, by property owners, of those use and ownership restrictions not related to zoning and not usually covered by ordinance which have so frequently been found to constitute actual benefits to the individual owner and his neighborhood; must devise barriers against infiltration by undesirable residents and encroachment and infection by contiguous substandard districts; must provide for traffic routing and regulation; must consider necessary extensions of school equipment and the adequacy of public utility and transportation facilities; must plan landscaping for public and private spaces; and, finally, in both its initial and subsequent stages, must be administered under sympathetic and continuously energetic leadership.

To residents of a rehabilitation area, public improvements and supporting facilities represent tangible evidence of the city's dedication in attempting to upgrade their neighborhood. Investors under Federal rehabilitation programs expect inputs from the city, particularly public facilities. Vacant abandoned buildings can affect efforts to carry out a rehabilitation program successfully, particularly because adjacent owners find difficulties in securing fire insurance and rehabilitation financing. Spot clearance then becomes a vital adjunct to a rehabilitation program. Moreover, municipal services must be restored to adequate levels, particularly sanitation programs. A host of other ancillary services are necessary to provide the underpinnings for neighborhood stabilization.

There has been little evidence that these programs have generated any externalities or

[61] Henry Aaron "Federal Housing Subsidies," Joint Economic Committee, Congress of the United States, *The Economics of Federal Subsidy Programs* (Washington, D.C.: U.S. Government Printing Office, 1972), p. 571. See Also Henry Aaron, *Shelter and Subsidies* (Washington, D.C.: The Brookings Institution, 1972).

[62] For example, see Theodore Caplow, "Home Ownership and Location Preferences In a Minneapolis Sample," *American Sociological Review*, Vol. VIII, No. 6 (December 1948), pp. 725–730; Herbert Gans, "Urbanism and Suburbanism as Ways of Life: A Re-evaluation of Definitions," in *Human Behavior and Social Processes*, ed. Arnold M. Rose (Boston: Houghton-Mifflin Company, 1962); Scott Greer and Ella Kube, "Urbanism and Social Structure," in *Community Structure and Analysis*, ed. Marvin Sussman (New York: Thomas Y. Crowell and Co., 1959); and Scott Greer, *Urban Renewal and American Cities* (New York: Bobbs-Merrill, 1965).

[63] Federal Home Loan Bank Board, *Waverly—A Study in Neighborhood Conservation* (Federal Home Loan Bank Board, 1940), p. 5.

negative effects on neighborhood decline. They may comprise necessary, but not sufficient, elements for raising a neighborhood from stages 4 or 3 to stages 2 or 1, respectively. Obviously, the spatial area of application and threshold conditions are essentially set by the housing programs they are designed to act in conjunction with.[64]

Further Discussion: Perhaps one of the most significant limitations of the various Federal packages is the lack of an explicit recognition of the web of interdependencies tying the various residential neighborhoods of the city together. This conceptualization of a broader overall whole comprising a series of linked parts tied together by broad processes was a clear assumption of the early literature on neighborhood change. Inputs into any one neighborhood may cause readjustments to take place throughout the remainder of the neighborhoods of the city. Furthermore, in taking this point of view, the concept of suboptimization becomes relevant. That is, by focusing the criteria to be optimized on a specific area, the encompassing whole may not be helped; it may, in fact, be severely harmed. Thus it may be important to keep in mind the effect of any one program on the entire city, and not merely on the specific area of application.

Moreover, even the attempt to optimize a whole neighborhood was not the explicit attempt of a number of programs. Concern was with the housing unit per se, and not the broader environmental setting within which the unit was immersed. In a number of approaches, however, there was an explicit recognition of the fact that neighborhood improvements are a vital adjunct to housing programs. In any case, these points should be kept in mind as future program designs are formulated.

Interventions in the Decline Process

Introduction

To this point, we have examined the various theories of neighborhood change, attempted to isolate basic processes and indicators of change, and synthesized the stages of neighborhood evolution and the key levels of decline. Using this base as a theoretical framework, we have evaluated the effects of Federal programs on neighborhood decline. Using this same classification scheme, this section of the report will examine and suggest a broad series of housing and community development interventions which specifically relate to the different states of decline.

This section is divided into three main parts of unequal length. The first discusses levels of neighborhood viability and the early warning system, specifically with the objective of potentially operationalizing the concepts for use as policy tools. Neighborhood decline and Federal intervention are the subject of the next section—the detailed format is set down in the beginning of that examination. This is the most extensive element of the section. Finally, the various governmental roles and levels of intervention are considered.

Levels of Neighborhood Viability: An Early Warning System

The end product of the evaluation of the neighborhood decline literature in the previous sections of the report was a synthesis of the various conceptions of levels of neighborhood vitality. For the purposes of the preceding investigation, the following stages of evolution were assumed:

Stage 1: Healthy-Viable-Single Family Homes or Higher Density Communities
Stage 2: Transition-Incipient Decline
Stage 3: Downgrading-Decline Clearly Underway
Stage 4. Thinning Out-Acceleration Into Late Stages of Decline
Stage 5: Renewal-Nonviable, Heavily Abandoned

The literature is richer in concept than it is in detailed predictive indicators. The historian and the urban philosopher can be satisfied with long term trends. Those in public policy, however, require much more in the way of the time dimension, and more clearly specified precise indicators. In order for this scheme to be operationalized for future HUD usages, a more rigorous methodological basis must be formulated.

The work conducted under HUD auspices in Newark is a first cut at providing the key indicators of empirical evidence leading to the development of predictors of decline. Work along these lines is an essential complement to the development of a classification scheme that will permit the appropriate choice of housing and community development interventions.

[64] All of these functions of neighborhood improvement have been cited by M. Carter McFarland and Walter K. Vivret, *Residential Rehabilitation* (Minneapolis: School of Architecture, University of Minnesota, 1966).

Required Characteristics of an Advanced Indicator System: For the purposes of broad national overview, it is essential that any system of advanced indicators be structured in universally available data. A particular series, specific to only one community, may be of great value and great interest to that community, but it cannot provide the kinds of measuring sticks which support the foundation of broader strategies. Our key here, therefore, is the use of census data, employment data, and the like to provide this typology and advanced indicator system. This does not exist as of the moment. It is obvious, however, that we are well on our way toward this goal. Proper calibration of the basic algorithms developed in the Newark effort (and Appendix B particularly) can be undertaken in relatively short order. Our present state of the art, subject to this development, runs after the facts of life. By the time we have identified the area of incipient blight—given the time lapse in the application of ameliorative programs—the scene may be altered beyond recall.

Exhibit 12. Employment and Population Shifts (Numbers in Thousands)

A. Employers on Nonagricultural Payrolls, by Region—1960-1970

NUMBER	1960	1970
Northeast	15,613	18,599
North Central	15,837	19,949
South	13,243	20,318
West	8,336	11,786
PERCENT OF TOTAL		
Northeast	29.4	26.3
North Central	29.9	28.2
South	25.0	28.8
West	15.7	16.7

Source: Calculations based on Table 47, U.S. Department of Labor, Bureau of Labor Statistics, *Handbook of Labor Statistics*, (Washington, D.C.: Government Printing Office, 1972), p. 104.

B. Population Distribution, 1960 and 1970

NUMBER	1960	1970
Northeast	44,678	49,041
North Central	51,619	56,572
South	54,973	62,795
West	28,053	34,804
PERCENT OF TOTAL		
Northeast	24.9	24.1
North Central	28.8	27.8
South	30.7	30.9
West	15.6	17.1

Source: U.S. Bureau of the Census, U.S. Census of Population: 1970, *Number of Inhabitants*, Final Report (PC (1)–AO, United States Summary.

Within the same context, it is very clear that the appropriate level of governmental intervention is much larger than can be effectively implimented by HUD alone. The basic levels of employment opportunity which determine population trends on a regional base, for example, are well outside the jurisdiction of that department. Observe for example, the following exhibit on trends of employment, and with them, population on a national base (see Exhibit 13). Certainly, unless this basic shift in the role of the Northeast is taken into account, it is impossible to account for the particular seriousness of the urban crisis in that area and the stages of neighborhood decline. There simply is not enough basic growth in the region to support both the great expansion of the suburbs and also the basic vigor of the central city. To whatever degree the former is augmented by subsidized programs or government guarantees of one kind or another, clearly the central city must suffer. The situation is alleviated somewhat in the midwest, but even there we have particularized shifts of development which result in similarly impacted areas, particularly that characterized by Detroit. In the South and West, the levels of growth have been much more substantial, and fiscal capacities of the cities, given their relatively substantial geographic bases, are less tried. There are some uneasy intimations, however, that even in that sector the central core of the cities is beginning to take on the Northeast syndrome.

What this means in terms of an operationalized approach, then, is not only a system of advanced indicators of neighborhood decline, but a broader typology of cities and metropolitan areas classifying them as to their broader function within the national urban system. Initial stages of this approach have been taken at the Center for Urban Policy Research, yet substantial work still must be done to provide a finished tool with which to work on specific public policy.[65]

Neighborhood Decline and Federal Interventions

This section will use the neighborhood classification system, which we have discussed at length, to view a series of suggested housing and community development interventions as they specifically relate to the different states of decline. To initiate this task, recent proposals of Frank Kristof will be critically examined. This provides us with the takeoff point for our broader discussions of the matching of programs to specific neighborhood types.[66] Underlying the

[65] See James W. Hughes, op. cit.

[66] Specific attention is directed to nonviable stage 5 neighborhoods.

above interface must be the determination of central city goals and governmental policy, particularly since the possibility of a suburban slowdown is ever-present. Each of these areas of concern is discussed in turn. Finally, a series of broad considerations must be taken into account. Thus our focus shifts to the consideration of municipal inputs, the function of housing allowance programs, and public housing. All of this leads to the basic question of the proper level of governmental intervention, the task of the next section.

The Kristof Redirection: One overall conclusion which often is reached regarding the totality of Federal housing efforts is that after 20 years of urban renewal and large flows of housing in recent years, the vast expenditures and resources expended were largely unsuccessful in dealing with the high rate of deterioration and abandonment of housing in the central cities. In essence, the processes which were isolated in our previous review of the dynamics of neighborhood decline and evolution have been altered minimally by Federal efforts. This may have been a result of their being designed in isolation from a theoretical framework of these broader forces of neighborhood change. Specifically, this was the opinion expressed in last year's Housing Goals Report:

> Historically, federal housing programs have been structured by statute without sufficient regard to their impact on the physical and social environment of the communities in which they operate. Instead, the programs were structured to facilitate the construction or transfer of a particular house, apartment, or subdivision by providing mortgage insurance and/or subsidy. Thus, the federal housing agency's concern typically stopped at the lot line of the particular property under review.
>
> This narrowness of program concern has had a number of consequences which are becoming increasingly clear. Because of the cumulative impact of many ad hoc actions, federal housing programs over the years have contributed to rapid suburbanization and unplanned urban sprawl, to growing residential separation of the races, and to the concentration of the poor and minorities in decaying central cities. While housing programs have contributed to these problems and in many cases intensified them, it is important to emphasize that they did not cause them. The causes stem from the complex interaction of population migration, community attitudes and prejudices, consumer preferences, local governmental fragmentation, and the impact of other federal programs such as urban renewal and the highway programs.[67]

In essence, Kristof agrees with this analysis, concluding that the failures of housing programs in central cities are attributable to a wide array of underlying causes. New housing does not and cannot deal with poverty, unemployment, racial separatism and social disorganization, characteristics that increasingly have become associated with central city problems. The Pruitt Igoe experience in St. Louis decisively has demonstrated this fact.[68]

Acceptance of the reality of this statement would seem to dictate an approach to housing beyond the shelter package per se. This is just the redirection Kristof suggests, by recommending the division of Federal Housing subsidy program expenditures into roughly three parts—(1) community development funds; (2) housing production subsidies; and (3) family housing assistance payments. Allocations to each of these categories would be variable in order to adjust to local vagaries.

Community Development Funds: These funds form the keystone of this approach, both in cities and employment growth areas.

City Orientation: Community development funds are visualized as noncapital funds supporting neighborhood preservation and revitalization services. Consider expense budget funds with a commitment of 10 to 20 years; they could be initiated at the time rehabilitation or new construction was carried out, thus they are used in conjunction with housing production subsidies and family housing assistance payments. Community development funds would be used in neighborhood preservation areas, then, to augment current services and to occupy and employ neighborhood youth, whose unprogrammed activities may contribute to neighborhood decline. An acknowledged parallel is made to the more successful model cities efforts (restoring the function of the staging areas as viewed by Ylvisaker in our earlier review). Thus neighborhoodwide stabilization in terms of social programming and basic services is viewed as a vital adjunct to basic housing programs. The phrase has come easier than its reality, however.

Employment Growth Areas (Suburban): Funds applied to those areas would appear to be designed to buy off suburban municipalities, through use of monies to provide "infrastructure capital" and as "impact funds" to compensate for tax losses borne by the communities connected with subsidized housing for moderate and low-income families. "Since growth areas normally supply a full complement of market price sales and rental housing, all three types of basic

[67] President's *Fourth Annual Report on National Housing Goals*, House Document No. 92–319, June 29, 1972, p. 32.

[68] Frank Kristof, "The Role of State Housing Finance and Development Agencies in Future Federal Housing Programs," a paper presented to the American Real Estate and Urban Economics Association and the Federal Home Loan Bank System, Washington, D.C., May 17–18, 1973.

funds would come into play to provide a leavening of moderate and low income families who furnish low-paid service or blue-collar workers for such areas. . . . Again the expense budget type of funds would have to be contracted for some period." [69]

Housing Production Subsidies: These would take the form of overhauled Sections 235 and 236 programs. In essence, the basic objective is volume production by providing a minimal subsidy per unit, hoping to affect the supply side of the market by inducing the construction of units which otherwise might not be built. The narrow subsidy provided would indirectly be influenced through the filtering process.

> In central city reconstruction areas, this approach further will have the interesting effect of providing new housing to the economically upward mobile segment of the community rather than to its lowest income groups. This will have an upgrading affect on the housing of such areas and will eliminate the historically debilitating effect of stamping slum reconstruction areas as the permanent preserve of net low-rent, public housing available only to low-income families.[70]

Family Housing Assistance Payments: These would permit low income "housing-poor" families to move from substandard housing to subsidized new or rehabilitated housing or in standard existing housing in the private market. Use of family assistance payments in the latter would be restricted to housing surplus areas where owners of standard housing are having difficulty in finding tenants able to afford the rental levels necessary to insure proper maintenance of the parcel.

But the most important element of the package for the task at hand is the tying of community development funds to the brick and mortar of the housing programs. Thus the strategy is to deal with the neighborhood as a whole, realizing the limited effect of housing by itself as a lever of neighborhood change.

Moreover, to tailor these efforts to the local context, it has been suggested that this overall package be dispensed by State Housing Finance Agencies. This would enable the Federal Administration to divest itself of detailed management of its housing subsidy programs. This also might shift the burden of determining in detail what kind of housing programs the funding would support, i.e., modifications not legislated by Congress which are required by the local situation. The most important element of the shift, as pre-

Exhibit 13. Synthesis of Neighborhood Stages of Decline

MODEL 1 [1]	Stage 1 Single Family Houses	Stage 2 Transition	Stage 3 Downgrading	Stage 4 Thinning Out	Stage 5 Renewal
MODEL 2 [2]	Healthy-Viable New Thriving Areas; Old Stable Areas	Incipient-Decline	Decline Clearly Underway	Acceleration into Late Stages of Decline	Non-Viable Heavy Abandoned
MODEL 3 [3]		9 Early Evidence of Building and Neighborhood Deterioration 8 Building Deterioration Structures	7 Building Deterioration (mixed substantial and obsolete structures, neighborhood deficiencies) 6 Building Deterioration and Dilapidation (substantial structure)	5 Building Deterioration (substantial structures and neighborhood deficiencies) 4 Building Deterioration and Dilapidation (obsolete structures)	3,2 Building Delapidation Deterioration (obsolete structures, neighborhood deficiencies) 1 Building Delapidation (frame structure)
		Kristof Strategy		Urban Renewal Non-Intervention	

Source: [1] Edgar Hoover and Raymond Vernon, *Anatomy of a Metropolis* (New York: Doubleday Anchor, 1962).
[2] Public Affairs Counseling, *HUD Experimental Program For Preserving Declining Neighborhoods: An Analysis of the Abandonment Process* (San Francisco, Calif.: Public Affairs Counseling, 1973).
[3] *Between Promise and Performance*, Community Renewal Program, the City of New York, December, 1968, p. 74.

[69] Ibid., p. 8.
[70] Ibid., p. 12.

sented, is the emphasis away from the dependence of the public agency upon private initiative to propose acceptable development. Staffs, at present, fend off inordinate amounts of useless or improper proposals. Instead, the model proposed—a State public benefit development corporation—envisions a more active role to initiate proposals directly, assuming direct responsibility by the public agency for planning and programing.

Interpretation Within the Theoretical Framework: The broader scope of this proposal can be examined within the framework of the accompanying exhibit. It appears that this strategy is targeted mainly for stage 2 and 3 neighborhoods with the specific objective of upgrading them to stages 1 and 2, respectively. Implicit within the package is the essential writeoff of neighborhoods which have reached 4 and 5 in the evolutionary cycle, since the subsidy per housing unit would be too high to recreate a functioning housing market in these areas. Because a minimal subsidy and maximum production form the underlying strategy, a policy of nonintervention/benign neglect in essence becomes the main dynamic—filtering for the lower economic groups is the scheme for improving their shelter needs.

Inner City Focus: The main client group targeted by this proposal is the upwardly mobile sector of the lower income groups. The repercussions of this decision have relevance to a potential externality evident in previous housing packages. In the discussion of the 235 program, it should be recalled, the introduction of these units and their occupants was seen as a potential threat for tipping a fragile stage 2 transitional neighborhood. By cutting the subsidy and drawing a higher economic tenant, the proposal under consideration ameliorates this possibility to a degree. Moreover, the strong emphasis given to community development funds may also turn out to be a significant factor in stabilizing a viable neighborhood ecology.

The latter funds are also important when the intervention is geared toward areas whose decay is firmly entrenched—advanced stage 3 neighborhoods, for example. A possibility isolated previously was the minimal impact the reconstruction of a portion of the housing units of such neighborhoods would have on the overall matrix of decline, and the maximum impact the decline forces would have on these housing units. Only through the use of community development funds can this situation be reversed—the housing packages would hopefully not be overwhelmed by the overall neighborhood decline.

This still leaves unaided the bottom line stage 4 and stage 5 neighborhoods. These would require complete renewal if market threshold conditions suggest a reuse, i.e., vigorous CBD, a growth context, and other base parameters discussed earlier. If these thresholds do not exist, then neglect and abandonment become an alternative strategy.

Suburban Focus: The recognition exists of the reorientation of American social and economic life to the suburbs (see Appendix A). This scheme sees a need to satisfy housing needs for the blue collar and other lower economic occupations not otherwise taken care of by the currently operating housing market. Increasingly, this means a minority group focus. Again with the objective of maximum production and minimum subsidy, a "creaming" strategy is employed, draining urban areas of their most promising households. In no-growth urban contexts, the effect on central city housing markets would be traumatic. An acceleration of suburbanization leaves filtering as the mechanism to provide the lower economic strategy's shelter needs. Ultimately, this approach then causes the same affect as the general suburban scenario discussed previously—an overall increase in the evolutionary decay of the system of neighborhoods.

Matching Programs and Neighborhood Types: While the above proposal provides a starting point, a more explicit linkup of public policies and stages of decline must be made.

The Nonviable Neighborhood: The concept of the nonviable neighborhood is not a novelty. It is essentially the descendant of the experience of the private market embodied for generations in areas which were simply redlined, by banking institutions, home improvers, and the like. The guilty recognition by our society as a whole of the unfairness that sometimes characterized the sweep and choice of these areas, which came to the fore in the late 1960's, swept away not merely the prejudices of the previous generation but also some of the basic wisdom in terms of the facts of life in nonviable neighborhoods. It is essential that we recoup the latter while firmly resisting the former elements that have victimized significant elements of our citizenry.

The methodology toward identifying such areas has been approached earlier in this paper. The characteristics of such neighborhoods now are all too evident. Specifically, they are neigh-

borhoods of high gross vacancy rates—although few of the vacancies may truly be useful and usable by normal standards. Typically it is an area of shrinking population, of high welfare occupancy, possessing all of the negative attributes of urban America—crime rate, disease, etc. It is the home of those people who have no choice.

In no way should this simply be synonymized with an area of any specific ethnic group's occupancy. While this zone of coming abandonment may largely be occupied by minority groups, certainly not all areas which are simply occupied by equivalent ethnic groups partake of this characteristic. It is a great tribute to our society that, in abandonment, the bottom of the barrel areas are losing population. It proves that the filtering down mechanism and all of the other machinery of public and private housing are delivering alternate facilities for former occupants of core areas. What is required here is much more in the way of clearance mechanisms. It is absolutely shocking that we now have a number of cities which will for greater or lesser stretches of time simply run out of demolition money. Both Chicago and Newark have been in this circumstance within the past year.

Bulldozer clearance is required for areas which are radically thinned out. The prevalence of fires, of abandoned structures serving as a club house for a variety of antisocial activities, makes this an essential to protect both the remaining occupants of the area as well as peripheral sections of the city. For the moment, then, there may be little in the way of ultimate use for the land cleared by such operations. It is a way, through sales at giveaway prices to speculators who have no intention of building anything, that preservation be considered as a potential land bank for future redevelopment which (again, given some of the conditions outlined under the suburban slowup section) may come upon us much sooner than we presently realize. HUD, in this particular setting, should develop a series of model codes to permit fast, efficient taking of clear title by local governmental jurisdictions of such troubled parcels in order to facilitate action. This kind of effective takeout mechanism, particularly if coupled with relocation of individuals who are living in semivacant structures and crumbling accommodations, can serve to generate increased market vigor within those units and peripheral areas which will experience a stronger housing demand as a function of taking out the slack. These are not areas in which complete neglect can be viewed as benign. Their poisonous impact is difficult to exaggerate on peripheral areas.[71]

It is zone four, the area on the edge of abrupt population decline, which perhaps has the least clearcut set of strategies attached to it. Typically, in terms of location, this is a high risk situation for rehabilitation. Similarly, transfer of ownership to new minority group holders may be good for society, but probably not very good for the holders themselves, given the limited potential of this area for revitalization in terms of housing values. The levels of subsidy required to bring planned unit developments under a much expanded title seven, and embark on major developments which compete with older facilities, the entire approach towards the central city would have to be altered. The present population drain on the central city is no longer one merely of middle class whites, but also of their minority group equivalents. Given the basic format of regional patterns discussed earlier and the substantial diminishment of population migration from the south, we are essentially dealing with a closed environment. If we add more places to sit down to our game of musical chairs, really more and more of the facilities are going to be vacant —the number of players simply is not expanding commensurately with the level of accommodation.

Goals of the Central City: If we assume a straight line projection of the trends that have dominated our society in the years since World War II, it is quite evident that they include a substantial diminishing of central city population and traditional economic activities. Certainly, this extrapolation is subject to a broad host of governmental programs and policies as well as the environmental factors mentioned above. But if for the moment this scenario is maintained, then the basic target of HUD strategy cannot be regeneration so much as it is ensuring continued livability. Regardless of the validity of the scenario, certainly for the next generation our central cities and much of their gray areas will continue to be a residence place of a very substantial number of people. There is far less glamour and certainly far less visibility of success in a maintenance program than in a regeneration one. This does not, however, diminish the importance of the former. Maintaining the basic housing stock is an absolute sine qua non, therefore. Coupled with this must be a continuous pruning mecha-

[71] See specifically the data on fires and abandoned buildings in Sternlieb and Burchell, op. cit.

nism. In this last regard, the combination of code enforcement and selective clearance and recompaction of population is required.

Our society is changing and evolving in a fashion which has made the housing accommodations offered Americans the envy of the world. What is required here is an orderly approach to this transition which will make those who choose to live in the central city or for the moment are not houseable in alternate accommodations viable. We have no clear cut goal to optimize here. Is our program one of stabilizing neighborhoods, possibly at the cost of blocking the upward mobility to better facilities of those people emerging from the core? Or do we prefer to provide continuously new facilities for the more fortunate in our society and house poor groups through the process of filtering upward?

Certainly, the choice of stability-making mechanisms—i.e., rehabilitation, code enforcement, and the like—vs. new housing production —the 235 and 236 programs and equivalent—are rivals here. But they are only rivals if we do not comprehend both housing and neighborhood viability as part of a complete system. It is the pace of transition which is the key function that government must effect. We simply do not have mechanisms that will permit the kinds and pace of neighborhood transitions which have taken place and still insure the viability of infrastructure and housing amenity that the new entrants are seeking. We are presently in the process in central city, USA, in which neighborhoods do not "change," but rather are drowned.

Broad Gage Factors: Not only must long range program goals be considered, but the pace at which these goals are effected.

The Suburban Slowup: More vital to the health and stability, if not recovery, of the central cities, may be the increased difficulties of both building and living in suburbia. The drive toward increased infrastructure requirements and withdrawal of broad expanses of land from the market as part of the Green Acres/Environmental Control issues are increasing development costs in new areas very substantially. This, in turn, obviously should benefit housing and other developmental sites in the central city. In addition, it is entirely possible that as a function of the energy crisis, the rate of new car acquisition—the growth of two-car families and the like, which makes suburbia as we know it possible—will have reached its peak. Dollar-a-gallon gasoline may have more of a rejuvenerative impact on the central city than all of urban renewal and model cities put together. Again, these are issues which are very central to the effective implementation of HUD policies—but which are largely out of its grasp.

Municipal Inputs as a Reassuring Ritual: In discussing the function and throughput of Federal programs it is essential that their psychological as well as their economic impact be noted. These programs have become very important measuring sticks as to the concern of society for a particular group. And this is over and above the effective level of minimally accountable results which the programs may generate. A housing program, therefore, provides not only housing, but also assurance that the broader level of society is concerned. There is also the level of jobs which are specific to these programs and which may be enjoyed by local residents, if at a rather considerable discount. Third, specifically in housing, the last half dozen years, particularly, have seen the growth of a rather large number of minority rehabilitation and construction firms whose future depends upon such programs. While these several factors may be very distant from the nominal text and goal structure as defined for legislative purposes; they are nevertheless very important. Appropriate concern, therefore, on the part of policymakers is required.

The Function of Housing Allowance Programs: The bulk of governmental intervention in the housing sphere has been on the supply side of the equation. Currently under consideration is much more in the way of a program for demand augmentation through housing allowances or guaranteed incomes in one form or the other. These latter programs are based on the belief that giving the poor more housing dollars will permit them to use their own market judgments in securing better housing amenities, i.e., moving from Stage 4 and 5 neighborhoods up to Stages 2 and 3 or, alternately, getting landlords in the former areas to so improve their parcels as to compete effectively for new tenantry.

There are several weaknesses in this scenario—or, at the very minimum, alternate results which should be explored. Primary among these is the fact that landlord behavior is a function not merely of immediate return but of future expectation; for example, if I improve the building, not only can I get a better rent roll out of it but ultimately I can sell the building or, at a very minimum, remortgage the building in order to secure the improvement dollars back.

In Stage 4 and 5 neighborhoods, based on substantial work in New York and limited exploration in other areas, our problem is currently a crisis of landlord confidence in the future. This

tends to make one highly cautious of the regenerative capacity of housing in these areas based strictly as a function of more rent dollars available. Secondly, there is the problem of an abrupt flight of people who are presently in areas 4 and 5 but highly desirous of getting out of them, which might tend to endanger substantially the viability of sounder peripheral areas.

Again, it is not merely the end goal of programs that must be viewed, but also the pace at which these goals are achieved. A pace that involves wholesale changes in a very short period of time may have extremely deleterious effects, even though the process involved is one which could be quite salubrious over a longer period.[72]

Public Housing: The base upon which public housing was advanced in the thirties was the concept that good housing was the keystone to the resolution of all of the problems of the poor, be they crime, disease, or jobs. The disillusion with the results parallels the changing occupancy characteristics of the residents. Public housing initially was essentially for the working class poor, not welfare recipients. As late as 1960, only 12 percent of all New York City public housing residents were on welfare.[73] It has since climbed to well past the 20 percent mark. And this seems to have been paralleled elsewhere in the country. The results of this process have meant that new public housing units can be conceptualized as a form of drastic neighborhood change. This is exemplified by the massive project of housing people of lower socioeconomic status which is interjected into a declining area. The latter may still have preserved at least the illusion as well as sometimes the reality of a higher class of residency. The effects are still somewhat controversial. While much has been made of the Pruitt Igo experience and the horrendous quality of life that has surrounded some of the monolithic housing projects of the cities, there has been to the best of our knowledge little in the way of a national survey of the impact of public housing on peripheral realty. Judgment, therefore, must be reserved on this crucial fact. Clearly however, when there is an abrupt variation in tenantry characteristics to previous population in an area, the process is not too dissimilar from that cited earlier in Kansas City under the 235J program. This deleterious effect both in terms of living conditions within public housing and also to the citizen receptivity to public housing even in core areas, was augmented by the abrupt shift in the requirements as to tenancy characteristics which were instituted in 1968. Up to that time, fairly stringent tenant screening procedures had been followed. Subsequent to that time, depending upon the individual housing authority, much of these have been done away with. The results in concentrating problem families have been quite substantial, based on limited case studies. Again the point should be stressed that to the best of our knowledge there is no systematic national survey of the secondary impacts of such construction.

Governmental Levels of Intervention

Where in the Multilayered Governmental Structure that Characterizes American Life Should the Various Levels of Intervention be Placed? The broad indicators noted earlier should be utilized as a basic sorting mechanism for programs which either are clearly going into areas in which success has a high order of probability, or those which have a high danger content. In the latter case, it is the local level of government—state or municipal—which essentially should be required to show cause why Federal funding or interventionary mechanisms should be utilized. A show cause order is not an absolute negative. It says rather that the burden of proof is on the requesting agency.

Certainly, given the present statistical state of the art, the net of data that can be secured, and the typologies of neighborhoods that can be developed, are far from foolproof. Governmental authorities therefore should be open for exceptions, but only for very clear and explicit reasons.

In an earlier exhibit, regional vacancy rates were shown for housing. As is evident from that exhibit, the level of accommodation varies very substantially through the country. Equivalent data can be secured showing the enormous differences in the costs of providing housing accommodations and infrastructure support. The housing problem is no longer amenable to detailed national action, even when those programs have a variety of exceptions for the high-cost areas and the like. We need much more in the way of specific programing for specific cities and specific municipalities, within the broad analysis of payoffs as identified by national growth policies and the type of municipal typology outlined above.

[72] On the migration factor, see George Sternlieb and Bernard P. Indik, *The Ecology of Welfare* (New Brunswick, N.J.: Transaction Books, 1973) in which the chief improvement asked by a sample of 412 welfare families in New York when questioned about their housing was—to get out of the neighborhood.

[73] Ibid., p. 71.

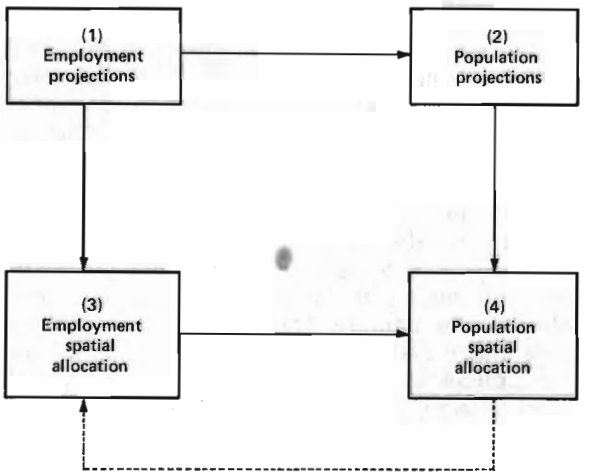
Put in simpler terms, HUD should no longer be in the retail business. Rather, it should be the local municipalities, possibly under a broad State mandate and direction, that should have the key responsibility for specific project choice and development. Regardless of this mechanism, however, the basic rules of the game determined by experienced and probable projections of payoffs must be adhered to if an effective level of successful throughput is to be engendered.

Appendix A
The Forces of Location Change

In order to assist the evaluation of neighborhood change and its various paradigms, it is desirable to review the broader aspects of urban spatial structure. This appendix will thus look into the more important processes which affect the locational choices of the various economic activities of the metropolis. Such elements have strong implications for aging residential neighborhoods, and form the bounding environment within which their functions are defined. While space does not permit an exhaustive account of these processes, we hope to highlight those of importance in altering the context of several of the neighborhood models presented in the main sections of this report.[74]

On both theoretical and emprical grounds, urban analysts have reached a general consensus on the validity of the crude model of urban spatial structure shown in Exhibit A-1. In this paradigm, the basic driving force shaping and conditioning urban growth is the spatial location of employment activities—particularly those not directly serving households. Although jobs and housing exhibit many interdependencies, there are large sectors of employment, particularly manufacturing, whose location is determined with little regard for the distribution of housing.[75] Both the absolute shifts and differential growth rates of such employment facilities have great significance for a region as a whole and, in particular, its residential patterns. Thus it is worthwhile to look at the factors determining the locational tendencies of the dynamic economic sectors.

Exhibit A-1
The Basic Structure of Regional Land Use Models



Manufacturing employment, and its growth and shifts, has immense particular importance for a region's overall structure—thus we will first explore this economic sector and try to establish what determines its location. Office and white collar employment activities are then subject to a corollary analysis. Locationally following these various economic activities is the residential population, the third element to be examined. Finally, retail and service activities, which tend to be population serving, are considered.

[74] The discussion and impressions presented in this appendix have been put together from a number of sources, the most important of which are: Regina Armstrong, *The Office Industry: Patterns of Growth and Location* (Cambridge, Mass.: The MIT Press, 1972); H. James Brown, et al., *Empirical Models of Urban Land Use: Suggestions on Research Objectives and Organization* (New York: National Bureau of Economic Research, Inc., 1972); Daniel Creamer, *Is Industry Decentralizing?* (Philadelphia: University of Pennsylvania Press, 1935); Edgar Hoover and Raymond Vernon, *Anatomy of a Metropolis* (New York: Doubleday and Company, Inc., 1962); John Kain, "The Distribution and Movement of Jobs and Industry," James Q. Wilson, editor, *The Metropolitan Enigma* (Washington, D.C.: Chamber of Commerce of the U.S., 1967); John Kain, "Housing Segregation, Negro Employment, and Metropolitan Decentralization," *Quarterly Journal of Economics*, May 1968, pp. 175–197; John Kain and John Meyer, "Transportation and Poverty," *The Public Interest*, Winter 1970; Robert Leone, "Location of Manufacturing Activity in the New York Metropolitan Area" (unpublished Ph.D. dissertation, Yale University, 1971); John Meyer, John Kain, and Martin Wohl, *The Urban Transportation Problem* (Cambridge, Mass.: Harvard University Press, 1965); Raymond Struyk and Franklin James, *The Patterns and Processes of Manufacturing Employment Location Change in Four Cities* (New York: National Bureau of Economic Research, forthcoming); and Raymond Vernon, *The Changing Economic Function of the Central City* (New York: Committee for Economic Development, 1959).

[75] An alternative scenario to firms locating primarily for economic reasons, with people following to minimize commuting time and cost, has been made. It is argued that people have a natural preference for open space and privacy and thus decide to locate economic activity to suit these preferences. "There is some indication that prior to World War II, the pattern of commuting from suburb to central cities resulted in a relatively low concentration of jobs in the suburbs, and that after the war jobs were moved closer to places of residence, to the extent they could be. As a result, a correction took place and jobs grew faster than population in the suburbs." David L. Birch, *The Economic Future of City and Suburb*.

Manufacturing

A cluster of interdependent, yet analytically separable, locational forces underlie the decisionmaking of manufacturing establishments. By looking at these parameters and their locational impact, we should be able to identify, with reasonable agreement, those spatial areas susceptible to growth and decline in manufacturing employment. Reviewed in order are the requirements for space, changing transportation dependencies, communication restraints, external economies, and land price. Each of these factors operates to generate centralizing and/or decentralizing tendencies.

Space: A prime consideration in the location of manufacturing activities is the space required for the basic manufacturing operation, a constraint which itself is governed by a host of factors. The most important of the latter is the basic technological change of manufacturing routines —it is more and more desirable and economical to place operations on a continuous flow-automatic materials-handling basis. The most efficient building configuration to enclose such operations is the single story plant. The basic criteria for such plants is the minimization of internal structural restraints—the production layout is optimized and the building is wrapped around it. The shape of the building is thus determined by the manufacturing process; a 1-story plant is invariably the cheapest solution. In fact it is often technologically and economically prohibitive to fit modern materials-handling processes into older multistory plants.

Consequently, inner city factory structures may generally be classified as obsolete for modern production arrangements. Such basic characteristics as their multifloored nature, severe internal restraints in terms of basic supporting structural elements—i.e., columns, ceiling heights, etc.—and limited floor space restrained by block size, render the building obsolete before the factory wears out. Attempts to modify or expand such facilities often run into severe difficulties. Many city plants, erected when zoning regulations were quite permissive, were located within and adjacent to residential areas. Expansion into these areas presently represents a very difficult zoning problem. Were such a problem overcome successfully, further difficulties would be generated by the number of small parcels into which many city blocks are divided. This requires dealing with many parcel owners, resulting in the possibility of gouging by the last holdout. In total, attempts to modify inner city facilities can become ensnared by a host of difficulties.

We have then, several interrelated factors influencing the space required by manufacturing operations—technological change in basic manufacturing processes, the basic building format required, and obsolete inner city facilities whose modification is constrained by zoning and real estate conditions. The confluence of these factors is a tendency toward locational preferences for the outer undeveloped edges of the metropolis and against restrained central city locations.

Transportation: The search by manufacturing concerns for space is conditioned by their need to assemble component materials and to distribute final products both efficiently and cheaply. Consequently the early manufacturing centers of this Nation developed around waterside locations to hold down transportation costs. The urban developments so spawned became the terminal points for the subsequent development of the railroads. Laid out to serve existing nuclei, the railroads reinforced the original patterns of location. In our older urban areas today, one can see ancient industrial structures located along the junction of rail and water transportation facilities.

As spurs were eventually built out from the main rail lines, many manufacturing activities were freed from waterside locations. Consequently, many facilities were allowed to spread out from the old cities into surrounding towns. This trend toward freedom from locational constraints received a further boost from the subsequent advancement of automotive and truck transportation, which provided a flexible means of transporting bulky goods short distances. The disadvantage of locating away from railroad lines and harbor piers was correspondingly reduced.

The impact of this evolution in transportation technologies was and is widespread. First of all, it provides new freedom to select a site. Second, the growing dependence on trucks and cars accentuates the disadvantages of obsolete central city street layouts. The lack of off-street loading docks and ancillary parking facilities added to the presence of pervasive traffic congestion on city streets works to the disadvantage of manufacturing complexes situated in aging urban centers. The transportation revolution has thus generated the need for horizontal space about the manufacturing operation; the intersection of the factor with the horizontal space required by the building itself defines a locational force of dispersion and decentralization.

Communications: The communications revolution sets in motion a number of implications for locational decisionmaking, while at the same time, unaffecting other long term considerations. Of the former, newer technological innovations, such as instantaneous computer linkups for inventory and production control, establish both centralizing and decentralizing tendencies. The functional activities of an industrial firm no longer have to be located in close proximity to one another. Each function can be placed at its optimal spatial location. With improved communication and transportation, these locations can be fairly well dispersed; there is no real need to have headquarters or control functions adjacent to their manufacturing operations. This may lead to a centralizing of control functions and to a decentralizing of manufacturing functions.

This specialization by function may not mean, however, that there will be centralization of control functions within a given urban area; it may mean the strengthening of major cities at the expense of lesser ones.

> Specifically, recent advances in communication, the rapidity of air travel, and the growth of electronic data processing appear to make district offices less necessary relative to central or national offices. In short, technological progress has made greater centralization both possible and desirable in office and managerial control functions. . . . As a result medium-size and, particularly, large-size metropolitan areas may be adding central office functions at the expense of smaller ones.[76]

The implications of this phenomenon for smaller metropolitan areas are both obvious and ominous. Many functions with a tendency to centralize may bypass the small cities for the urban giants. For example, the six big cities of New Jersey, with perhaps the exception of Trenton, all lie within the commutersheds of either Philadelphia or New York City, both adjacent to their borders; those functions desiring a central location most likely will gravitate toward them at the expense of New Jersey's urban centers.

The second and more conventional impact of communication demands is the need for face to face communications, particularly by the control activities of manufacturing organizations and their services. Such needs and demands are best met by a central location.

Communication requirements also act as a centralizing force for manufacturers of unstandardized products—such products are created by a process of consultation between customer and manufacturer. The apparel and garment industries, uncertain in terms of fashion, are the textbook illustrations of this situation. Throughout the process of creation, production, and sale, there is a constant requirement for speedy personal interchanges. Furthermore, there is a close interrelationship between communication needs and external economies, i.e., a reliance as much as possible on outside suppliers to maintain maximum flexibility in product. This interdependency is examined more closely in the next section. But this phenomenon may be in operation only in the largest urban centers.

In total, then, communication processes work as both decentralizing and centralizing forces. The overall effect is more complex due to the dominant metropoli usurping many of the functions which could centralize in lesser centers. Overall, then, communication factors most likely lead to a general decentralization effect and a decline in the urban centers.

External Economies: Another major parameter affecting the location of manufacturing activities involves the need to take advantage of external economies. Particularly, small plants depend upon the use of facilities and services "external" to themselves due either to product uncertainty or the lack of cash typical of embryonic firms. External economies—i.e., rental space, services, component products and processes, labor, and materials—have historically been located in dense centralized locations. Small plants would find rental space there and due to their inherent uncertainties, be able to purchase many of their components and processes rather than internalize them. This supposition has led directly to the "incubator" hypothesis of such service pools spawning new industry, which would consequently lead to a centralized location of new firms. As such firms mature and their products become standardized, they would become subject to the conventional locational factors of space, transportation, and communication reviewed above. The external economies of a central city location can be internalized with growth and size.

But many of the external economies previously found only in central urban areas are rapidly becoming available also in suburban decentralized locations. The traditional assumptions regarding the urban core's incubator function may be losing validity. If this is the case, then the locational forces generated by external economies may be counterbalancing.

Labor: Historically, manufacturing operations required a substantial workforce comprising unskilled labor. This need dictated a central city lo-

[76] Meyer, Kain, and Wohl, op. cit., p. 18.

cation, where the appropriate assemblage of personnel would be achieved. As industry moves to new automated processes, a smaller, higher-skilled work force is required at the same time as lessened dependence is placed on unskilled employees. Thus an urban locational constraint is removed, replaced perhaps by the need for automobile accessibility and parking for the more affluent, skilled labor force.

Furthermore, labor troubles may be ameliorated by moving to noncentral locations. Well-established unions are the general case in built-up urban centers while they may be the exception in rural and suburban locations. Such a supposition would give rise to an impetus for dispersion of manufacturing firms experiencing labor difficulties. Adding these two factors together indicates that the labor factor may be evolving into a decentralizing force.

Land Price: The interaction of land price with the other locational parameters, and its effect, has been the subject of much analysis, the most eloquent of which was made by Moses and Williamson.[77] Their model suggests that the location choice of an establishment relative to the metropolitan core is determined by a land price gradient, which declines with distance from the core; and an input (of labor, materials, communications, etc.) price curve, which increases with distance from the core. Force toward decentralization is produced by either a (1) movement of the land price gradient upward; or (2) movement of the input price gradient downward. The introduction of the motor truck and automobile served to reduce the input price gradient relative to the land price gradient. Both innovations decreased the cost of moving away from centrally located facilities in terms of the intermetropolitan transport of nonlabor inputs and output; and of moving away from core area concentrations of labor.

Manufacturing technology, as reviewed in our earlier analyses of space requirements, and worker transportation needs, generating a demand for parking, tend to make manufacturing establishments more land-intensive, thus tending to raise the land price gradient, and consequently, moving locations away from the core. Thus land costs and their interrelationship with other puissant location parameters point toward a decentralizing force.

[77] Leon Moses and Harold Williamson, Jr., "The Location of Economic Activity in Cities," *American Economic Review*, May 1967, pp. 211–222.

In total, the major implication of the preceding analysis of the technological and economic forces affecting manufacturing locations is that there is less and less reason for manufacturing operations to be located in major urban centers. The introduction of new production techniques and the shift in transport modes appear to facilitate the withdrawal of manufacturing activities to lower-cost open sites at the edges of urban areas. In fact the ideal location seems to be along circumferential freeways encircling the built-up suburban areas of major cities, particularly the first band of uninhabited land. At such locations, ease of access is provided to skilled labor forces while prestige and advertising value are facilitated by freeway visibility. Thus new peripheral bands of high private-vehicle accessibility circumscribing the city beyond the developed environs appear to be the metropolitan locational preference for this industry.

Office and White Collar

Many of the forces affecting the location of manufacturing facilities are also active considerations in the locational decisions of office and white collar facilities. And they tend to operate in an analogous fashion. In this section, then, brevity is possible concerning factors already examined in depth. To be considered are communication restraints, transportation, technological change, and prestige and environmental preference.

Face-to-Face Communication: In terms of headquarters functions and the office elite, face-to-face interchange is the only adequate means of communication for upper level staffs. If technical or consulting advice is required in specialized areas, access to such services is necessary. Delicate negotiations and complex evaluations cannot be entrusted to the telephone or the mails. Executives, among competing and cooperating firms, must depend on face-to-face consultations. Geographic concentrations of facilities and people make such activities easier to undertake. Hence, major urban centers have traditionally satisfied this requirement best—thus the need for face-to-face interchanges has generally tended to be a centralizing force. Moreover, whatever the location decisions for such functions, they affect the location of the specialists who service the office elite.

Transportation: Many of the centralizing tendencies of face-to-face communication are counterbalanced by transportation difficulties.

With many commuter rail and bus systems in flux, the entry and exit into major urban centers is both more difficult and detested by the major segment of white collar employees. Moreover, in the case of cities in New Jersey, for example, both Philadelphia and New York City are more accessible by public transit than are any of the State's urban centers, putting the latter at a distinct locational disadvantage.

Whatever the state of local transit, both the executive and secretary would most likely prefer automobile commutation. The development of widespread car ownership by young women in the 1960's removes another public transit restraint for a centralized location. Employee commutation preferences, then, may form a powerful decentralization force. Also not to be overlooked is the claim that decentralizing office functions are drawn toward the residential location of the chief executives who desire a short journey to work.

Technological Change: Many changes in bookkeeping and electronic data processing technologies replicate the effects exerted on manufacturing on white collar and office functions. Routinized or standardized functions, if self-contained, can be peeled off from the main operation and situated at a more optimal spatial location for that function. Such standardized functions have face-to-face communication ties and therefore can be decentralized. This follows the pattern of manufacturing locational tendencies in terms of standardized vs. nonstandardized processes.

Another technological change which interrelates with labor force requirements makes itself evident in the so-called bookkeeping industries. For example, insurance companies need to maintain extensive files and records. Historically, they have depended on large forces of semiskilled clerks; thus large insurance firms depended upon a downtown location. With the advent of electronic data processing, the need for mass pools of such labor was obviated. With the trend toward widespread automobile ownership, all types of labor can be recruited at noncentral locations.

The sheltering of such processing equipment and its operators parallels that required of basic manufacturing operations—it can be most efficiently and cheaply accomplished at decentralized locations where the space needs of horizontal configurations can be satisfied. Furthermore, it is also a force favoring the regional office over the district office, and the national office over the regional office. So even if technological innovations are a force toward decentralization, then it may at the same time also generate locational tendencies toward the major urban regions at the expense of areas of lesser extent.

Prestige and Environmental Preference: Vital considerations less susceptible to precise economic evaluations involve notions of image or prestige, and environmental preferences. Prior to World War II, the central city was the only conceivable location for the headquarters of a major firm—the classical monuments to the corporate establishment were so located. In the postwar period, however, the image of the city, to say the least, has tarnished, while the notion of suburb has come to connote prestige and glamour. Such a psychological force has even impacted New York City, where the image of the firm at the pinnacle of power and class is transferring to rural decentralized locations. Prestige appears to be attached to a facility nestled in the countryside or a site highly visible from a highway.

Underlying such feelings may be the environmental deterioration of the city, both physically and socially. Crime, and the fear it engenders, justifiable or not, takes its toll on company morale. Security becomes a major problem in a nonisolated structure. These conditions lead to the desire for a noncentral location where the facilities can be isolated and tight control on access and egress instituted. This confluence of prestige and environmental preference forms a not insignificant force for decentralization.

The white collar and office locational parameters of face-to-face communication, transportation, technological change, and prestige and environmental preferences have important implications for metropolitan areas. First of all, for those office functions desiring a central location, because of face-to-face communication requirements and other centralizing forces, the minor cities have little to offer in comparison to the urban giants—both in terms of accessibility by public transit and in urban services and amenities. This reflects the general tendency engendered by communications technology—the growth of large cities at the expense of lesser ones.

Decentralizing tendencies still predominate, however. The environmental, prestige, and automotive accessibility characteristics of those areas located in the outer ring portions of these metropoli should work to generate high rates of white collar and office growth.

Residential Location

It has been assumed by model builders that the above economic activities are the driving forces shaping the location of other sections of the metropolitan system, particularly the residential distribution of the population. In other words, people tend to follow jobs. However, many factors tend to affect the distribution of households about the locus of employment. In the main, these factors are those of decentalization, reinforcing the impetus derived from the locational tendencies of both manufacturing and white collar office functions. For simplicity, we have divided these forces into two categories, technical and economic, and household preferences and the environment.

Technical and Economic: The transportation revolution engendered by the automobile has obviously made it possible to live in dispersed locations. Previously many restraints were posed by transit systems—commuter railroad, streetcar, subways, and buses. Mass production techniques have created a product available to most households. The result has been the technical feasibility of household location decisions unencumbered by public transit considerations, except in particular cases. The basic restraint appears to be individually imposed, and that is an overall acceptable time limit for the journey to work.

While the automobile has made it technically feasible to decentralize, rising incomes and public policy have made it economically feasible; the latter in terms of providing the basic road infrastructure and of establishing government-guaranteed mortgages. In the case of the former, rising personal income has made it feasible to purchase both suburban homes and private means of transportation. Thus, technical and economic advances appear to generate residential processes whose impact is dispersion. Moreover, there is no evidence of any counteracting force which would lead to centralization, i.e., a technologically improved building system capable of producing advanced high density residential configurations or a radically improved transportation innovation which would provide an alternative to the automobile. Particularly in the case of the former, technology has not produced high density living space which is cost-equivalent to low density suburban alternatives, nor has a buffer between households been satisfactorily implemented that is technically equivalent to simple spatial separation. Building codes specifying limits to noise transmission between adjacent apartments are a rarity in this country. If they were widespread, however, the cost of multiple family dwellings would obviously be higher.

Household Preferences and the Environment: The last discussion above is of the utmost significance. There is no denying the basic desire of American households for the single family house and the accompanying external space. While it is typically argued that this type of accommodation is mainly a function of the space needed by child raising families, there may be a growing trend toward childless couples and even singles preferring a single family dwelling. While planners have condemned the sprawl resulting from the proliferation of suburban houses and its impact on the environment, the current ecological concern has, paradoxically, created a demand, by younger households particularly, to own land and a house. The trends in such preferences all point toward further decentralization and suburbanization.

Other notions of environmental consideration abound. Deteriorating and aging central city neighborhoods, particularly those with congested streets caused by obsolescent patterns of off-street parking for multifamily structures, do not appear to be headed toward resurgence, at least in the near future. Fear of crime, dissatisfaction with the schools and general services, and manifold pollution lead to the general negative image of a city address. For the vast middle class, the only satisfactory image is a home in suburbia. Moreover, to an increasing extent, suburbanites will not be in-migrants but will have been born suburbanites. While they may move between suburbs, their origin will still be suburban when viewed from a national scale. A generation is emerging that has been completely detached from the central city.

All of these matters are, of course, interpenetrated by class and race. Rural newcomers to the cities have been, in the last four decades, both poor and racially/ethnically identifiable. Their entrance into a neighborhood has evoked the exit of the former residents to the suburbs, a general phenomenon subjected to widespread scrutiny and analysis. Lower income manufacturing and clerical workers have replicated the migration patterns of upper middle class management, settling near their suburban work places. In response to these overall shifts, even most new apartments are situated in suburban areas, accessible by major highways from most employment opportunities.

Minority groups are increasingly isolated in the central cities and excluded from the suburbanization process except to the inner suburbs. Such concentrations of minorities not only impact the residential location decisions of core workers and the potentialities of upper or middle class residential renewal,[78] but also the locational decisions of economic activities which can function in dense core areas (office, retailing, services, etc.). In short, all of these undercurrents lead to residential decentralization tendencies, a phenomenon which is so widespread that it requires little documentation.

The major implication of the above discussion is that the residential distribution of the population is generally shaped about employment facilities which are forming peripheral bands of economic activity circumscribing the built up environs of metropolitan regions. Residential development is favored not only within the suburban territory inside of the circumferential freeways, but is also spurred in the vast undeveloped lower cost spaces beyond it. Thus, areas along the economic growth bands, both inside and outside the belt corridors, and areas along radial corridors external to the circumferential freeways will more and more become the favored location for residential development.

Retailing and Population Serving Industries

The basic locational determinant of population serving activities is the location of the population they are designed to serve—service activities traditionally have followed their markets and located at the point of maximum purchasing power. The latter condition is usually satisfied at the location of maximum consumer accessibility. Thus the directional growth flow of such activities appears to be to the surburbs, along high speed highways accessible to major suburban population concentrations. The automobile, increasing per capita income, as well as absolute population growth, has made this retail shift possible. The CBD becomes increasingly remote to the major concentrations of population and purchasing power.

Certain technological considerations reinforce this tendency toward dispersal. The shifting techniques of warehousing, distribution technologies, and transport have placed older city operations at a distinct operating disadvantage. It is more and more desirable to physically separate pedestrian, personal vehicle, and delivery traffic. This cannot be done in downtown locations designed according to obsolete technical parameters. Changing merchandising techniques and the need for massive parking facilities required by the shopping population all but dictate a decentralized highway location.

Spatial preferences of other population-serving activities have similarly ominous implications for old central cities, one of the most important of which is the shift from passenger trains to the airlines. City-to-city travelers, who previously took a short trip downtown to the rail terminal to board the train, now find it more convenient to drive to the outlying airport for longer trips or to drive directly for shorter ones. The consequent demand for hotels and restaurants in downtown areas shrinks while the demand expands along surburban freeways or outlying city areas near the principal airports.[79] This evolution of intercity transport modes has consequently added to the decentralization of these population-serving facilities. Recognizing these basic trends, Amtrak is attempting to locate stations at the outer city edges and abandon extensive and expensive downtown terminals. Again, this works toward the economic and cultural decline of older cities.

Also important are local consumer industries which service both specialized and generalized markets—these activities span a continuum running from legal services to movie theaters to bakeries—and which typically follow their markets. As we have seen from the preceding analysis, most of these markets are or have been suburbanizing. Counties where the previously examined sectors and residential activities are locating will also be expected to expand and develop their population-serving industries.

In the first four sections of this appendix, we have looked at the factors determining the locational tendencies of the major economic and residential delineations of the metropolis through their differential growth rates in New Jersey counties. This framework of locational parameters makes it possible to establish the potential areas of growth and change and to evaluate the

[78] The earlier conception of rebuilding urban centers with high rise apartments was a flawed one. The high rise apartment dweller represents the atypical American family and comprises an extremely small market sector. See Chester Rapkin and William G. Grigsby, *Residential Renewal in the Urban Core* (Philadelphia: University of Pennsylvania Press, 1960).

[79] Newark Airport and its recent redevelopment provide a running documentary of this change—motels and hotels are proliferating along Route 1, the main access road to the airport, while the downtown Newark hotels are being converted to office space or are abandoned. See George Sternlieb and Robert Burchell, *Residential Abandonment: The Tenement Landlord Revisited* (New Brunswick: Center for Urban Policy Research, 1973).

current reasonableness of the basic models of neighborhood change.

Summary

In this section we have reviewed the broader aspects of urban spatial structure; generally, we have looked at the basic processes underlying the growth and change of different spatial areas of the metropolis. Specifically, four analytically distinguishable economic sectors were examined in terms of the individual factors determining their locational tendencies.

In the model paradigm, the spatial location of manufacturing employment is the basic driving force shaping and conditioning urban growth. The technological and economic forces affecting manufacturing locations generate less and less reason for such operations to be located in major urban centers. The introduction of new production techniques and the shift in transport modes appear to facilitate the withdrawal of manufacturing activities to lower cost open sites at the edges of urban areas. Thus new peripheral bands of high private vehicle accessibility circumscribing the city appear to be the metropolitan locational preference for this industry.

In terms of white collar and office employment, the locational parameters of face to face communication, transportation, technological change, and prestige and environmental preferences have important implications for metroplitan areas. First of all, for those office functions desiring a central location, because of face-to-face communication requirements and other centralizing forces, the secondary cities have little to offer in comparison with the urban giants both in terms of accessibility by public transit and in urban services and amenities.

However, decentralizing tendencies work to the economic benefit of almost all metropolitan suburbs. The environmental, prestige, and automotive accessibility characteristics of those areas located in the outer ring portions of most metropolises should work to generate high rates of white collar and office growth.

The third sector—the residential distribution of the population—is generally shaped about employment facilities which are forming peripheral lands of economic activity circumscribing the built up environs of urban complexes. Residential development is favored not only within the suburban territory inside of the circumferential freeways, but is also spurred in the vast undeveloped lower cost spaces beyond it. Thus counties along the economic growth lands, both inside and outside the belt route corridors, and counties along radial corridors external to the circumferential will more and more become the favored location for residential development.

The basic locational determinant of population-serving activities, the last economic sector to be examined, is the location of the population they are designed to serve—service activities traditionally have followed their markets.

Appendix B
Neighborhood Delineation Methodology

Introduction

Up to this point we have focused on neighborhoods without in fact expending any effort to provide an adequate definition of the term. In the literature that was reviewed previously, there was more than a limited attempt to isolate this basic concept.

> In the course of time every sector and quarter of the city takes on something of the character and qualities of its inhabitants. Each separate part of the city is inevitably stained with the peculiar sentiments of its population. The effect of this is to convert what was at first a mere geographical expression into a neighborhood, that is to say, a locality with sentiments, traditions, and a history of its own.[80]

Underlying this definition was the work of the Chicago ecologists with the concept of "natural areas," defined as territorial units whose unique characteristics—physical, socioeconomic, and cultural—result from the operation of the ecological and social processes which we previously reviewed.

> All of these break the city up into numerous smaller areas, which we may call natural areas, in that they are the unplanned, natural products of the city's growth. Railroad and industrial belts, parks and boulevard systems, rivers and rises of land acting as barriers to movements of population tend to fix the boundaries of these natural areas. . . . In the competition for position the population is segregated over the natural areas of the city. Land values, characterizing the various natural areas, tend to sift and sort the population. At the same time segregation reemphasizes trends in values. Cultural factors also play a part in this segregation, creating repulsions and attractions. From the mobile competing stream of the city's population each natural area of the city tends to collect the particular individuals pre-destined to it. These individuals, in turn, give to the area its peculiar character. And as a result of this segregation, the natural areas of the city tend to become distinct cultural areas as well—a "black belt" or a Harlem, a Little Italy, a Chinatown, a "stem" of the "hobo," a rooming-house world, a "Towertown," or a "Greenwich

[80] Robert E. Park, *Human Communities* (New York: The Free Press of Glencoe, 1952), p. 17.

Village," a "Gold Coast," and the like—each with its characteristic complex of institutions, customs, beliefs, standards of life, traditions, attitudes, sentiments, and interests. The physical individuality of the natural areas of the city is re-emphasized by the cultural individuality of the populations segregated over them. Natural areas and natural cultural groups tend to coincide. *A natural area is a geographical area characterized both by a physical individuality and by the cultural characterisitcs of the people who live in it.*[81] (Emphasis added.)

While planners have provided a more precise definition of a neighborhood in terms of specific sizes and tributary areas surrounding an elementary school, it is probably most preferable to keep the concept less rigid, and more in keeping with the "natural area." The quantitative procedures recommended to isolate homogeneous neighborhoods are not based on absolute size but the degree of internal uniformity across social, economic, and structural parameters. Furthermore, the processes which generate these areas do not require a consensus of opinion, just the acceptance of the existence of distinct neighborhoods irregardless of the processes giving rise to them.

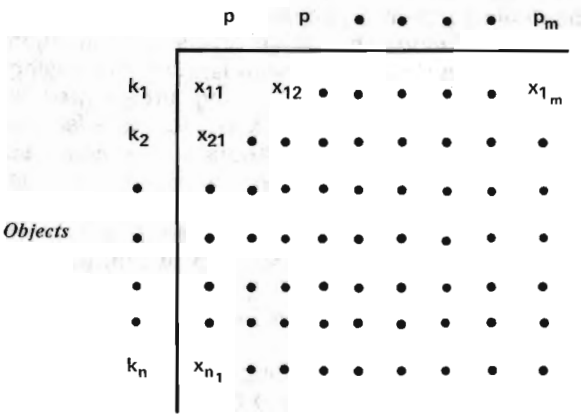
With this ambiguous definition at hand, how do we approach the city or metroplis with the prospect of carving out valid neighborhood areas? Fortunately, much of the work of quantitative urban geographers of the past decade was concerned with just this very question. They were also interested in larger-scale problems of the same nature, i.e., dividing a superregional area into homogeneous subregions. The task was the same in both cases and the developed techniques were thus independent of scale. Thus we will first view the general case of quantitative regionalization before specifying the parameters necessary to isolate neighborhoods of the city.

The General Regionalization Procedure

The basic regionalization (classification or grouping) procedure is to establish the relevant properties of the objects to be classified and then to use these properties to assign the objects into classes. More specifically, classification, in the sense used here, is undertaken in reference to measurements made on the property rather than by reference to the existence or nonexistence of the property per se. Thus we are not grouping, for example, on the basis of a yes-no presence of a nonwhite population, but the percent of the total population that is nonwhite. In general, then, to group objects on a quantitative base we require:

1. A set of objects, $k_1, k_2, \ldots k_n$, to be grouped.
2. A set of relevant attributes or properties, $P_1, P_2, \ldots P_m$.
3. A set of measures, x_{ij}, on the properties of the objects.[82]

We then have an n by m matrix, X, made up of the x_{ij}s:



The basic problem of quantitative classification involves searching this matrix for measures of appropriate groupings. The procedure most commonly employed is the minimization of within-group variance on the measures and the maximization of between-group variance.

In order to follow this procedure, it is necessary to estimate the distance—often termed the taxonomic distance—between two objects as they are measured on the m variables. Conceptually, the m variables we are using to classify form an m dimensional space in which each object is located. What is required, then, for classification is a measure of the distance between the objects as they are located in that m dimensional space—this is a problem of multidimensional scaling.[83]

The specific grouping algorithm suggested uses a generalized distance function based on within-group variance. For each possible pairing of objects, the means for each of the attributes is calculated and the sum of the squared deviations from the means computed. The pairing of objects which has the minimum value on this lat-

[81] H. W. Zorbaugh, "The natural areas of the city," *Publs. Am. Social. Soc.* 20 (1926), 188–97. Reprinted in G. A. Theodorson (ed.), *Studies In Human Ecology* (Evanston, Ill., 1961), pp. 45–8. Quotation from latter, pp. 46–7.

[82] David Harvey, *Explanation in Georgraphy* (New York: St. Martins Press, 1969), p. 339.

[83] Ibid.

ter calculation is assumed to form a class. If, for example, we have the following situation of 4 objects (k) with measures on each of 3 properties (p)

		Properties		
		p_1	p_2	p_3
	k_1	2	3	4
	k_2	3	4	3
Objects	k_3	4	3	3
	k_4	4	3	2

a first step would involve pairing objects k_1 and k_2 and computing the means and squared deviations for each of the properties.

	Properties		
	p_1	p_2	p_3
k_1–k_2 mean value	2.5	3.5	3.5
k_1–k_2 squared deviation	.25 (.5)	.25 (.5)	.25 (.5) $\Sigma = .7$

This procedure is repeated for all possible pairings (groups)

Pairing	Sum of squared deviations
k_1–k_2	.75
k_2–k_3	.50
k_3–k_4	.25
k_2–k_4	.75
k_1–k_4	2.00
k_1–k_3	1.25

In this sample, k_3 and k_4 have the most similar variable profiles as measured by the sum of squared deviations and therefore are clustered together to form a homogeneous group, defined by the mean values of the pairing. The procedure is then repeated with k_1 objects using this new pairing as a new object; the procedure is thus repeated until only one object or group remains.

This clustering procedure does not have a unique single analytical solution; it does, however, produce a unique hierarchy of groups, at the base of which each observation is considered a group unto itself, while at the peak all the observations are clustered into one general group. As the hierarchy is ascended, generality is progressively gained while definition is progressively lost. At each level of the hierarchy a measure of the total error introduced by the additional grouping is presented, facilitating the selection of the level of grouping for the particular task at hand. It is by virtue of this error term that a decision is made on the logical number of homogeneous groups that actually exist, since the major increment in error increase occurs when homogeneity within a group is lost.

The Neighborhood Application

In order to approach our goal of neighborhood delination, we must define the objects to be grouped. At one scale of analysis, we might have used the individual household as our basic element. But because the census resources do not isolate the attributes of such individuals, we must turn to a more complex element as a surrogate, i.e., a group of homogeneous individuals. A reasonable approximation is contained within a census tract, a spatial entity comprising a homogeneous grouping of people with documented socio-economic attributes.[84]

With census tracts as the major observational units to be grouped to form neighborhoods, it is then necessary to determine the set of attributes defining the census tracts and subsequently to obtain the associated measures on these attributes for each tract.

From the basic census resources, a host of variables are available for each unit of observation. However, no matter which specific variables (attributes), say m in number, are selected, their patterns of covariation will overlap. Thus "when several variables display a single pattern of concomitant variation it is desirable to eliminate the redundancies, isolate this pattern and use it in the analysis instead of the several variables to the more fundamental r basic patterns." [85] This is accomplished generally through the use of a principal components factor analysis with rotation according to the varimax criterion. The varimax rotation does not affect the hierarchy of groups which will be yielded from the cluster analysis.

The resulting components or factors serve as the set of attributes or properties for the set of objects (tracts) that are to be grouped. For each component (or attribute) there exists a

[84] Census tracts are small areas into which large cities and adjacent areas have been divided for statistical purposes. Tract boundaries were established cooperatively by a local committee and the Bureau of the Census, and were generally designed to be relatively uniform with respect to population characteristics, economic status, and living conditions. The average tract has about 4,000 residents. Tract boundaries are established with the intention of being maintained over a long time so that comparisons may be made from census to census. In the decennial censuses, the Bureau of the Census tabulates population and housing information for each census tract. The practice of local agencies to tabulate locally collected data by tracts has increased the value of census tract data in many areas.

[85] Brian Berry, "A method for Deriving Multi-Factor Uniform Regions," *Przeglad Geograficzny, t.* xxxiii Z, 2 (1961) 263.

Exhibit B–1. Analytical Scheme

Data Flow	Printed Output	Summary: Computational Procedure
1. Data Sources		m socio-economic attributes of n spatial units formed into
2. Coded Raw Date	Raw Data List	n × m raw data matrix.[a] n × m raw data matrix reproduced (punched) on computer cards.
3. Transgeneration Programs	Transgenerated Data List	BMD-09S:[b] Transgeneration Program: converts size data to percentages. Output both printed and entered on tape (for BMD-03M input).
4. Principal Components Factor Analysis Program	Means and Standard Deviations	BMD-03M:[c] Factor Analysis Program Data input via tape of transgenerated data: The means and standard deviations are a by-product of the computation of the correlation matrix. From this m × m matrix, the program performs a principal component solution. The resulting m × r factor matrix is rotated via the varimax criterion so that each factor is stated in terms of those few variables with which it is most highly correlated. The measure of each factor on each spatial area is computed and presented as an n × r factor score matrix, which is printed and punched out on cards.
	Correlation Matrix Eigenvalues and Eigenvectors	
	Factor Matrix Orthogonal-Rotated Factor Matrix	
	Factor Scores	
5. Hierachical Grouping Analysis Program	Successive Groupings of Spatial Units. From n groups to 1 group.	Program H-Group: Given a set of n spatial areas measured on r different characteristics this grouping procedure, on the basis of profile similarity (factor scores), utilizes the total within-groups variation as the function to be minimized.[d]

(Continued above)

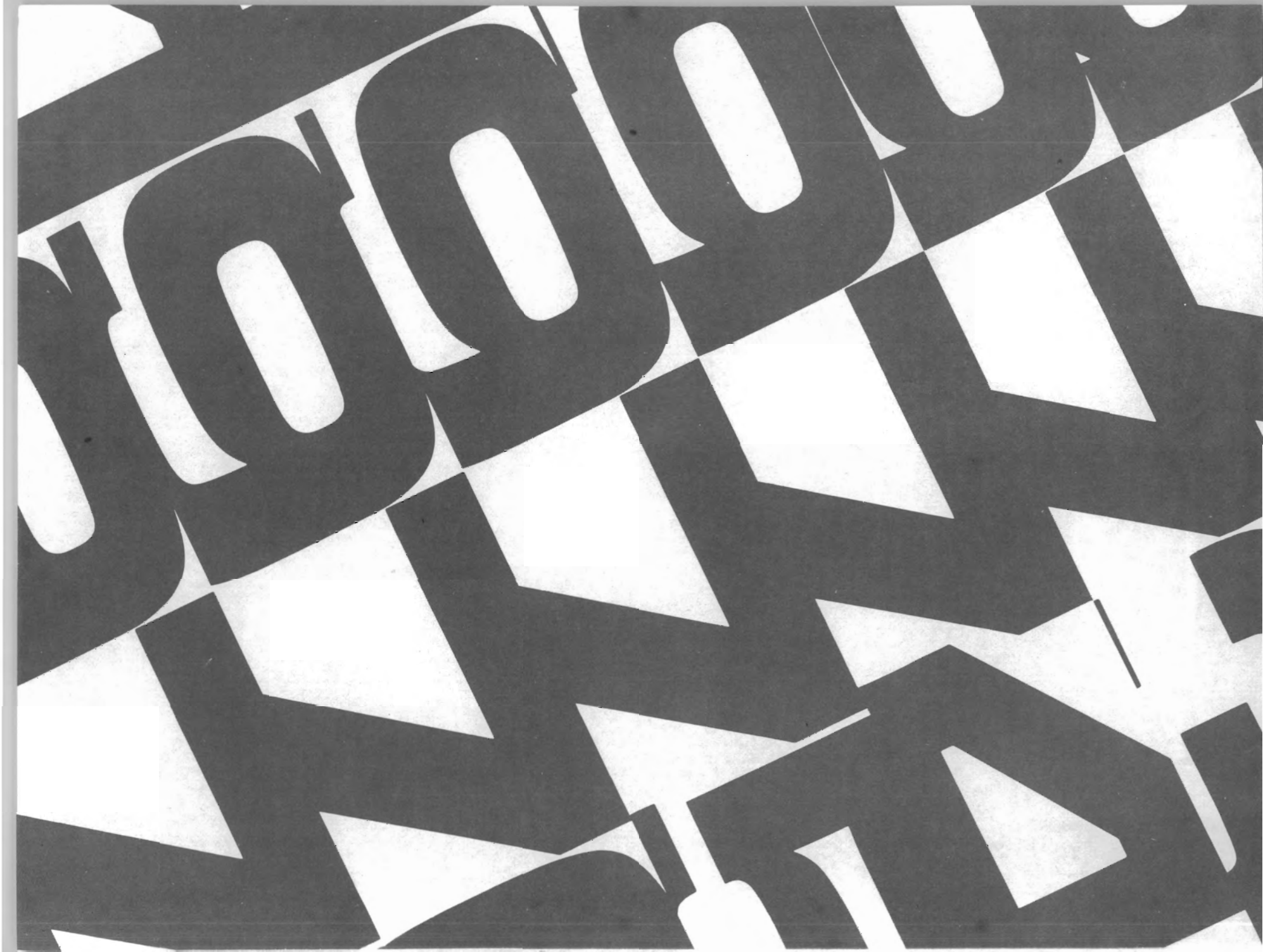
(Exhibit B-1—Continued)

[a] *U.S. Bureau of the Census, U.S. Census of Population.*
[b] W. J. Dixon, ed., *BMD Biomedical Computer Programs* (Los Angeles: University of California, 1968), pp. 421–430.
[c] Ibid., pp. 169–185.
[d] Donald J. Veldman, *Fortran Programming for the Behavioral Scientist* (New York: Holt, Rinehart, and Winston, 1967), Chapter 12, especially pp. 308–317.

measure on each tract known as the factor score. The matrix of these component or factor scores is known as the factor score matrix (n x r) and it locates each tract in an r dimensional Euclidean space. The information presented in this matrix forms the basis for the grouping of the tracts, a taxonomic problem which can be undertaken with a version of cluster analysis for hierarchical grouping (H Group).[86] This program is a variant of the general regionalization technique discussed earlier. This entire methodological procedure is presented in Exhibit B-1.

The number and scope of the basic input variables is limited only by time and resources. In the general case, through, whatever the number of variables, they will be collapsed into between 5 and 9 factors.

[86] A requirement that clustered observations must be contiguous is an option of this program.



9 Housing Production

Evaluation of a Proposed Shallow Subsidy Rental Housing Production Program

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Introduction

The objective of this paper is to evaluate a proposed shallow subsidy rental housing production program (RHPP) from the point of view of the housing developer, the lender, the investor, and the marketing and management functions. The approach will be first to describe the proposed program, then to analyze it from the point of view of each of these actors in the development process. There will, of necessity, be some duplication—for example, the management and marketing effects of the subsidy will be of great interest to the developer. Therefore, certain aspects that are discussed with regard to the developer, for example, may be only noted in passing, or omitted entirely, when discussing marketing.

Also, since the RHPP is not formulated in detail—and is, in fact, presumably still open to final determinations on many points—the paper will attempt to discuss some of the benefits and liabilities of aspects of the program that are not yet determined.

The objective of the RHPP is to produce more housing than would otherwise be produced as long as the need for additional units exists. The justification is the community's need for additional dwellings up to the point where a decent dwelling unit exists for every family. The program is intended to reduce the shortage of decent housing units by enabling private developers to build for markets that would not exist without the program. Unlike present programs, the RHPP is not a subsidy to bridge the gap between what the developer must receive to produce new dwellings and what the poor can afford to pay.

The main feature of the program is its use of the subsidy as a lever to widen the market. It is aimed in particular at young, mobile individuals and households, although it would be available to all tenants. The program is designed to retain the basic checks and balances of the marketplace, and, by dissolving the distinction between subsidized and nonsubsidized developments, to minimize the need for Federal regulation and supervision.

The RHPP is structured so that it can be supplemented by State and local subsidies that have explicit community development objectives. The RHPP itself is meant to be neutral with respect to issues of community development.

The RHPP would be available to initial tenants in new units whether or not they were insured by the Federal Government. The dollar amount per unit would be substantially smaller than existing programs, and the percentage of fully subsidized units in any project would also be a fraction of the current total.

The subsidy would be available only for occupancy of new buildings and only to the initial tenant. The beneficiary of the subsidy would be required to pay at least 20 percent of his income for rent. The subsidy would not exceed 20 percent of the rent on 20 percent of the units in the project. Projects eligible for the subsidy would have to have rents equal to or less than the rent of a well-designed and well-managed middle income unit in the locality.

The Department of Housing and Urban Development (HUD), with the advice of local housing experts, would set maximum fair market rentals for each housing market, taking into consideration both local housing costs and the size and type of the dwelling. The subsidy would be available to all developers of new units within the maximum rents. When the units were ready for occupancy, the developer would certify to HUD that his rents were at or below the amounts set and would receive a commitment for a full subsidy of 20 percent of the average rent for 20 percent of his units. The developer would be free to distribute this amount any way he chose. If the average rent for the development were $250 per month, he could reduce rents for 20 percent of the units by $50 each, or all of the units by $10 each, or any other combination or permutation, so long as

- No unit subsidy exceeded 20 percent of that unit's rent.
- The subsidy was used for moderate-rent units.
- The tenant-beneficiary spent 20 percent or more of his income on rent.

The developer would choose the tenants and present an income certification to HUD.

The landlord would not have to use the subsidy funds available to him. Under the plan, he would be free to rent without the benefit of the subsidy to anyone and at any rent. The rent on a unit would be fixed only as long as a subsidized tenant lived in the unit; an unsubsidized tenant could be charged any rent. Furthermore, the "fixed" rent would be adjusted annually on a marketwide basis to take into account changes in operating expenses. Once the tenant moved out, the subsidy would no longer be available to that extent for the project.

In order to limit further the cost of the program to the Government, there could be a time limit on the number of years for which the subsidy would be available even to the initial tenant. In any case, the cost of the subsidy program to the Government would be related to the number of years the initial tenant lived in the project, and the number of years until the tenant's income was sufficiently high to reduce or eliminate the subsidy on the basis of paying 20 percent of his income for rent.

The remainder of this paper will discuss this proposed program from the point of view of the various individuals, firms, and institutions involved in the housing development process that would be most affected by the program.

The Developer

A. Where would the program be used? By its terms, the subsidy would be available to any new nonsubsidized multifamily rental development. Therefore, it would be unavailable to developers of Section 236 and rent supplement and public housing leased projects but would be available to all other new projects:

1. Conventional: It would probably be used by all conventional developers, except where the following factors were involved:

a. Luxury developments where the rents are too high to qualify for the program.

b. Snob appeal projects, where, even though the subsidy might be available technically, the developer chooses not to use it in order to upgrade the image of the project.

c. Administrative burdens: Some developers would decide that the paper work would be too great. Incomes have to be checked and reported to the government, and other accurate records would have to be kept.

d. Ignorance: Some developers might not know about the program and how to make use of it.

e. Ideology: Some developers might refuse to make use of the money because of a free-market or anti-Government bias.

f. Some developers might prefer not to make any disclosure to the Federal Government and therefore might not participate.

g. Some developers might not need it, i.e., where initial leasing is very strong.

h. Many developers might not use the subsidy if its use required affirmative marketing, equal opportunity, prevailing wages, and other such HUD requirements.

2. 221(d)(4): Virtually all developers of FHA Section 221(d)(4) projects would use the subsidy, since most of the objections listed for conventional housing are either totally inapplicable (e.g., they are already subject to HUD requirements, reporting, etc.) or greatly attenuated (e.g., they are already dealing with the Federal Government).

3. State Housing Authority: Virtually all such projects would use the program, although in a few cases it might be waived if it meant dealing with HUD as well as with the State agency. If the State agency were given the funds to administer, then probably everyone would use it. Also, the State agency might require the program to be used in order to reach lower income people with the market rate units and in order to help the feasibility of the project. Combined with the low interest rate, and in some cases real estate tax subsidies, State projects would then have a real advantage over competition, especially if the subsidy were figured on the basis of 20 percent of the entire project, no matter how many units were eligible for the Section 236 subsidy.

4. Section 236: The subsidy would not be available for these projects.

B. What are the incentives and disincentives to the developer from each of the programs, and how would these be affected by the programs?

1. Incentives: The incentives to a developer of rental housing fall into the broad categories of land profits, fees for services, and a development profit and/or an investment. In this regard, it is useful to distinguish between a builder/developer who may develop a project primarily in order to create a contractor's fee for his building company; a developer/investor who develops a project in order to own it and have

the benefits of an investor; and a "pure" developer, not a builder or an investor, who will sell most or all of the equity to investors.

The pure developer will hope to have a profit after syndicating or entirely selling the project, over and above his cost of development and other expenses for which he may be liable pursuant to the sale or syndication. A related approach involves sale of most of the immediate benefits, but retention of a residual interest in the project.

If the developer does not sell or syndicate, he will be expecting tax shelter, cash flow, and equity appreciation, just like any other investor. He may also expect to earn fees for services—e.g., marketing, managing, and insurance—although he is equally likely to contract out for these services.

2. Disincentives: The developer of new rental housing is faced with an investment of time, effort, and/or capital, and the risk of unexpected liabilities and expenditures during the construction, initial leasing, and later operation of the project. The extent of each will depend on the terms of his financing and his syndication.

The earlier in the development process the developer brings in investors, when the risk is greater, and the more money the developer raises from investors, the more equity and preferences the developer must give up and the more risk he may have to undertake in terms of guarantees to investors. In addition, the developer may have a cash investment in the project measured by the total construction cost of the project, the cost of carrying and financing charges, and the amount of marketing expenditures and early operating deficits, minus the mortgage amount and the amount of equity raised from investors. These factors may be interrelated, since the full amount of the investor's contribution may not be forthcoming until a certain level of income is reached. In addition, the developer may agree to be responsible for later operating deficits or even distributions to the investors. He also may be personally liable for some or all of the mortgage financing.

The developer is faced with a series of risks that tend to decline as the project moves farther along in the development process and a greater amount of money is invested in it.

a. The most serious risk is the risk that the project will not get built at all. Legal problems, environmental requirements (flood control, drainage, sanitary sewer, water, etc.), planning and zoning disputes, lawsuits, and a variety of other factors may prevent construction after a considerable expenditure of time and money. Thus the developer may suffer a substantial loss, unless he is lucky enough to be able to sell the land at a profit—more likely he will suffer a loss on the land, since the development plan cannot be implemented.

b. Even after the project is in construction, rising labor and material costs, strikes, etc., may considerably increase the cost and change the economics. Late completion can increase carrying charges considerably. Even though financing is committed, if it is tied to money market rates, the total cost may be well in excess of projections.

c. Third, if initial leasing is slower than projected, additional advances of mortgage money and investors' contributions may not be forthcoming, and operating deficits incurred by the developer during this period may be substantial.

d. Finally, even after the project is completed and occupied, recent experience shows that inaccurate real estate tax estimates, rising expenses of all kinds (including real estate taxes), and a decline in demand from any of a number of sources may lead to inability to pay debt service requirements and thereby to foreclosure of the mortgage on the property. Depending on the terms of the financing and syndication, part or all of the loss may fall on the developer.

3. The Effect of the Program: The RHPP is effective in reducing only the third of these four areas of risk. It may even add to the fourth risk, since it will make newer projects more competitive in the future. By contrast, the Section 236 program will reduce the third risk, and will reduce the fourth risk at least on the income side. It may increase the first risk, due to local objections to such projects. It will also have an effect on the second risk, but the effect will vary, depending on the availability of a mortgage increase to cover increased costs. State agency programs will affect the developer's risks in the same direction as the Section 236 program, but to a lesser degree in most cases. FHA or State agency financing generally will have the effect of reducing the cash investment of the developer, as compared to conventional financing, regardless of whether or not a subsidy is involved.

As stated, the point at which the RHPP is most relevant is the initial operating deficit. To the extent that developers are realistic about the

potential exposure during the period between completion of units and occupany of those units, the program should be a substantial incentive to building.

The program gives the developer a maximum of flexibility in devising a market strategy. A review of Table 1 shows different possible uses of the 20 percent subsidy. Example #1 is for an assumed unsubsidized 100 unit project with a one-year rent-up period, with rentals distributed approximately evenly throughout the year. This is, of course, unrealistic, if only for the reason that most localities have rental "seasons." However, it serves adequately for purposes of illustration.

The figures show that, based on the assumed rent-up pattern (and assuming each unit is rented for the entire month in which it is shown as rented), the total income for the year for the project would be $161,500. For purposes of illustration, assume that the cost of debt service, operating expenses, and marketing expenses for the year is $250,000. On this assumption of a conventional project with a one-year rent-up period and no subsidy, the developer would incur a deficit of about $90,000 during the rent-up period. Assuming a syndication for $250,000 and a minimum equity requirement from the developer, in addition to his developer's fee of $40,000, the $90,000 would constitute more than 40 percent of his projected profit from the development.

The other examples in Table 1 illustrate various uses of the proposed subsidy program. Example #2 assumes that the entire subsidy is used for 20 percent of the units, and with this rental discount (i.e., a $250 unit would rent for $200) all 20 of these units would be rented in the first month, and the remaining units would be rented at the same rate (8 or 9 per month) as in the unsubsidized example. As shown, a total of $213,000 would be taken in instead of $161,500, cutting the deficit from $90,000 to about $40,000. In addition, a great deal more money would be coming in in the earliest months, which has an additional value.

The other examples make the assumption that a 4 percent rent decrease would be spread across all 100 units and the entire project would be rented in 8 months instead of 12 ($250 apartments renting for $240—Example #3) or 40 percent of the units would be reduced 10 percent ($250 units renting for $225, but the remaining units would be rented over the entire 12 month period—Example #4), or 40 percent of the units would be allocated a 10 percent reduction, and the remaining units would be rented at the same monthly rate as in the unsubsidized example. (Example #5.) These various assumptions would produce income for the year ranging from $211,000 to $247,750; on the latter assumption, the deficit would be virtually eliminated.

In addition, the $250,000 of operating expenses might be decreased by the faster rent-up because total marketing expenses should be less. Also, in cases where the rent does not include heat, faster rent-up puts the heating expense on to the tenant sooner.

Another major advantage of the faster renting would be that any rental achievement required for funding the final amount of the permanent mortgage or for syndication contributions to be due would be accelerated.

Even if the 20 percent were spread over all the units, reducing rents by only 4 percent, this would be the equivalent of a saving of about 7 percent in construction costs, assuming that debt service attributable to development of the project is equal to somewhat more than half of the total project expenditures. The subsidy does not, however, encourage sloppy cost control in development, since the subsidy is not large enough to give the development a free ride in the competitive rental market. Tight cost controls will still be rewarded by an additional edge on the market. But if the subsidy is looked at as equivalent to a 7 percent savings in construction, it is hard to see how any developer could consider that insignificant.

C. Assuming, then, that the RHPP gives a real and significant incentive to the developer, is it possible to quantify the actual production effect of the program? The decision as to the number of units to build is not made by the developer alone, but is also determined by what lenders will approve:

1. Conventional: If a developer or lender would be confident in developing 100 units with a one year estimated rent-up period without a subsidy, then, assuming that applying the entire subsidy to 20 percent of the units would be considered to guarantee quick rental of those units, the subsidy should make the lender comfortable in developing at least 125 units. If the site were considered so good that renting would be almost automatic with a 10 percent rent reduction, 160 units could be built, 64 of them subsidized to the extent of 10 percent, and the remaining 96 rented in less than the originally projected one-year period. And the quicker renting of the subsidized units would improve the economics for

Table 1. Alternative Uses of Proposed Rental Housing Subsidy: 100 Unit Project

MONTH	NUMBER RENTED	CUMULATIVE NUMBER RENTED		MONTHLY INCOME @ $250/DU./MO.	CUMULA-TIVE INCOME
1	8	8	EXAMPLE #1	2000	2000
2	8	16		4000	6000
3	9	25		6250	12250
4	8	33		8250	20500
5	8	41		10250	30750
6	9	50		12500	43250
7	8	58		14500	57750
8	8	66		16500	74250
9	9	75		18750	93000
10	8	83		20750	113750
11	8	91		22750	136500
12	9	100		25000	161500
1	28	28	EXAMPLE #2	7000	7000
2	8	36		9000	16000
3	9	45		11250	27250
4	8	53		13250	40500
5	8	61		15250	55750
6	9	70		17500	73250
7	8	78		19500	92750
8	8	86		21500	114250
9	9	95		23750	138000
10	5	100		25000	163000
11	0	100		25000	188000
12	0	100		25000	213000
1	12	12	EXAMPLE #3	3000	3000
2	12	24		6000	9000
3	13	37		9250	18250
4	12	49		12250	30500
5	12	61		15250	45750
6	13	74		18500	64250
7	13	87		20750	86000
8	13	100		25000	111000
9	0	100		25000	136000
10	0	100		25000	161000
11	0	100		25000	186000
12	0	100		25000	211000
1	25	25	EXAMPLE #4	6250	62500
2	25	50		12500	18750
3	5	55		13750	32500
4	5	60		15000	47500
5	5	65		16250	63750
6	5	70		17500	81250
7	5	75		18750	100000
8	5	80		20000	120000
9	5	85		21250	141250
10	5	90		22500	163750
11	5	95		23750	187500
12	5	100		25000	212500
1	28	28	EXAMPLE #5	7000	7000
2	28	56		14000	21000
3	9	65		16250	37250
4	8	73		18250	55500
5	8	81		20250	75750
6	9	90		22500	98250
7	8	98		24500	122750
8	2	100		25000	147750
9	0	100		25000	172750
10	0	100		25000	197750
11	0	100		25000	222750
12	0	100		25000	247750

NOTES: Ex. #1: No sudsidy; Ex. #2: 20 percent rent reduction for 20 units; Ex. #3: 4 percent rent reduction for 100 units; Ex. #4: 10 percent rent reduction for 40 units—1st assumption; Ex. #5: 10 percent rent reduction for 40 units—2nd assumption.

the entire project during the rental period. However, there are other constraints that might not allow the number of units to be increased to this extent:

a. The zoning might allow only 100 units on the site, and no other nearby site may be available to the developer.

b. Other governmental approvals may be lacking for additional units, such as EPA permits.

c. There may be a lack of available mortgage funds, that is, if the lender—or all lenders—are rationing funds, then only 100 units may be able to be built, even though the market would warrant more.

d. Similarly, equity funds may not be available, even if the subsidy makes the investment look attractive. Economic recession may dry up funds for investment in real estate, or adverse publicity may have a similar effect, or, more importantly, passage of "tax reform" legislation could result in equity capital flowing into areas other than the development of rental housing.

e. A shortage of labor or materials might limit the number of units that could be built.

Furthermore, to the extent that the RHPP, together with whatever other factors are at work in the local housing market, creates a surplus of housing, the subsidy will at some point not be sufficient to make the project feasible. For example, if the rent-up period on the market rate units stretches out to 2 years because of market conditions, then the project may not be feasible even with the subsidy, or the subsidy may be used to make 100 units feasible, instead of some increased amount.

This result is, of course, purposely built into the program. It is a production program, and it is not meant to encourage production where it is not necessary, i.e., where there is an oversupply of housing. However, this factor must be taken into account in trying to quantify the effect of the production program.

2. Section 221(d)(4): The effect would be approximately the same as described for conventional developments. The FHA would presumably take into account the subsidy in their market studies.

3. State Housing Authorities: The impact of the RHPP would depend in part on whether the subsidy would be available for 20 percent of all units or only for 20 percent of the unsubsidized units: The amount of the subsidy could be computed based on the total number of units in the project, even though it could not be used for any unit for which a Section 236 or rent supplement subsidy was in effect. For a project with a subsidy for one-third of the units through Section 236, this would allow the 20 percent subsidy to be spread over two-thirds of the units, producing a discount of about 6 percent on these units. Even if the subsidy were calculated on 20 percent of the unsubsidized units only, the 4 percent reduction could be added to a reduction of approximately 10 percent in rents due to the lower interest rates on mortgages made by the State.

The "market rate" units for these State projects would then be 12 percent to 16 percent below conventionally developed units and would thereby be in an excellent competitive position. In fact, especially in locations where such projects would be entitled to real estate tax advantages, the cumulative effect of these subsidies would be to reach somewhat lower income tenants—those between the rent supplement and Section 236 tenants and the "market rate" tenants, who now have only a small advantage over conventional rents. This would be of considerable help to State agencies in achieving their housing objectives, and would allow a full spectrum of incomes, eliminating the income gap that now exists.

A typical State project might then end up with 20 percent low income tenants (rent supplement), 20 percent moderate income tenants (Section 236), a further 24 percent middle income tenants whose rent would be about 20 percent below the market instead of 40 percent below the market (RHPP rents) and 36 percent "market rate" tenants at perhaps 10 percent below conventional market rate rents.

The RHPP could therefore be a very powerful incentive to the development of feasible State agency projects and could lead to more developers seeking State agency funding despite limited return.

4. Section 236: The RHPP would have no effect on the production of Section 236 projects, since these are determined by the amount of subsidy funds appropriated by Congress. The RHPP would not cut into the Section 236 market, nor could the subsidy be added to the Section 236 subsidy. Therefore, it would neither increase nor decrease production of these units.

The Permanent Lender

A. Who is the lender under such a program?

1. Conventional: The lender is usually a financial institution such as a savings and loan, savings bank, or insurance company. Less frequently, a pension fund, real estate investment trust, foundation, etc., might make a permanent mortgage loan on housing. In a small but growing number of cases, the loan might have a private mortgage guarantee.

2. 221(d)(4): The same lenders might make Section 221(d)(4) loans with FHA insurance. Also, the Federal National Mortgage Association (FNMA) will frequently be the permanent lender, purchasing from the Government National Mortgage Association (GNMA) where the tandem plan is applicable.

3. Section 236: The lender could be the same as for conventional or Section 221(d)(4) loans, but generally the ultimate permanent lender is FNMA, purchasing from GNMA, which absorbs the permanent mortgage discount.

4. State Housing Authority: The permanent lender is the State agency itself, which raises money to make the loans by issuing the tax exempt bonds.

5. RHPP: Use of the RHPP would not change the type of lender for the program.

B. Processing: In most cases, processing of FHA insured loans is done by a mortgage company for a 2 percent fee. The processing work can be extensive. In the case of conventional loans, mortgage companies also frequently do the much simpler processing, although borrowers may sometimes go direct to the lender. Procedures differ among State agency programs, but since the State agency is a direct lender, the developer will very often deal directly with the agency. In all cases, it would appear that the RHPP would be set up in such a way that neither the mortgage company nor the lender would be involved in any additional processing in order for the project to take advantage of the subsidy. This would presumably be a matter between HUD and the developer.

The lender might, however, want to insure by some procedure or legal documents that the developer did qualify for the subsidy and would take advantage of it, since the lender should feel more secure with the subsidy. Indeed, if the program is effective in increasing housing production, it will be at least in part because lenders give the subsidy some weight in their loan underwriting; having done so, they would want to be sure the subsidy was available when needed.

C. Incentive: Different lenders make loans for different purposes. Private lenders are motivated by an opportunity to make a profit, consistent with safety of their depositors' or policyholders' funds. Most institutional lenders also have some need to match their investments to their obligations, whether to depositors, policyholders, or shareholders. The lender will usually profit from the basic interest payment, discount points to increase the effective interest rate, processing, commitment, and standby fees, and in some cases a share of the gross income or net income from the property.

FNMA, GNMA and State housing authorities all must buy or make loans in such a way as to support themselves, but they have motivations beyond the profit motive. GNMA, as a Federal Government agency, has as a goal the provision of better housing throughout the country, especially for low and moderate income families. State housing agencies are generally created to provide better housing throughout their states, especially for low and moderate income families. FNMA, although technically privately owned, is charged with an obligation to help to maintain the flow of funds into housing, to promote an orderly residential mortgage market, and to otherwise support housing production.

In every case, the RHPP subsidy, by improving the feasibility and marketability of the project to which the lender is committed, should improve the position of the lender at no cost or inconvenience to the lender. Therefore, lenders should be expected to encourage participation by developers.

D. Risks: The risk of the lender varies somewhat from program to program:

1. Conventional: The permanent lender has the risk that over the term of its loan income will not be sufficient to cover all expenses including debt service, the owner will not want to or be required to or be able to make up the difference, and a subsequent foreclosure will not recover the remaining mortgage balance plus expenses and accrued interest. The interim lender, on the other hand, has an exposure based on the ability of the developer to complete the project and to meet whatever income or other conditions are put on the funding of the permanent loan, which repays the interim lender. Even if the permanent lender requires the achievement of some income level prior to funding the perma-

nent loan, problems can develop later because of rising expenses, or because of falling income due to declining neighborhoods, loss of local employment, overbuilding and resulting competition from new buildings, etc.

2. Section 221(d)(4): The same risks are involved in a 221(d)(4) as in a conventional project, but the lender is insured against loss by the Federal Housing Administration. The FHA, therefore, assumes much of the role of a lender in reviewing the possible risks following from its commitment.

3. Section 236: This is the same as a 221(d)(4) in terms of the lender's exposure and the FHA insurance. In both cases, however, the lender does have some relatively small risk of loss involved in the timing of any transfer of the mortgage to FHA, as well as a loss of time and effort on the part of its personnel.

The economic risks in a Section 236 project are different from a 221(d)(4). In a good location, the marketing risk is vastly diminished, but, especially in a bad location, the risk of unexpected and rising expenses is much greater. There is also a risk that approval by FHA of rent increases will not be timely enough to keep up with rising expenses.

4. State Housing Agencies: Most of these projects are a mix of units subsidized with Section 236 funds and market rate units that are slightly below the going market rate for conventional projects. The risk for the total project may be greater because the project may have a tendency to be in a location that would be marginal for a conventional development.

5. RHPP: The RHPP subsidy in a conventional project has a similar effect to the lower interest rate in a State housing authority project. Compared to one State agency, for example, the RHPP subsidy during the time it is fully in use would have an impact on the market rate units equal to about one-half of the State agency interest rate saving. As has been discussed, the subsidy should have a fairly significant effect on the risk on the income side in the early years, i.e., during the initial leasing period. This is generally the period of greatest risk for the construction lender if the take-out is based on rental achievement, and for the permanent lender if the loan is disbursed prior to break-even occupancy.

There could be a negative factor introduced by the RHPP subsidy, though. The very reason for the reduction of risk for the rent-up period, i.e., the ability of the new units to compete with about equal rents with units built a few years earlier, makes the RHPP project subject to much stiffer competition from new RHPP projects in the future. And this competition comes most strongly at the time at which the RHPP subsidy tenants are moving out and the apartments must be rented at the full market rate.

This might be particularly important to a permanent lender who agreed to fund the permanent loan on the basis of rental achievement or the reaching of a break-even point, only to find itself with a project that cannot be rented at market rates and that is in competition with new developments which have available the RHPP subsidy. This might lead to permanent lenders conditioning their permanent funding on stiffer requirements, thus eliminating one of the important advantages to the developer of the RHPP subsidy.

The Equity Investor

A. A somewhat different type of investor is attracted by different types of projects.

1. Conventional: Investors in conventionally financed housing are generally interested in a balance between cash flow, tax shelter, and residual value. At times in the past, such investors anticipated that rapidly increasing rents would make possible an early refinancing which would give them their money back. However, with the changing economics of apartment operation and the current practice of long lock-ins and high prepayment penalties by mortgage lenders, this prospect is generally remote for a new development. However, investors do look for long-term value, as well as the more immediate cash and income tax benefits.

2. Section 221(d)(4): Section 221(d)(4) investors are a little more oriented toward tax shelter and somewhat less toward cash flow and residuals than investors in conventional developments. The long mortgage term and very small initial amortization, as well as the heavy fees and carrying charges during the construction period, build up the tax benefits for the Section 221(d)(4) investor. FHA "rent formula" regulations do put some limit on rents and, therefore, on return.

3. Section 236: Section 236 investors are generally interested primarily in tax shelter. They largely discount the prospect of even the limited cash flow, and they usually totally discount residual values.

4. State Housing Agencies: Investors in State housing agency projects do not have quite

as substantial tax shelter benefits as investors in FHA projects, and the cash flow is limited by statute. However, they may have some greater hope for residual value than Section 236 investors.

The investors are usually wealthy individuals, although sometimes high tax bracket corporations, trusts, or estates may invest in new housing development. Public limited partnerships have recently been set up to channel the investment of smaller investors into new housing and to pass the tax benefits back to such investors. Individual investors tend to be corporate executives, businessmen with their own businesses, and professional people in the broad sense (doctors, lawyers, accountants, real estate brokers, stockbrokers, et al).

B. The RHPP subsidy should make the investor more willing to invest since it reduces his risk in the crucial early years. A discussion of the added incentive to the developer would apply, for the most part, to the investor. However, to the extent that the investor is interested in tax shelter, he is even more sensitive to the economic viability of the project in the early years, since a foreclosure results not only in loss of investment, but also in "recapture" of tax benefits previously enjoyed.

C. The RHPP subsidy would tend to improve the cash return to the investor in the early years, depending on what the arrangement is with the developer regarding initial operating deficits, cash flow to the investors, and other terms of the agreement.

D. If the RHPP subsidy works as projected, it would reduce income tax losses for the investor to the extent that rental income increased without a corresponding increase in expenses. In addition, marketing expenses and perhaps some other early expenses might be decreased, thereby further reducing the deductible tax losses from the project. This is true only to the extent that the cash deficit is decreased or the cash flow increased. A dollar of cash is worth more to any investor than a dollar of tax loss, but in many cases the added income will only reduce the developer's obligation to carry the project, whereas the decreased tax loss will reduce the total benefit to the investor during the development period. In return, he would have only the advantage that it would be less likely that the project would go into default or that the developer would come to the limited partners for additional contributions to keep the project alive.

E. As discussed, the program would increase the investor's safety and reduce his risk, even if it did cost him something in tax benefits. Even where the developer has guaranteed rent-up and all associated expenses, this is little consolation to the investor if the rent-up period is so long and the operating deficit so great that the developer goes broke. So the program does reduce the risk to the investor no matter what the agreement provides as far as responsibility for initial and later operating deficits.

In contrast to a State housing authority or Section 236 project, however, the RHPP subsidy runs out in a very short number of years. As pointed out above, implementation of the RHPP might actually have the effect of increasing the investor's risk in later years. The Section 236 and State housing authority arrangements, on the other hand, involve 40 year commitments, so the rent discount continues as long as the mortgage is on the project.

Presentation of the benefits of the RHPP by the developer to the investor may be difficult. The rent-up period is something of an "intangible" in the presentation of an investment to a potential investor. It is usually not very well detailed in the offering documents and is often entirely ignored. Or it is just assumed that the units will be occupied as completed. The investor is likely to get involved in the question only in the sense of a general assessment of "will it rent," and involved in detail only if a market study is presented and an estimate of the rent-up period made. Even in such a case, the actual figures and projected operating deficit may not be related to the projected rent-up period. To the extent that this is true, the availability of the RHPP subsidy will not enable the developer to project better operating figures in the early years, since he has either ignored the question or assumed the best possible rent-up situation already. However, the RHPP subsidy would probably be used effectively by the developer in a general way by making note of its availability and perhaps describing how he intended to use it and indicating that it would have a positive effect on renting.

Management and Marketing

A. Marketing

1. Conventional: Marketing of conventional apartments is very competitive. What can or must be done will depend on the entire local housing market, the particular neighborhood, the

size and phasing of the project, and the marketing program and budget and staffing. Continued re-renting after substantially full occupancy has been achieved is easier because fewer apartments are on the market at any one time, and because people have an investment of one kind or another in their apartment and it is worth something for them not to have to move. Re-renting depends a great deal on how satisfied the existing tenants are with the project, its upkeep, management, services, maintenance, etc. Where tenant satisfaction is very high, the project is much easier to keep full.

2. Section 221(d)(4): Marketing is just as competitive as conventional projects. Better financing reduces the debt service constant, but the FHA minimum property standards and higher processing and carrying charges build up the costs so that rents of 221(d)(4), are about comparable to conventional rents. However, the developer and manager of the 221(d)(4) has more Government requirements to deal with, and must adapt the marketing program to the HUD affirmative marketing guidelines. To the extent that this requires more preplanning, it may help to insure the success of the marketing program, although it may also require more time, effort, and expense at an early, risky stage of the project, and much of the effort may ultimately be wasted. Re-renting would involve the same factors as a conventional development.

3. Section 236: Marketing of Section 236 projects depends very much on their location. Good suburban locations, for example, generally rent up before completion of construction. An inner city location with a high-rise building for which exception limits are necessary, on the other hand, may have rents that are too high for the neighborhood, even though they are 40 percent below the rent that would be necessary to support the project without the subsidy. Most big city Section 236 projects, however, have less trouble maintaining high occupancy than they do with other operating problems. Some Section 236 developments have had renting problems in smaller housing markets, very depressed metropolitan areas, or unsafe neighborhoods. The requirement that tenants pay at least 25 percent of their income is a serious deterrent to renting. Government requirements for the marketing program are even more extensive than for a Section 221 (d)(4) development.

4. State Housing Agency: Marketing for these projects depends to a large extent on the percentage of subsidized units. Where 100 percent are subsidized, it is more like Section 236. Where 50 percent or less are subsidized, the marketing problems are very similar to conventional developments, with an edge on the market due to the lower interest rate and because the subsidized units should rent very rapidly in a location in which the unsubsidized units will rent at all. In a good location, these projects should do better than a Section 236 project because they generally have more amenities and have less of a subsidy stigma. However, where such a project is put in a location that would not support a conventional project, the small advantage that the State agency project has in its "market rate" units may not be enough to make the units marketable.

Renting and traffic reports, affirmative marketing requirements, and other governmental regulations and procedures will vary from State to State, but in most cases will be similar to HUD requirements.

5. RHPP: As indicated by Table 1, the RHPP subsidy should have a measurable impact on marketing. In addition, it should allow some saving in marketing expenditures because of faster rent-up. There will be some extra bookkeeping, reporting, credit reports, etc., but when used with a conventional project, the total amount of such extra work will be far, far less than required by existing Government subsidy programs, or even simply Government mortgage insurance programs.

Use of the RHPP subsidy will present a number of judgment problems relating to marketing. These will be of at least two kinds:

a. Allocation: If the program comes into widespread use, personnel will develop expertise relating to the best method of allocating available subsidy funds. The size, type, and location of the project, the target market, variations in the units (view, size, number of bathrooms), and even the structure of the financing of the project may affect the most desirable allocation of the subsidy for the particular development and the particular developer.

The illustrative examples in Table 1 are all based on underlying assumptions as to the rate of market absorption of unsubsidized units and of units subsidized to varying degrees. The optimum allocation of the available subsidy funds by the developer will depend on his choosing assumptions that turn out to be in accord with reality. For example, if he estimates that a $10 per unit reduction applying to all units will cut the marketing time by one-third, and in

fact it turns out that a reduction of only $10 has only a negligible effect on the marketing time, then he has wasted his subsidy. He would have been better off to have applied all of the subsidy to 20 percent of the units, for example, since there is a much greater certainty that a $50 per unit reduction on those units would have at least some effect on marketing.

Similarly, should the developer "save" his subsidy funds until well along in the initial leasing process, so that he can apply the subsidy to the apartments which are hardest to rent, or should he use them immediately to produce the quickest possible occupancy and income? The RHPP subsidy, therefore, presents a marketing opportunity, but it will require judgment and expertise in order to make the best of that opportunity.

b. Favoritism: As with any subsidy for which there is a greater demand than available funds, the developer or the marketing firm has control over a valuable, scarce resource. Of course, the funds must be used within the legal limits of the program, which will be much less stringent for the RHPP than for existing subsidy programs. But there will presumably be no legal provision in the program that would prevent the controlling person from giving the maximum amount of subsidy first to his relatives and then to his friends before the general public. There is no such prohibition in the Section 236 or rent supplement programs, where racial or other such discrimination is the only limit on the owner's discretion in assigning the benefits of the subsidy. Presumably, the developer would be able to engage in such favoritism in the RHPP, although since it is both of limited duration and in a much smaller amount than existing subsidy programs, the inequity of such favoritism is somewhat minimized. On the other hand, of course, since it would be available to all new projects instead of just HUD subsidized projects, and since income limits will be much higher, there will be many more possibilities for such favoritism. In some cases, the developer may find that this control is a liability, since he may have to choose among applicants and disappoint some. Finally, to the extent that the developer gives the maximum subsidy to a preferred person, he has that much less subsidy to spread to other units, and thus he takes the chance that he might, in fact, suffer financially from this favoritism.

There should be little or no negative impact because of the "subsidized housing" label, both because the subsidy is so small and because all projects, even nongovernmental projects, will be eligible (unless rents are at luxury levels).

As far as re-renting, the RHPP subsidy will no longer be available, but the project will be no worse off than if it had not used the subsidy. However, it will be worse off than if the RHPP had never been passed. It will be competing against new developments which still have the subsidy available to them, so in that respect, re-renting will be harder for all existing projects in that they will be somewhat less competitive with newer projects using the subsidy.

B. Management

1. Conventional: Given comparable expertise and experience, a management company will generally be able to do a better job of management where a project is full with a waiting list than where a project has a large number of vacancies. This is not only because there is simply more rental income available to provide maintenance and services, but also because it is easier for management to be highly selective in the choice of tenants and to enforce strict management rules on penalty of eviction if there are people on the waiting list eager to reoccupy any vacant apartment. Were there are vacancies, there is great pressure to rent apartments to people who are more transient, to more than one family per apartment, and to adopt other renting practices that will increase maintenance expenses, delinquencies, and turnover.

Therefore, anything, such as the RHPP subsidy that improves initial leasing is likely to have some favorable impact on management.

2. Section 221 (d)(4): The comments for conventional housing would apply equally in the 221 (d)(4) case. The major difference is that HUD is now requiring elaborate management plans at an early stage of processing of the loan. Therefore, as with preplanning of marketing, the developer must put in more time, effort, and perhaps expense in an early, risky stage of the project, and some or most of this may be wasted, even if the project is built. However, it is hoped that the result will be more planning and an earlier start on management problems.

3. Section 236: The relationship between demand for apartments and management is even stronger in a Section 236 project, where the tenants have lower incomes and in some cases a considerable capacity for damaging the entire development. The greater the demand for the subsidized apartments, the easier it is for man-

agement to keep out bad tenants and to provide a high level of services.

4. State Housing Agency: The relationship of management to marketing is similar to the above types of projects.

5. RHPP: As described above, the subsidy should allow management to be more selective in initial renting, and should therefore assist the project management.

After initial renting, however, vacancies will have to be re-rented at market rents. It makes no difference whether the tenant moving out is a subsidized tenant or an unsubsidized tenant. The project will resemble a conventional development from the management standpoint from that time on. The only advantage it will have is the carryover of the good initial tenancy that may have been made possible in part by the RHPP subsidy.

The subsidy could, of course, result in a somewhat lower income tenancy and therefore possibly more management problems. However, even if there is a relationship between tenant income and management problems at low and moderate income levels, it is highly unlikely that any such relationship exists at the levels served by the RHPP subsidy. For example, it is doubtful whether one should expect more management problems from a tenant with a $10,000 income in a given apartment than a tenant with a $12,000 income. The major factor at this level, and to a large extent at lower levels as well, is care on the part of the rental agent in selection of tenants, rather than the absolute income level of those tenants.

There would be an additional management burden imposed by the income certification and recertification requirements that would be a part of the RHPP. Marketing and management personnel would have to be trained to screen applicants, qualify them, and keep them qualified (or adjust the subsidy) after occupancy. They would also have to be trained to raise the subsidy question diplomatically on initial leasing, and to deal with problems that might arise during occupancy when some tenants become aware that they are paying more rent than others, especially if both would qualify for the subsidy but only one has been given the advantage of it by management. These additional administrative burdens should be reflected in management fees. In the case of FHA projects, to a greater extent in limited distribution cases than in cases where profit is controlled only indirectly through the rent formula, HUD must take these burdens into account either through higher percentage or flat rate management fees, or through additional fees for certification and recertification of incomes. The enormous proliferation of HUD management requirements with no corresponding increase in management fees over the past two years gives little hope that HUD will recognize these additional requirements in management fee calculations. Similarly, in private arrangements made without governmental control, owners are reluctant to pay for the additional services required of management where Government subsidies are involved. The result is that the management is often given to firms that either underestimate the burdens of these requirements, especially for new programs, or simply assume that they can be sloughed off. The RHPP is perhaps designed to add as little to these burdens as could possibly be expected by a Federal Government subsidy program, but it would nevertheless add to an already difficult management situation.

The program seems to have a built-in incentive for the developer to seek out long-term tenants for the subsidy. The project would therefore have the benefit of the subsidy for a longer period of time. However, this is not really different from normal renting procedure—if a project could be rented up with tenants who would not leave for at least five years, the project would be much better off than with a 50 percent annual turnover. Whether a subsidized or unsubsidized tenant leaves, the apartment has to be re-rented at market rates anyway.

Management may be more concerned with the rent control aspect. The program will involve a maximum rent above which units will be ineligible for the subsidy. The maximum rents will be adjusted periodically by HUD, but experience with existing subsidy programs indicates that these increases allowed by HUD may not be sufficient to keep up with increased expenses. Thus, from a management point of view, developers must be satisfied that HUD will be up to date in allowing increases to keep up with increased real estate taxes and inflationary increases in other expenses. This would apply both between the beginning of construction and initial leasing and during occupancy.

To the extent that HUD does allow these increases, tenants with fixed or declining incomes will experience rent increases that will absorb a larger percentage of their incomes. This might create additional management problems. Again, it is no different from the effect of any other rent increase, except that all recipients of the RHPP subsidy will be paying at least 20

percent of their incomes in rent from the beginning. Also, these people will have fairly moderate incomes. Therefore, increases will be borne with greater difficulty.

The effect of this rent control will not be as serious as with existing subsidy programs such as Section 236, since only a limited number of units will be involved and only for a limited time. As each subsidized unit is re-rented, the new tenant will not have the benefit of the subsidy and the rent control will no longer apply.

The expectation of inflation must be taken into account in assessing the RHPP. To the extent that inflation is considerable during the period of initial tenancy, re-renting should not be difficult, since newer projects as well as older projects should be getting higher rents at that point. In the meantime, the RHPP has eased clearance of the initial leasing hurdle. On the other hand, to the extent that there is considerable inflation, it will be more difficult to keep rent on rent-controlled units in line with increasing expenses.

It will be of considerable importance to management to be sure that the subsidy will be available when units come on line. Some form of commitment procedure will probably have to be made part of the program, enabling lenders and developers to have a firm legal assurance that program funds will not be cut off between the time they begin to build and the time of completion of construction.

Conclusion

Discussions of the RHPP with developers and lenders proved to be inconclusive. First of all, people actually involved in the housing development process tend to be both busy and oriented to the "here and now." They are not likely to spend a great deal of time on abstract or theoretical questions. When a new program is passed, they can be expected to look into it to decided whether they can do better developing land they control under the new program than under other alternatives. Even then, it often takes several years for a new program to catch on, or, conversely, for developers to catch on to a new program. When the Section 221(d)(3) BMIR Program was passed in 1961, profit-motivated developers looked at the 6 percent maximum return and went back to unsubsidized development. Only a few developers saw the potential in the program, and most development under Section 221(d)(3) was by nonprofit sponsors in the early years. During the tight money crisis in 1966, however, builders turned to Section 221(d)(3) for financing when other sources were cut off. With this impetus, expertise began to develop in how to produce housing at a profit under the Section 221(d)(3) program.

On the other hand, when Section 236 was passed, its similarity to the then successful Section 221(d)(3) program engendered considerable developer interest and competition for available funds. It was only when loans began to be processed that the real complexities of the program and the differences from 221(d)(3) became evident, and it was only after projects were built and occupied that the most serious weaknesses of the program (such as the requirement that tenants pay 25 percent of their income in rent) and their consequences became clear.

The foregoing is not meant to downgrade the necessity of careful analysis of proposed housing programs—quite the contrary, since, for example, some of the problems of the Section 236 program could have been anticipated by more careful consideration of the program in its formulative stage. The real point is that there is a limit to how far such analysis can go in predicting developer reaction to a new program, and it also highlights the limited usefulness of asking developers whether the program is attractive to them.

Even after they are using it, developers may not realize the extent to which they are affected by a program. For example, if use of the subsidy simply becomes a matter of course where incomes of prospective tenants would otherwise fall a bit short, the subsidy could have an overall impact on the rental market that will result in an increase in the production of rental housing. The developer may be basing his increased production on the rental market as a whole, without distinguishing the effect on that market of the RHPP subsidy.

Short of actually becoming involved in a specific project where the effect of the subsidy must be analyzed, the reaction of developers and lenders to the program tends to be on the level of "it is an interesting approach," and comments of that kind. The discussion frequently then goes off on questions of the social utility of the program, particular biases of the developer, etc.

On the other hand, the program does not seem to excite substantial hostility from the building and financial community, such as has

been aroused by all of the deeper subsidy programs at one time or another. There is some skepticism as to whether the government ought to be involved in the housing market at all, at least aside from guaranteeing mortgages. There is some question as to whether such a program is needed, i.e., is not the housing problem really at the low income end of the market? And, of course, it is difficult to judge the program in isolation. It would be part of a total scheme for providing a decent home, etc., for all Americans. Therefore, it is difficult to judge its impact without knowing what the State and municipal role will be, whether the Federal Government will provide housing allowances, income maintenance, new subsidy programs, or a continuation of old programs. And if there are housing allowances or income maintenance, at what level will they be supported?

Both developers and lenders, in many cases based on experience in dealing with the Government, are very concerned with how great the administrative burden of the program will be, on whom it will fall, and, if on private parties, to what extent they will be compensated for taking on this extra burden. Even though the RHPP may be better than most subsidy programs in this regard, if the program is adopted, it must be structured in a way that deals satisfactorily with these concerns.

Developers will be concerned with the application of the Davis-Bacon prevailing wage laws. In some parts of the country the benefit of the subsidy would be outweighed by the extra construction cost required to comply with Davis-Bacon if it were made applicable to the RHPP. The extent to which this is a factor will vary significantly from one area of the country to another. Determination of whether Davis-Bacon will apply will be one of the significant economic and political decisions to be made in connection with the RHPP.

The effectiveness of the RHPP must be judged, among other criteria, on the basis of its efficiency in terms of increased production. Since the subsidy, contrary to current project subsidies, will be available for all projects, much of it will go for units that would have been built anyway. Like the investment credit, the extent to which the subsidy is simply a windfall to developers and tenants and does not produce a benefit to the economy in terms of increased production is almost impossible to determine. However, it is a factor that cannot be ignored in evaluating the program.

If a short conclusion can be stated, it would be that the proposed shallow subsidy rental housing program could be an important incentive to rental housing production as part of a coordinated set of Government-backed housing programs that deal with problems other than those for which the RHPP is designed. Once the program is adopted and structured, by its nature it can be adjusted either at different times or even by regions to encourage greater or lesser production simply by changing the formula for computing the amount of subsidy for each project. Assuming that the program could be adopted in such a way as to retain this flexibility, it should be seriously considered as a partial solution to the housing problems of the country.

Evaluation of a Proposed Elderly Condominium Program

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Introduction

The objective of the program proposed here is to produce more housing than would otherwise be produced as long as the need for additional units exists. Its justification is the community's need for additional dwellings up to the point where a decent unit exists for every family and individual. The program is intended to contribute to the elimination of the shortage of decent housing units by enabling private builders to build for markets that would not exist without the program. Unlike present programs, this is not a subsidy to bridge the gap between what the builder must receive to produce new dwellings and what the poor can afford to pay.

The main feature of the program is its use of the subsidy as a lever to widen the market. In this case, maximum leverage is obtained by fitting the subsidy to the needs of the elderly. The program retains the basic checks and balances of the marketplace and, by dissolving the distinction between subsidized and nonsubsidized developments, it minimizes the need for Federal regulation and supervision.

Because the proposed production program is national in character, it is neutral with respect to issues of community development. The proposed subsidy is designed so that it can be supplemented by State and local subsidies that have explicit community development objectives.

The elderly comprise a substantial segment of the housing problem that present programs attempt to address. If an appreciable portion of these households could be served by a less costly program, substantial savings would be generated. One of the expected problems of a housing assistance program is the limited availability of appropriate large units for large families. A program that induced older households to choose new, smaller units would make older and larger units available for younger families. This would be one of the advantages of serving the elderly market.

The problem is that the elderly comprise a market with stable or decreasing incomes. The theory of the Proposed Elderly Condominium Program (PECP) is that although the elderly have decreasing incomes, in many cases they have substantial savings which in most cases will consist of equity in a home. Nearly two-thirds of elderly couples and persons own homes (debt-free, in the vast majority of cases), but are faced with rising real estate taxes, rising maintenance costs, and the inability to care for a large home as they grow older. Thus, their homes are likely to fall into disrepair. The PECP is designed to solve this program by making this housing, inappropriate for the elderly, available to younger families living in overcrowded apartments unsuited for rearing children.

The PECP would be open to all elderly households moving into newly built condominium units and residing there for at least 9 months of the year. The condominium unit could be in a development built exclusively for the elderly, or could be in a development open to all ages. For purposes of this program, an elderly household would be defined as one whose head was 55 years of age or older.

The program is based on the assumption that condominium living is well suited for elderly occupancy, since each household owns its own unit and a proportionate share of common space and can make mortgage arrangements to suit its economic situation; at the same time, maintenance services are provided, so that the elderly person can do as little as his physical circumstances or inclination requires, although in most cases he could also do more if he had the desire and ability.

On the assumption that the elderly would have substantial funds for downpayments, the subsidy in the PECP is tied to the nondebt service components (that is, taxes, insurance, and operating expenses) of housing cost, rather than to debt service, as in the present section 235 program. A debt service subsidy works to the disadvantage of those who take as low a mortgage as possible.

Furthermore, to insure the resident pays a fair share of his expenses, the subsidy would apply only when such housing costs exceed 15 percent of household income. In addition, to insure that owners do not take a free ride on such housing costs, the subsidy would be further lim-

ited to 50 percent of the first $500 of such non-debt service costs, 25 percent of the second $500, and 10 percent of any amount between $1,000 and $1,500. In addition, if the program were still thought to subsidize expenses to too high a level, a final limitation might be imposed that would eliminate from consideration all such expenses in excess of $1,500 per year.

The Builder/Developer

A condominium development is a multifamily development more like a rental project than a single family home project, from the development standpoint. A substantial commitment must be made at the beginning to construct at least a phase of the entire development, and, therefore, considerable financing and preplanning are required. Also, the complexities of condominium ownership require more extensive legal work, much of which is still unfamiliar because of the relative newness of the condominium concept. At the point at which the proposed elderly condominium program (PECP) comes into play, however, the condominum development is more similar to a single family homes development—that is, in the marketing phase. The incentive to the developer is entirely in the difference between the sales price and what it costs him to produce the condominium, including land, site work, the construction cost of the buildings, carrying charges during construction including financing fees and mortgage interest, legal, architecture and other professional fees, and sales and marketing expenses. There is no continuing interest in the project on the part of the developer, although some property developers have a property management capability and will provide property management services during the sellout period, and in some cases beyond. The PECP will promote additional production of condominiums if it is effective in increasing condominium sales, or at least if it appears to developers to be an effective method of increasing sales. There are two somewhat different ways to approach the effect of the subsidy:

A. On the most direct level, the impact of the program would be felt in increased sales. That is, persons who otherwise would not be interested in buying a condominium or who would not qualify for whatever mortgage they needed without the subsidy, would become purchasers with the subsidy. This would increase condominium sales and therefore encourage developers and lenders to develop more condominium housing suitable for the elderly.

Faster sellout of new projects will encourage developers to build more condominiums of all kinds, and the analysis of these successful developments in market studies conducted on behalf of lenders will encourage lenders to make construction funds available and to commit to permanent loans for proposed condominium developments. Thus, the subsidy can have an effect on production, whether or not developers make an elaborate analysis of the figures and a detailed examination of the program.

B. The other approach is to make a closer examination of the numbers. This should give a better idea of how much the PECP will, in fact, increase the market for smaller condominium units.

As an example, the following figures illustrate a typical situation:

Price of Unit	$ 18,000
Downpayment	11,000
Mortgage	7,000
Income of Purchaser	3,567
Annual Expenses of Unit	880
Actual Subsidy (PECP)	345
Net Expenses Payable by Owner	535
Mortgage Payments (8 Percent, 25 Years)	648
Total Annual Unit Owner Payments	1,183
Percent of Income	33

The assumption here is that a typical new one-bedroom unit can be produced at a selling price of $18,000 and that the purchaser would more than likely be a family with an elderly head of household that sold its old house. It is assumed that it had $11,000 available from the sale of its house as a downpayment on the condominium, and additional equity from the sale was used, if necessary, to pay off other outstanding obligations (automobile, appliances, etc.). Under FNMA guidelines, total annual housing costs plus other credit obligations cannot exceed one-third of family income, so the family would qualify for the $7,000 mortgage. An elderly family with Medicare and no further financial obligations to children might well be able to allocate this proportion of its income to housing costs.

In order to qualify for the mortgage without the program subsidy, the family would have to have an income of about $4,500. For this typical situation, then, the subsidy increases the potential market for the unit by the number of elderly individuals and families with incomes between

approximately $3,500 and $4,500, so the increase in the market is significant.

The program is somewhat ineffective, however, in protecting a family at this income level against future increases in real estate taxes and other expenses. For example, if annual expenses increased from $880 to $1,000, the family with its presumably constant $3,567 income would have to absorb 75 percent of the increase, or an additional $90 per year. This might dissuade the family from purchasing, or the lender from making the loan, where housing costs are already such a high percentage of income. The same family, of course, would also be exposed to annual increases in housing costs as renters.

Aside from this problem, however, the elderly family that wants to move because its old home is too large, or because it wants modern conveniences that it could not afford to install in its own home, or because its friends have moved or the neighborhood is changing, would almost have to buy a condominium under the PECP, because with $11,000 of equity and an income of only $3,567, it could not afford new housing of any other kind.

Another typical example might be the following:

Price of Unit	$ 18,000
Downpayment	11,000
Mortgage	7,000
Income of Purchaser	5,867
Annual Expenses of Unit	880
Actual Subsidy (PECP)	0
Net Expenses Payable by Owner	880
Mortgage Payments (8 percent, 25 Years)	648
Total Annual Unit Owner Payments	1,528
Percent of Income	28

This family, even though it has an income of only $5,867, would receive no subsidy because the total expenses of $880 do not exceed 15 percent of its income. However, this family, too, would have a considerable incentive to sell its home and move into a condominium under the PECP. Since any family which moves into a new condominium is eligible for the subsidy whenever the income, expense, and age requirements are met, so long as it is still living in the same unit, this family would have fixed its shelter costs for the foreseeable future. This is because the mortgage payments are fixed by a level payment, self-amortizing mortgage, and all increases in expenses up to $1,283.33 would be paid for by the subsidy according to the formula. This increase of about $400, or 45.8 percent, which could certainly occur over a 5- to 10-year period, would have put the family against the limit of housing expenses as a percentage of income (32.9 percent). Instead, the family has put itself in a position where the entire amount of this increase would be paid by the Federal Government. Any further increases would have to be paid 90 percent by the family and only 10 percent by the government.

This may, of course, be a drawback to the plan from the point of view of the Government, because in this particular situation the family would have little incentive to keep expenses down. The safeguard, however, is that many or most of the condominium unit owners who determine the condominium budget (one element of the expenses subsidized by the government) will either be unsubsidized or in a subsidy category where 50 percent or more of any increases must be paid out of their own funds. These other members of the condominium association will exercise the normal restraint on increases in expenses. Increases in real estate taxes will similarly be challenged, if at all, by the entire association, most of whose members will benefit from any saving.

The condominium form of ownership thus lends itself to an operating expense subsidy far better than single family homeownership, both because the monthly condominium fee provides a convenient measure of the expenses to be subsidized, and because there is an effective restraint on increasing expenses even though for some subsidized families the entire amount of the increase would be paid by the Federal Government.

Table 1 illustrates the minimum expenses payable by families at various income levels, and indicates how much higher the expenses can go without the family having to pay any of the increase. For example, the table shows that a family with a $3,000 income would have to pay the first $450 of annual operating expenses and real estate taxes for its condominium, but would not have to pay any more of these expenses until they exceeded $767. Then it would have to pay 75 percent of any excess up to $1,000, 90 percent of the next $500, and all of any additional expenses. A family with a $6,000 income would have to pay the first $900 of expenses, but would not have to pay any more until about $1,306 was incurred. A family with a $9,000 income would get no subsidy unless its expenses exceeded $1,350, but the subsidy would pay all such expenses between $1,350 and $1,775. Any

excess over this amount would be paid in full by the owner.

Table 1. Effect of PECP Subsidy Formula on Selected Income and Expense Assumptions

(1) Income	(2) Minimum expenses payable by unit owner (15% of income)	(3) Minimum expenses will not be exceeded unless actual total expenses exceed:
$ 2,000	$ 300	$ 566.66
3,000	450	766.66
4,000	600	966.66
5,000	750	1,138.88
6,000	900	1,305.55
7,000	1,050	1,472.22
8,000	1,200	1,625.00
9,000	1,350	1,775.00
10,000	1,500	1,925.00

Table 2 shows the actual subsidy based on the lower of the "income" and "formula" cutoffs for the subsidy, at various income levels and annual expense levels. The table shows the annual subsidy as a percentage of income and also shows the subsidy multiplied by three and by four. These columns indicate the effective increase in income created by the subsidy, depending on whether total housing costs are computed at one-fourth or one-third of income. The table also shows this increase in effective income for purposes of buying a condominium as a percentage of actual family income.

This is one measure, then, of the increase in effective demand created by the subsidy. A more in-depth analysis could be done on a national, regional or local level by determining how many people in the chosen area are in the various income categories, what the actual costs and expenses for typical units currently are in the area, and what the range of equity value is for owner-occupied elderly housing in the area. From these figures, a determination could be made as to the likely downpayment for a unit, and the number of families that would be eligible for a mortgage (i.e., could afford to buy) at various prices as a result of the subsidy who could not otherwise so qualify without the subsidy.

Table 3 summarizes the Housing Economics figures for the PECP at the 25 percent income level on the conventional mortgage assumption and on the FHA mortgage assumption. The table is slightly misleading in that the situations with the higher costs and lower expenses actually show a subsidy which exceeds the maximum allowable amount under the program's 15 percent requirement. Because the figures are 5-year averages with rising annual expenses it is not possible easily to pinpoint exactly the discrepancies, but perhaps one-third of the cases overstate the subsidy which would actually be payable.

Nevertheless, the table gives a fairly good idea of the impact of the subsidy based on the assumptions of the Housing Economics analysis. The effective impact of the subsidy on the incomes of potential unit owners averages about $1,550. That is, assuming that an elderly family or individual will spend 25 percent of income for housing, the effect of the subsidy is to lower the required income for unit purchasers by about $1,550—less for units with lower expenses and more for units with higher expenses. The range of eligible incomes without the subsidy would be about $5,000 to $8,000, minimum, depending on the cost of the unit and the annual expenses. With the subsidy, the range of minimum required incomes drops to about $3,600 to $6,300. The importance of this expansion of the market is illustrated by the fact that the median income of the 85 percent of all elderly homeowners who own their homes debt-free is under $4,000.

Again, a more precise estimate of the extent to which the market is increased could be derived from an analysis of census and other income and employment figures for the market area of the particular project, taking into account the cost of the units in the project and the estimated expenses. The figures should indicate that the subsidy, although relatively small, would have a significant impact among the elderly population and would, therefore, be a meaningful incentive to the development and sale of condominiums to elderly individuals and families.

Some sense of the actual volume of program, and the number of purchasers taking additional units which could be built under the advantage of the program, may be derived from a look at the number of individuals and families throughout the country who meet the "profile" of the typical purchaser for whom the program is designed. The numbers are impressive. There are 6,294,000 families with the head of household over 65-years of age who own their own homes. The 85 percent of these who own their own homes debt-free have a median income of only $3,900, but the average value of their homes (and therefore potential downpayment on a condominium) is $13,800. Although the other 15 percent have mortgages on their homes which average about 29 percent of the value of the home,

Table 2. Computation of PECP Subsidy at Various Levels of Owner Income and Annual Unit Expenses, and Impact of Subsidy on Required Income Level of Purchasers

INCOME	Annual Expenses	15% of Income	Excess of Expenses over 15% of Income: (1) – (2)	Annual Subsidy by Formula	Actual Annual Subsidy: Lesser of (3) or (4)	Annual Subsidy As Percentage of Income	Annual Subsidy × 3	Annual Subsidy × 3 As Percentage of Income	Annual Subsidy × 4	Annual Subsidy × 4 As Percentage of Income
$ 2,000	$ 400	$ 300	$ 100	$200	$100	5.0%	$ 300	15.0%	$ 400	20.0%
	500	300	200	250	200	10.0	600	30.0	800	40.0
	600	300	300	275	275	13.75	825	41.25	1100	55.0
	700	300	400	300	300	15.0	900	45	1200	60.0
	800	300	500	325	325	16.25	975	48.75	1300	65.0
	900	300	600	350	350	17.5	1050	52.50	1400	70.0
	1000	300	700	375	375	18.75	1125	56.25	1500	75.0
	1100	300	800	385	385	19.25	1155	57.75	1540	77.0
	1200	300	900	395	395	19.75	1185	59.25	1580	79.0
	1300	300	1000	405	405	20.25	1215	60.25	1620	81.0
	1400	300	1100	415	415	20.75	1245	62.25	1660	83.0
	1500	300	1200	425	425	21.25	1275	63.75	1700	85.0
$ 3,000	400	450	0	200	0	0	0	0	0	0
	500	450	50	250	50	1.67	150	5.0	200	6.67
	600	450	150	275	150	5.0	450	15.00	600	20.0
	700	450	250	300	250	8.33	750	25.00	1000	33.33
	800	450	350	325	325	10.83	975	32.50	1300	43.33
	900	450	450	350	350	11.67	1050	35.00	1400	46.67
	1000	450	550	375	375	12.5	1125	37.50	1500	50.00
	1100	450	650	385	385	12.8	1155	38.50	1540	51.33
	1200	450	750	395	395	13.17	1185	39.50	1580	52.67
	1300	450	850	405	405	13.5	1215	40.50	1620	54.00
	1400	450	950	415	415	13.83	1245	41.50	1660	55.33
	1500	450	1050	425	425	14.17	1275	42.50	1700	56.67
$ 4,000	400	600	0	200	0	0	0	0	0	0
	500	600	0	250	0	0	0	0	0	0
	600	600	0	275	0	0	0	0	0	0
	700	600	100	300	100	2.5	300	7.50	400	10.00
	800	600	200	325	200	5	600	15.00	800	20.0
	900	600	300	350	300	7.5	900	22.5	1200	30.0
	1000	600	400	375	375	9.375	1125	28.125	1500	37.5
	1100	600	500	385	385	9.625	1155	28.875	1540	38.5
	1200	600	600	395	395	9.875	1185	29.625	1580	39.5
	1300	600	700	405	405	10.125	1215	30.375	1620	40.5
	1400	600	800	415	415	10.375	1245	31.125	1660	41.5
	1500	600	900	425	425	10.625	1275	31.875	1700	42.5
$ 5,000	400	750	0	200	0	0	0	0	0	0
	500	750	0	250	0	0	0	0	0	0
	600	750	0	275	0	0	0	0	0	0
	700	750	0	300	0	0	0	0	0	0
	800	750	50	325	50	1.0	150	3.00	200	4.00
	900	750	150	350	150	3.0	450	9.00	600	12.00
	1000	750	250	375	250	5.0	750	15.00	1000	20.00
	1100	750	350	385	350	7.0	1050	21.00	1400	28.00
	1200	750	450	395	395	7.9	1185	23.70	1580	31.60
	1300	750	550	405	405	8.1	1215	24.30	1620	32.40
	1400	750	650	415	415	8.3	1245	24.90	1660	33.20
	1500	750	750	425	425	8.5	1275	25.50	1700	34.00
$ 6,000	400	900	0	200	0	0	0	0	0	0
	500	900	0	250	0	0	0	0	0	0
	600	900	0	275	0	0	0	0	0	0
	700	900	0	300	0	0	0	0	0	0
	800	900	0	325	0	0	0	0	0	0
	900	900	0	350	0	0	0	0	0	0

(Continued on p. 1200.)

Table 2. Computation of PECP Subsidy at Various Levels of Owner Income and Annual Unit Expenses, and Impact of Subsidy on Required Income Level of Purchasers (Continued)

INCOME	Annual Expenses	15% of Income	Excess of Expenses over 15% of Income: (1)—(2)	Annual Subsidy by Formula	Actual Annual Subsidy: Lesser of (3) or (4)	Annual Subsidy As Percentage of Income	Annual Subsidy × 3	Annual Subsidy ×3 As Percentage of Income	Annual Subsidy × 4	Annual Subsidy × 4 As Percentage of Income
$6,000	1000	900	100	375	100	1.67	300	5.00	400	6.67
(Continued)	1100	900	200	385	200	3.33	600	10.00	800	13.33
	1200	900	300	395	300	5.00	900	15.0	1200	20.00
	1300	900	400	405	400	6.67	1200	20.0	1600	26.67
	1400	900	500	415	415	6.92	1245	20.75	1660	27.67
	1500	900	600	425	425	7.08	1275	21.25	1700	28.33
$ 7,000	400	1050	0	200	0	0	0	0	0	0
	500	1050	0	250	0	0	0	0	0	0
	600	1050	0	275	0	0	0	0	0	0
	700	1050	0	300	0	0	0	0	0	0
	800	1050	0	325	0	0	0	0	0	0
	900	1050	0	350	0	0	0	0	0	0
	1000	1050	0	375	0	0	0	0	0	0
	1100	1050	50	385	50	.71	150	2.14	200	2.86
	1200	1050	150	395	150	2.14	450	6.43	600	8.57
	1300	1050	250	405	250	3.57	750	10.71	1000	14.29
	1400	1050	350	415	350	5.00	1050	15.0	1400	20.00
	1500	1050	450	425	425	6.07	1275	18.21	1700	24.29
$ 8,000	400	1200	0	200	0	0	0	0	0	0
	500	1200	0	250	0	0	0	0	0	0
	600	1200	0	275	0	0	0	0	0	0
	700	1200	0	300	0	0	0	0	0	0
	800	1200	0	325	0	0	0	0	0	0
	900	1200	0	350	0	0	0	0	0	0
	1000	1200	0	375	0	0	0	0	0	0
	1100	1200	0	385	0	0	0	0	0	0
	1200	1200	0	395	0	0	0	0	0	0
	1300	1200	100	405	100	1.25	300	3.75	400	5.0
	1400	1200	200	415	200	2.50	600	7.5	800	10.0
	1500	1200	300	425	300	3.75	900	11.25	1200	15.0
$ 9,000	400	1350	0	200	0	0	0	0	0	0
	500	1350	0	250	0	0	0	0	0	0
	600	1350	0	275	0	0	0	0	0	0
	700	1350	0	300	0	0	0	0	0	0
	800	1350	0	325	0	0	0	0	0	0
	900	1350	0	350	0	0	0	0	0	0
	1000	1350	0	375	0	0	0	0	0	0
	1100	1350	0	385	0	0	0	0	0	0
	1200	1350	0	395	0	0	0	0	0	0
	1300	1350	0	405	0	0	0	0	0	0
	1400	1350	50	415	50	.56	150	1.67	200	2.22
	1500	1350	150	425	150	1.67	450	5.0	600	6.67
$10,000	400	1500	0	200	0	0	0	0	0	0
	500	1500	0	250	0	0	0	0	0	0
	600	1500	0	275	0	0	0	0	0	0
	700	1500	0	300	0	0	0	0	0	0
	800	1500	0	325	0	0	0	0	0	0
	900	1500	0	350	0	0	0	0	0	0
	1000	1500	0	375	0	0	0	0	0	0
	1100	1500	0	385	0	0	0	0	0	0
	1200	1500	0	395	0	0	0	0	0	0
	1300	1500	0	405	0	0	0	0	0	0
	1400	1500	0	415	0	0	0	0	0	0
	1500	1500	0	425	0	0	0	0	0	0

Table 3. Effective Impact of Proposed Elderly Condominium Program Subsidy Assuming Purchaser Can Afford 25 Percent of Income for Housing Costs: Summary of Housing Economics Analysis

			Required Income		
	Cost	Expense	Base Cost	Gross Cost	Effective Impact
Elderly #1	−20%	−20%	$5,295	$3,845	$1,450
	−20%	Base	6,248	4,672	1,577
	−20%	+20%	7,202	5,530	1,672
	Base	−20%	5,665	4,215	1,450
	Base	Base	6,619	5,042	1,577
	Base	+20%	7,572	5,900	1,672
	+20%	−20%	6,036	4,586	1,450
	+20%	Base	6,989	5,413	1,577
	+20%	+20%	7,943	6,271	1,672
Elderly #2	−20%	−20%	5,086	3,636	1,450
	−20%	Base	6,039	4,463	1,577
	−20%	+20%	6,993	5,321	1,672
	Base	−20%	5,404	3,955	1,450
	Base	Base	6,358	4,781	1,577
	Base	+20%	7,311	5,639	1,672
	+20%	−20%	5,723	4,273	1,450
	+20%	Base	6,676	5,099	1,577
	+20%	+20%	7,629	5,957	1,672

NOTES: 1. Base cost: Mortgage payments plus operating expenses and real estate taxes.
2. Gross cost: Base cost minus subsidy.
3. Elderly #1: Conventional mortgage, 8 percent interest, 25 year term, no MIP.
Elderly #2: FHA insured mortgage, 7 percent interest, 30 year term, .5 percent MIP.
4. Computation of subsidy based on formula but does not take into account requirement that owner must pay all expenses up to 15 percent of income. The 15 percent requirement would reduce the subsidy in certain cases, for example, the 4th, 7th, and 8th Elderly #1 cases.
5. Subsidy based on five year average assuming expenses rise 4 percent per year.

they have a median equity in their homes of about $12,500 and a median income of $6,200.

There are an additional 5,700,000 families with head of household between 55 and 64 who own their own homes. The potential market for the program is therefore at least the 12 million households old enough to qualify for subsidy payments who have a substantial equity in their homes which could be invested in an elderly condominium unit. Although some will have incomes too high to be helped by the program, others will have incomes too low to qualify to purchase a unit under the program, and many others will not want to give up their homes or will not want to move into a unit too small to accommodate visiting children and grandchildren. But even if only 0.5 percent of the 12 million potential purchasers did in fact purchase each year because of the availability of the subsidy, the impact on sales nationally would be an increase of condominium sales to the elderly of 60,000 units per year.

C. Relationship of PECP to other programs: The PECP would be used with conventional financing, FHA-insured section 234 mortgages, or high-ratio loans with private mortgage guarantees, and would increase effective demand for units developed under each of these types of financing. Even if the section 235 program is restored, however, the PECP subsidy could not be "piggybacked" on the section 235 subsidy, so it would not increase production of section 235 condominiums. In any case, even if the PECP subsidy were piggybacked, it would not increase section 235 production so long as the demand for section 235 funds continues to exceed the amount Congress is willing to appropriate for the program. And as long as the deep subsidy of the section 235 program is sufficient to insure the marketability of all section 235 housing, competition from units with the PECP subsidy is unlikely to reduce section 235 production.

It could be argued that the PECP might adversely effect the demand for section 235 housing, since in some areas there would be an overlap between the incomes of elderly persons eligible for section 235 housing and those with incomes which could benefit from the PECP program. The very different downpayment assumptions under the two programs, however, would

eliminate much of the direct competition. The purchaser who had equity from the sale of his house or other sources sufficient to make a large downpayment would be more likely to purchase under the PECP program even if eligible for section 235 housing; the purchaser with an income low enough to qualify for the section 235 program, but without the large capital required to make a downpayment under the PECP program sufficient to qualify for a mortgage, would be of necessity restricted to the section 235 program.

D. Who would use the PECP? All developers of condominiums under programs eligible for the subsidy would encourage their prospective purchasers to take advantage of the PECP. The subsidy is primarily between the purchaser and the Government, and other unit owners need not know about it. Furthermore, even if the purchaser were known to be subsidized, there is little stigma attached to subsidies to the elderly. The fear of "undesirable" subsidized purchasers would be minimal in the case of the elderly, who generally would not have children living with them, would not have loud parties late at night, do not write dirty words on walls, do not intimidate other homeowners, and in general are rather good neighbors.

The program would be largely irrelevant in condominium developments in which most or all of the purchasers have very high incomes, say, over $40,000. The 15 percent requirement in the program would mean that a purchaser with a $40,000 income would have to pay the first $6,000 of annual expenses himself. Therefore, unless his operating expenses and real estate taxes exceeded $500 per month, he would not be eligible for any subsidy. And at that level, a subsidy which at its maximum was $425 per year, would be of little effect. However, the subsidy would be potentially applicable for all but the tiny minority of the elderly who have incomes at such levels.

As proposed, the PECP would be more attractive to developers than the usual elderly program in at least one respect, since the minimum age would be 55 years. This opens up the possibility of large numbers of purchasers still in the prime of their work careers who would purchase with the knowledge that upon retirement, when their incomes declined, the subsidy would come into play and would limit their annual housing costs at the time when they most need such limitation. The advantage would not be available to them if they bought a single family home or rented. Presumably, a person who purchased an eligible new condominium when he was under 55 years old would become eligible, assuming he met the income and expense criteria, upon reaching 55.

One note of caution regarding the incentive to developers to rely on this program is the difficulty of developing housing, given current construction costs, to meet a market of below-average income customers, i.e., the elderly. For example, the cumulative default rate on section 231 rental housing for the elderly is more than three times the default rate for section 207 rental housing. These FHA rental programs are quite similar except for the restriction of section 231 housing to the elderly. The section 202 program presumably has had a better record, but it involves a rather deep subsidy, considerably more than is offered under the PECP.

Retirement communities have had many failures to go along with the successful developments, but these presumably appeal to the somewhat more affluent elderly. In fact, the viability of building for the elderly without deep subsidies in areas of the country other than those with warm climates might be questioned, since a very high number of retired persons with some savings or continuing income choose to move for part or all of the year to warmer climates. Thus the elderly who remain behind in the northern states are a disproportionately lower than average income group, even for the elderly.

Another consideration for developers would be whether any additional warranties or liabilities would be imposed by the PECP. If the PECP were designed to protect the Government and the purchaser by requiring the developer to certify to projected operating expenses and real estate taxes, this burden and liability might convince some developers not to make the subsidy available to their purchasers.

Another problem with the program, and especially the assumption of the Housing Economics figures, is that lenders usually limit the terms of years on mortgages for older borrowers. There is usually some kind of formula which may often limit the mortgage terms to 15 or 20 years in a project where other borrowers are eligible for 25-year mortgages.

On the other hand, to the extent that elderly purchasers can in fact make much larger downpayments than younger purchasers, the importance of the mortgage term is diminished. In additions to the equity which they have in their

existing homes, and to other lifetime savings, elderly individuals and families may have access to funds of children or other relatives. Because of existing real estate tax benefits for the elderly, it is sometimes beneficial for children to give money to their parents to purchase a unit in their own name. The elderly subsidy would be a considerable additional inducement for someone who is supporting an elderly person to finance the purchase of a condominium unit for him, since in the long run it would reduce his contribution to the support of the elderly person. Among other benefits is the fact that the income on the gift, which would otherwise have been taxed, perhaps in a higher bracket, will now be only imputed (untaxed) income from the investment in the home. (The Housing Economics figures do not take into account the fact that the imputed income on equity would be taxed. If other costs are shown as after-tax, then the imputed income should also be shown after tax at the same (25 percent) rate.)

The PECP would also be an added inducement for someone contributing to the support of an elderly person to guarantee their mortgage, thus enabling them to benefit from the subsidy. This added inducement to others to assist the elderly to purchase a condominium would add to the effect demand in the condominium market and result in greater sales.

Although formal figures probably could be compiled, experience shows that the assumption of larger downpayments by retired purchasers is a fact. A relatively low-cost condominium development for the elderly in California, constructed in the middle to late 1960's, claims to have sold 290 out of 300 units without mortgages of any kind. When purchasers are able to pay all cash, the developer avoids all of the paper work and credit checks involved in qualifying the purchaser for a mortgage, and the developer will also avoid paying some closing costs if he has assumed them on all sales. And the effect of usury laws becomes irrelevant. The subsidy may induce some persons with considerable savings but very low income to invest their savings in a home without a mortgage. This, again, would increase condominium sales.

The Lender

The description of the PECP is not very detailed on the administrative aspects of the program. Presumably, however, it would be administered by HUD or possibly IRS, since the actual subsidy would be related to family or individual income. In any case, the program would be set up so as to place little or no burden on the lender or developer. Alternatively, as in some existing programs such as section 235, the burden might be put on the developer or lender to determine initially the income of the purchaser and perhaps even to certify to the income of the purchaser and the projected expenses for the unit.

A. IRS: The program could be operated through the income tax return with a simple form filed by the developer to "register" each new condominium project with the Internal Revenue Service. The form would give the date on which construction started (to confirm that the project is eligible for the subsidy) and perhaps a copy of the condominium declaration and the projected budget. The taxpayer would fill out a form or a few special lines on his tax return giving the assigned number of the development, the date on which he purchased his unit, and his total operating expenses and real estate taxes for the unit. These would either be based on the actual amount expended or, in the case of the operating expenses, might be based on prototype numbers which could be issued each year by HUD and assigned to the development.

One problem with this approach is that the purchaser would have to pay the full amount of his monthly expenses, and, unless it were possible to take into account the savings on quarterly estimated tax returns, many elderly persons eligible for the subsidy might have a cash flow problem until they are able to recover the amount out of their income tax refund. If the amount of the subsidy produced a credit on the tax return, the Government would have to send a check to the purchaser.

B. HUD: Alternatively, the program could be administered by HUD. Would they send out checks to every eligible person every month? Perhaps there should be some cutoff—perhaps $50 or $100 per year—under which no amount would be payable. To pay such small amounts, especially on a monthly basis, would not be worth the paperwork involved.

If HUD administered the program, it would have to have continuing income recertification. Would this be done directly by the Government or would the loan servicer be required to do this? Would the servicer also be required to make the adjustment (credit) for the subsidy in the monthly mortgage payment? How would debtfree units be administered?

When the details of the program are worked out, HUD must keep in mind the fact that if lenders are to be asked to help to administer the program, either by computing the payments, making the payments on a monthly or less frequent basis, recertifying incomes, or otherwise, they must be paid for doing so. This could be a considerable problem with the program, since most payments would be very small.

Conventional home and condominium loans are made by savings and loan associations and mutual savings banks, although insurance companies, commercial banks, mortgage companies, and other institutional lenders also make home loans in some numbers. Savings and loans and mutual savings banks can make loans of 90 percent and 95 percent of value with private mortgage insurance. These loans can be resold by such institutions to the Federal Home Loan Mortgage Corporation (FHLMC).

FHA condominium loans are similarly made by savings and loans, mutual savings banks, mortgage bankers, and in some cases commercial banks. These loans can be sold on the national secondary mortgage market to the Federal National Mortgage Association (FNMA). Assuming that FHLMC and FNMA incorporated the subsidy into their mortgage credit guidelines, the direct lenders would normally follow the same practice. The lender usually minimizes his risk by immediately reselling high-ratio loans to one of the national secondary mortgage markets at the yield then required by the market. Ordinarily, the original lender keeps the servicing of the loan.

Lenders usually have rules limiting the maximum term of mortgages for older borrowers. Also, they would be reluctant to make high-ratio loans to elderly persons. This is, of course, consistent with the premise of the PECP, which is that purchasers will make large downpayments. Perhaps the typical case should be analyzed on the basis of a 15-year mortgage term, but if the mortgage is only 25 percent of the purchase price the increase in monthly payments will not be too serious. One way to get around the short term and low ratio problems might be to have the older person purchase the home to qualify for the PECP subsidy, but have a child guaranty the loan to get the better mortgage terms.

C. Effect of Subsidy: Lenders presumably will take into account the availability of the subsidy in qualifying purchasers for mortgages. There would have to be assurances to the lender, however, that the subsidy funds would continue to be available to any purchaser who was eligible for them at the time he purchased his unit. The minimum term for the subsidy funds presumably would have to be either the life of the purchaser, or probably the life of the mortgage if the lender is really to be expected to take the subsidy into account in qualifying the purchaser. To the extent that lenders are looking for loans, the program will be useful to them in enabling them to qualify more purchasers than they normally would.

The imposition of duties with regard to the PECP without adequate compensation would probably discourage lenders from allowing beneficiaries of the PECP to borrow for condominium purchases. Therefore, the administrative and procedural aspects of the program would be of considerable importance in ultimately determining the cooperation of lenders and, therefore, the effectiveness of the program.

Sales/Marketing

Many of the marketing problems and the advantages of the PECP have been discussed under the section dealing with the incentives to the builder/developer. A few others will be touched on here:

A. Elderly persons with relatively low incomes of the kind that would be eligible for the subsidy would get very little out of Federal income tax savings—one of the major advantages of condominium (or home) ownership. The estimated savings of 25 percent of the amount of real estate taxes and mortgage interest payable would seem to be very optimistic. Many elderly families would have so few itemized deductions, especially if they had only a small mortgage and have the benefits of real estate tax homestead exceptions for the elderly, that they would choose the standard deduction rather than itemizing deductions. This would entirely eliminate the benefit of the Federal income tax deductions which are useful to most homeowners and are a major selling point for condominium developers. In fact, the Housing Economics figures show that with a 25 percent mortgage the forgone (imputed) income on the downpayment exceeds the tax benefits, even in the 25 percent bracket.

B. If the PECP is implemented, the legislation should probably be clear as to whether the amount of the subsidy must be shown as income by the recipient. Otherwise, this might be questionable. If the subsidy is regarded as income, the benefit would be reduced, of course. If it is

regarded as a gift or transfer payment rather than income, can the recipient still deduct the full amount of real estate taxes that he pays, since a portion or all of the subsidy might be considered to be used in payment of the real estate taxes? If this is so, then presumably the unit owner did not really bear the burden of paying the real estate taxes and should probably not be able to deduct them for Federal income tax purposes.

C. Many older persons, especially couples, would not want to move into a condominium unit that would be considerably smaller than their existing home. They may want extra space to store or display or use furniture, furnishings, art and artifacts, and other accumulated household goods, rooms for children and grandchildren to stay over on a visit, etc. Some condominium developments do provide a few rooms for rental by guests of condominium owners, but the lack of space for people who are used to more space is one of the strongest points of resistance to sales of new, lower priced condominiums to the elderly.

D. Presumably, the subsidy would be available for any condominium unit purchased by a person who qualified for a subsidy. Some condominium developments, however, are built—and more might be built—exclusively for the elderly. These could have additional facilities and design features directed at meeting specific problems of the elderly. The PECP would make such an all-elderly project considerably more feasible, and the lenders would presumably take the subsidy into account in deciding on the feasibility of such a project.

E. Whether the elderly become owners in a "mixed ages" condominium development or an all-elderly development, management of the development will almost certainly be easier because of the elderly residents. Most of the most serious management problems—children, transient occupancy, cars and traffic, noise, etc.—are not presented by elderly residents. Other management problems are presented, however. These revolve around health problems, problems of "getting around" in the apartment unit, the building, and the development, and low incomes which require the condominium budget to be kept at a minimum.

On the other hand, the elderly can be used for certain kinds of work in the development, including gardening and day care, for example. Availability of these services could cut down the monthly maintenance fee if donated or provided as a source of relatively low-paid and dependable labor for the association.

F. The complexity of the PECP would be a considerable marketing problem. Although the concept of an operating subsidy for the elderly is simple, straightforward, and appealing, even the simplest program rather quickly becomes quite complex from the point of view of someone not sophisticated in housing subsidy programs, much less a typical elderly purchaser who, in many cases, will have a language problem or will not have very much education or familiarity with finance or mathematics.

The sliding scale subsidy combined with the 15 percent requirement are quite complicated to explain to a potential purchaser (and will even be difficult to explain to sales personnel); at the same time, the various real estate tax and Federal and State income tax ramifications of unit ownership must be explained.

If the purchaser was not previously a homeowner, it will be difficult for him to understand these concepts. In addition, since condominiums were introduced to the United States only in the last dozen years, hardly any elderly purchasers will be very familiar with the condominium concept. Outside of certain large metropolitan areas and vacation areas—and primarily among higher income residents of those areas—condominium ownership is not very well understood. The combination of an elderly, moderate-to-low income, rather poorly educated purchaser, increasingly strict State and possibly Federal disclosure requirements, and mortgage, real estate tax, Federal and State income tax, and condominium complexities present a rather substantial marketing problem in themselves, and the addition of the PECP formulae make it that much more difficult.

10 Housing Revenue Sharing

Limitations on the Use of Housing Revenue Sharing Funds

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Housing revenue sharing funds must have some restrictions accompanying them simply because they are intended to be used for a specific purpose, namely, housing. Nevertheless, there are many additional restrictions (or strings) subject to several methods of enforcement or followup that might be attached to these funds to insure that they are used for the appropriate purposes by the appropriate agencies. Whether these strings should be attached to housing revenue sharing funds depends on Federal objectives and standards for a housing revenue sharing program and an assessment of the ability of State and local governments to be responsible agents for achieving these objectives.

This chapter reviews a range of possible restrictions on the use of housing revenue sharing funds. Naturally, the selection of a specific set of strings will be the result of policy choices (in terms of housing objectives) and the analysis of alternative strings (in terms of responses by local governments and appropriate checks and balances). The limited objectives of this chapter are to identify the reasons for imposing strings and the types of strings that might be used to achieve those goals. The following sections discuss:

- A minimum-strings program: A program with the fewest marginal restrictions from which the need for additional controls can be measured.
- Reasons for additional restrictions: Anticipated shortcomings of a minimum-strings program.
- Restrictions related to Federal objectives and program operations: The standards and controls necessary to offset expected problems.
- Restrictions related to the transition: The special (and presumably short term) controls necessary to achieve a successful transition.

A Minimum Strings Program Would Be Quite Simple

Models already exist for the design of special revenue sharing programs. (For example, see S. 1234, "The Law Enforcement Assistance Act of 1973," and H.R. 2754, "The Education Revenue Sharing Act of 1973.") In the housing field, the proposed community development acts (S. 1743, "The Better Communities Act," introduced in May 1973, and S. 1744, a Senate version of the BCA act passed in 1972 and reintroduced in May) may provide particularly appropriate models.

The Administration's BCA establishes a two-step revenue sharing process. The first step, before funds are received, is certification. The eligible government, either State or local, certifies that its proposed use of BCA fund is consistent with the guidelines established in the act concerning the planning process, public hearings, and passthrough requirements. (These guidelines are the "strings"; certification is the enforcement provision.) The second step is a postaudit. The possibility of a postaudit is intended to insure that the local government keeps the appropriate records and that these records will be available to Federal officials.

The Senate version establishes a somewhat more complex process that more specifically identifies the restrictions and intent of the legislation and provides for a closer supervision of the local government. The first step is application process. The application by the eligible government covers three points:

- Needs and plans are discussed and identified.
- Action programs and budgets for a 2-year period are presented.
- Certifications that the government is conforming to other provisions of the act are provided.

The application for revenue sharing funds is then reviewed and approved. The second phase of the process is the evaluation of the programs financed by the eligible government. The evaluation phase consists of:

- A postaudit designed to insure that the appropriate records of fund expenditures are kept.
- An annual report to insure that progress toward the stated goals is being made.

A minimum-strings housing revenue sharing program might fall between these two approaches, both in terms of restrictions and enforcement provisions. There might be a shorter and less complicated preapplication process than in the Senate version of the BCA. On the other hand, there might be a greater emphasis on performance auditing than in the Administration's BCA.

Limited Certification Would Be Required

Certification requirements would, at the minimum, refer to the acceptable uses of funds for housing purposes. Certification is basically a statement of intent on the part of the receiving government. Because this special revenue sharing program is for housing, the receiver of these funds would have to certify (subject to audit) that the funds would be used for housing purposes. This requirement might be reinforced by a specific reference to the programs that are included. For example, existing Section 235 and 236 subsidy programs might be specifically referred to as programs replaced by a housing revenue sharing package. Reference to these programs would indicate the general purposes for which the funds are to be spent.

Certification might also be required for certain process elements. For example, if States were the primary recipient of the funds, they would have to certify that their distribution of the funds would conform to the intent of the Housing Revenue Sharing Act. In addition, there might be certification requirements for planning and public hearing purposes.

Audits and Reports Would Be Necessary

Naturally, funds distributed through a revenue sharing program would be subject to audit. This is a normal requirement. It would be necessary and useful to insure the responsible management of Federal dollars.

In addition, however, a report by the eligible government (either State or local) would be useful. This report would summarize the results of the program completed in the previous year, and it would project future uses of funds in coming years. From the Federal Government's point of view, this report might help program administrators at the Federal level identify possible misuses of funds for investigation through full-scale audits.

Compliance with Other Federal Legislation Would Be Expected

Compliance with Federal legislation in terms of minimum wages and Civil Rights would be assumed under a minimum strings approach. The Housing Revenue Sharing Act would cite the Davis-Bacon Act and the appropriate Civil Rights Acts referring to equal access and equal employment opportunities. These would then be incorporated into the act and would be guides for the administration of the funds, by reference.

If there were a violation of either the minimum wage or Civil Rights provisions, the local administrator would be subject to court action at the local level. There would be little enforcement built into the legislation other than the possibility of withholding subsequent funds. Restrictions noted in the law would simply be general guidelines for the administration of the program subject to local appeal and court action.

The minimum-strings program would be a fairly simple program for the Federal Government to write and to administer. The provisions would not be complex. The requirements for certification and audit would not be extensive. Whether the minimum-strings approach could meet basic Federal objectives is doubtful, however.

State and Local Governments Might Not Appropriately Administer a Minimum-Strings Program

What a State or local government could or would do with housing revenue sharing funds is basically a matter of speculation at this point. Only a detailed survey of the capacities of eligible governments and an analysis of program incentives could begin to illuminate these questions. Nevertheless, strong a priori arguments, based on the government's experience with general revenue sharing and knowledge of the housing industry, can be made to the effect that:

- Because Federal, State, and local government objectives are not entirely consistent, the Federal Government might find it difficult to achieve national housing, development, and economic objectives.
- The use of funds by State and local governments may not meet Federal objectives for social programs.
- The regional impact of housing funds

may not be taken into account by eligible governments in approving housing programs.

- State and local governments may lack capability to administer a minimum-strings program.
- Eligible governments may find that capacity to administer programs is difficult to build up.

In order to resolve these problems, the Federal Government might impose controls or standards on the use of housing revenue sharing funds. These controls (or strings) might be enforced in a variety of ways, ranging from a strict, detailed evaluation of the performance of eligible governments to flexible certification requirements. Because the enforcement provisions are the heart of any system of strings attached to housing revenue sharing, the extent to which a given standard is strictly enforced would be one measure of the importance of that element to the Federal Government's housing programs.

The relationships between the problems that might arise from a minimum-strings program, the additional restrictions that might be placed on that program, and the range of enforcement provisions that could be used to implement those restrictions are shown on Table 1. In this section, we discuss in detail the problems that might arise in the administration of housing programs by State and local governments. Subsequent sections will analyze the restrictions themselves.

National Housing, Development, and Economic Objectives May Be Difficult to Achieve

The Federal Government has defined several reasonably clear objectives for federally assisted housing in the past. The production of new housing has been paramount among these objectives, the legislative mandate for which was incorporated in the Housing and Urban Development Act of 1968. Recently, however, new objectives seem to be vying with new construction for prominence. In particular, a concern for the existing housing stock, which might be manifested through gut rehabilitation, neighborhood conservation, improved apartment maintenance and operation, and other programs, has been identified as a key objective of Federal policy for the remainder of the 1970's.

The distribution of Federal housing funds between central city, other urban, suburban, and rural areas is becoming increasingly important as a Federal "urban growth" policy takes shape and as real housing needs in each of these areas become apparent. Central cities, for example, may require rebuilding and substantial rehabilitation for moderate and middle income families as part of an overall effort to revitalize key urban centers and in response to the particular housing needs there. Suburban locations, by contrast, may have a primary need for lower income housing, an element of the income distribution typically underserved by the private market in those areas. Rural locations, where past Federal programs have been notable by their failure to serve the lowest income groups in what is physically the worst housing in the Nation, would require special subsidies and construction assistance efforts. The combination of these area targets would be one important component in an effective national urban growth policy.

Finally, the Federal Government has attempted to use housing programs to stimulate (or to retard) national economic growth. Housing construction has been a "counter-cyclical" industry in the sense that its peak activity tends to come just after manufacturing industries have reached low points of activity in the recession/expansion business cycle. By providing additional housing funds (or withholding them), the Federal Government has been able to affect to some extent normal swings in the economy.

In spite of the articulation of these objectives, the Federal Government may well find it difficult to achieve them through a locally administered, minimum-strings, housing revenue sharing program. There are two reasons why it might be difficult: First, the basic objectives of different levels of government vary; second, programs at the local level might be subject to control by interests even more at variance with Federal goals.

A national goal is certainly not the sum of the goals of approximately 38,000 State and local governments. The tendency of each jurisdiction to look after its own interests, narrowly defined, is well known. In California, the tendency of local governments to vie with one another for annexation of new, property-tax "ratables" became so aggressive that the State required counties to set up "Local Agency Formation Commissions" to settle disputes between municipalities. National goals, by way of contrast, might require that some communities undertake projects in which they might not be most interested (such as low rent public housing) in

Table 1.

Possible Problems In A Minimum-Strings Program	Additional Restrictions That Might Be Attached To Federal Aid	Provisions for Enforcing Additional Restrictions or Conditions: Strict	Provisions for Enforcing Additional Restrictions or Conditions: Flexible
The Federal Government might find it difficult to achieve national housing, development and economic objectives.	1. Require that a minimum portion of the funds be targeted to the existing housing stock.	—Fund housing revenue sharing by use of funds—e.g., new construction, rehab, etc.	—Require certification that a minimum percent of funds will be spent on the existing housing stock.*
	2. Mandate portion of funds to be split in central city, urban, suburban and rural areas.	—Determine a government's share of funds based on its location and where it would spend them.	—Require certification that funds will be spent in areas and proportion indicated by law.*
	3. Require funds to be spent consistent with national economic policy.	—Change funding levels depending on national economic policy.	—N.A.
Use of funds by State and local groups may not meet Federal objectives for social programs.	1. Mandate eligibility rules.	—Specify income limits and household size groups eligible for assistance through housing revenue sharing.	—Require certifications that tenant selection criteria will be followed.*
	2. Mandate tenant selection criteria.		—Require certification that tenant selection criteria will be followed.*
	3. Incorporate Federal social legislation.	—Specify procedures for selecting beneficiaries from a pool of eligible applicants.	—Incorporate Federal social legislation by reference.
		—Provide a Federal role for the enforcement of social legislation.	
Regional impact of housing funds may not be taken into account.	1. Mandate a local market test.	—Require prior approval of local markets.	—Require certification that market conditions for housing programs are acceptable.*
	2. Require a planning process.	—Require prior approval of annual plans before funds are released.	—Require certification that an appropriate plan will be prepared.
	3. Limit eligible governments.	—Designate mix of governments that would be eligible recipients.	—Designate State governments as primary recipient of funds that are subsequently redistributed.
State and local governments may lack capability to administer a minimum strings program.	1. Mandate minimum development standards.	—Specify minimum housing quality standards acceptable under this program.	—Require certification that minimum standards have been met.*
	2. Mandate eligibility rules (e.g., income, family size).	—As above.	—Require certification that eligibility rules will be followed.*
	3. Require a planning process.	—Require approval of annual plan before funds are released.	—Require certication that a plan will be prepared.*
Eligible governments may find that capacity to administer programs is difficult to build up	1. Require evidence of capacity.	—Define operating tests that establish evidence of capacity.	—Define categories of agencies that would qualify as evidence of capacity.
	2. Require programs to upgrade capacity.	—Define milestones in capacity building programs that State and local governments must meet.	—Require certification that capacity building programs will be undertaken.

* Subject to post-audits of financial and program records. N.A.—Not applicable.

order to achieve better, overall results from public assistance to housing programs. Essentially, the implicit reward structures in the current environment of State and local governments emphasize individual returns (e.g., an improved tax base for one municipality or significant construction activity in another) over community returns (e.g., a better regional or statewide mix of housing programs). These conflicts of interest between State and local governments on the one hand and the Federal government on the other might make achieving Federal goals difficult.

One example of how local governments might respond in a narrow way to housing revenue sharing would be to use the funds for property tax reduction. Property tax reductions might be irresistible. They might even be justified as "housing-related." By lowering property taxes, a local government could claim that it is increasing the amount of operating funds available for housing maintenance. It might also argue that reductions in property taxes tend to stimulate new construction.

Such arguments might be true if they were part of an overall approach to the local area's housing problems. Without this context, however, property tax reductions could be essentially a giveaway. They would benefit landlords and developers far more than tenants or homeowners. And they might have only limited impact on any basic public objectives for housing assistance.

Similarly, subsidizing the operating expenses of public or publicly assisted housing developments could be effectively a "nonhousing" expenditure. Whether such subsidies actually served public purposes would have to be determined in the context of the local government's whole housing program.

Beyond this, however, is the fact that housing and development efforts in the past have created significant interest groups that are sure to attempt to influence the ways State and local governments spend their Federal housing revenue sharing funds. These interests (including developers, builders, suppliers, and bankers) typically make their fees and commissions through new construction projects in easy-to-market, suburban areas (although, of course, any new construction project would generate some revenue for them). The interests of these groups in new construction would tend to distort Federal goals for an emphasis on the existing housing stock or on central cities.

Local governments in particular tend to be significantly influenced by these interest groups. Substantial contributors to local political campaigns are often drawn from their ranks, for example. Thus, even if local governments were of a mind to support Federal objectives for their own reasons, they might find that possibility adversely affected by powerful groups outside the programs.

The possibility that State and local governments would inhibit the Federal Government's ability to accomplish its objectives (in some minimum-strings, housing revenue sharing program) could be analyzed by reviewing case examples of the extent to which the local housing industry affects local politics. In addition, interviews with selected local officials could help identify the range of possible State and local housing objectives; these could subsequently be compared to Federal objectives to determine the extent of the mismatch. Short of that, however, we simply note that the arguments and experience on the Federal Government's side are substantial. Some set of strings must be included in a housing revenue sharing program that would relate Federal Government funds administered by State and local governments to Federal goals for housing, urban development, and the economy.

Use of Funds May Not Meet Social Objectives

In addition to the basic housing and economic objectives discussed above, the Federal Government has goals for the social impact of housing programs. These goals include:

Standard Housing for Lower Income Families: Programs that focused on these families included rent supplement payments, low rent public housing, and leasing programs. In addition, interest subsidy programs used income limits to determine eligibility and scaled rent payments to keep up with subsequent increases in income.

Equitable Selection of Eligible Families: Tenants were selected from the eligible pool of applicants according to explicit criteria relating primarily to credit-worthiness and relocation considerations.

Equal Opportunity for Tenants and Contractors: Federal civil rights legislation requires that there be no discrimination in tenant or contractor selection for reason of race or national origin. Federal housing programs have required affirmative efforts (as opposed to passive responses) to meet these objectives.

There is general agreement on the virtue of these principles. For example, the general as-

sembly of the Southern California Regional Association of Governments has endorsed these points in a statement of housing policy. New York City has adopted and enforced policies designed to improve opportunities for minority groups in the construction trades. Undoubtedly, many other examples of basic agreement could be cited.

At the same time, there is the widespread conviction, based on numerous counter-examples, that these principles would lie fallow in the hands of most municipal governments. In Blackjack, Missouri, a middle income town attempted to exclude integrated, moderate income housing by a change of zoning law. New public housing units in Chicago, Illinois, have been blocked by the controversy over the Gatreaux case that seeks public housing in areas outside that city's South and West Sides. In Westchester County, New York, nine towns threatened by a State agency with mixed income housing projects heatedly defeated the plans and their State representatives stripped a key power from the agency in the State legislature. In New York City, plans for public housing units in the borough of Queens met strong resistance and led to significant modifications of the original plans by the City Council.

In general, the feeling among local governments seems to be: "Low income, integrated housing projects are fine—for my neighboring town." Clearly, this context makes the realization of Federal social objectives uncertain (if not unlikely) unless appropriate controls on the use of funds are specified. Because social equity has been such an important consideration in federally assisted housing programs, in terms of administrative policy and court decisions, these controls ought to be among the more strongly enforced provisions of a special revenue sharing program for housing.

Regional Impacts Might Not Be Considered

One of the underlying problems in diffusing responsibility for housing assistance funds is that of controlling the "spillover" effects of local programs. Spillover refers to benefits that accrue to localities that do not incur costs (lower paid workers in one municipality who find housing in a neighboring municipality) and to costs incurred by localities that do not receive the full benefits (housing for lower income families assisted in part by reduced property taxes that stimulate employment in a neighboring area). Housing markets are particularly prone to spillover problems at the small area level, largely because they overlap due to transportation patterns and locations of sources of employment. To some extent, spillover problems can be sorted out by aggregating local housing markets to regional or statewide levels. There would continue to be significant interaction between housing markets, however, even at the regional or statewide level.

Local governments would not be under any pressures or subject to incentives that would mitigate their emphasis on local problems in a minimum-strings program. Their rewards are and would continue to be for assisting middle income housing or housing for the elderly in their area. One of the concerns of the Los Angeles County Department of Housing and Development Service is that municipalities would overbuild some types of housing (competing, for example, for the elderly housing market) while failing to provide other needed housing projects (such as public housing).

One way to indicate the problems that might be caused by spillover-related competition for housing markets is to consider the average rate of growth of demand for housing in a typical metropolitan area. The nationwide increase in population from 1960 to 1970 was about 12 percent. For an SMSA of about 1 million population (of which there were 23 in 1960), this would imply an increase of 120,000 persons, or 30,000 4-person families over the decade. This in turn suggests a rate of growth approximately equal to 3,000 families per year. Assuming that, of these families, 33 percent fell within the eligibility limits for Federal programs (while the needs of the balance were served by the private market), then the growth in families requiring some form of public assistance would be about equal to 1,000 families per year.

The typical SMSA encompassed an average of 38.5 local governments in 1967, including county, municipal and township entities. (Source: The Statistical Abstract and the Census of Governments (1967).) If each unit of local government captured an equal share of that growth, then each government could have assisted about 26 families per year. Clearly, projects of this size are both economically inefficient and financially risky. The real problem, however, would have arisen when each of the governments competed equally for a share of the market but some units won larger proportions of the growth than others. The governments that were not as successful in their competition would have been left with many vacant units.

Failure to account for spillover problems in the design of a housing revenue sharing program could lead to the wasteful expenditure of relatively scarce Federal resources. Unnecessary projects might be built or assisted and the number of projects that fail to become economically self-sufficient could increase. A full analysis of potential spillover problems would require a review of at least a sample of Standard Metropolitan Statistical Areas with several rates of growth. If potential problems could be related to types of SMSA's (for example, spillover problems are accentuated in low-growth areas), then controls could be built into the housing revenue sharing program that would vary by type of area. Alternatively, a simulation could be prepared for various SMSA's based on their actual rates of growth and the actual number of local governments within their borders.

Administrative Capability May Be in Short Supply

States have much apparent capability, but their real strengths are not deep. For example, 23 States have housing finance agencies. (A review of current State housing finance agency programs and legislation is presented in the March 1973 issue of the Journal of Housing.) Of these 23 States, however, only 10 have agencies with bonds outstanding. And of these 10, even fewer, perhaps half, have ongoing housing production programs.

Many States have departments of community affairs: 37 have community affairs agencies in operation, with staff sizes ranging from 440 in New York to 5 in Vermont. The average staff size for those States with operating community affairs programs was 97 persons in 1972. The major responsibilities of these agencies include: Comprehensive planning, housing services, area redevelopment programs, and community development training. Even though these agencies have responsibilities in these areas, however, their major functions are largely passive and administrative: Fiscal, management, legal, personnel training, intergovernmental cooperation and coordination, and related research.

Thus, a State's capability is in fact quite limited. Few States have operating mortgage-lending programs. And even though many more States have departments of community affairs generally responsible for housing related programs, their actual day-to-day functions are not related to the development or management of housing.

Metropolitan areas also have similarly limited capability. Few cities or local governments have programs other than a local public housing authority or urban renewal agency. A broader emphasis on housing problems (including rent assistance or rehabilitation) is usually not included in the current administrative structures of most cities. The exception may prove the rule in this case. New York City has a large Housing Development Administration with responsibility for a wide range of programs including rent control, rent assistance, rehabilitation, and new construction. Few cities come close to this complete a spectrum of local housing programs.

Because both State and local governments may have only limited capability to administer housing revenue sharing funds, the Federal Government may find it necessary to specify minimum conditions for eligible recipients (i.e., households) in terms of incomes and family sizes and mandate minimum housing quality standards for units (new or existing) receiving Federal assistance. Such restrictions, however, would tend to constrain local programs severely, replicating the problems in the current categorical grant programs. A full analysis of the conditions applied to the programs, therefore, is critical, because these restrictions might in fact become counter productive in terms of achieving Federal goals.

Administrative Capacity May Be Difficult to Build

It is not a simple matter to build the local administrative capacity necessary to handle housing revenue sharing money. Functions might include mortgage lending, construction supervision, program design, rent assistance administration, and so on. There is a limited supply now of proven organizations that can handle these programs. Rapid expansion of both individual talent and organizational experience would be difficult.

That the administrative capacity is scarce, however, is not the same as saying that it could not be developed. Naturally, training programs and organizational models would facilitate the growth of local capability. But it is clearly a lengthy process. For example, most agencies that become involved directly in housing lending activities (either for new construction or rehabilitation) find that there is a minimum 2-year startup phase, after which there may still be significant learning required.

A complete analysis of the startup costs for a housing revenue sharing program would re-

quire an analysis of the functions that eligible governments would be expected to perform, an assessment of their current capabilities, and an estimate of the cost and time required to obtain the additional necessary capabilities. Experience with State housing finance agencies, however, is so clear with respect to the difficulties of the startup phase that additional analysis may be unnecessary.

Certain Controls Would Be Necessary To Achieve National Goals

In order to achieve Federal housing objectives and to offset, at least in part, some of the difficulties of working through State and local governments, housing revenue sharing programs might include three sets of restrictions related chiefly to:

- Targeting the mix of uses of shared housing funds.
- Targeting the mix of geographical areas served by shared housing funds.
- Tying the use of housing funds over time to national economic conditions.

Appropriately structured restrictions might offer the Federal Government an opportunity to shape programs toward its ends without taking complete responsibility for their administration. The following paragraphs discuss these three types of restrictions in detail.

The Use of Funds Should Be Targeted

The mix of uses of housing revenue sharing funds could be targeted directly or indirectly.

Directly: Specific appropriations could be made for specific purposes in the housing revenue sharing program (e.g., so many dollars for housing allowance, rehab, new construction). In effect, this would convert one housing revenue sharing program into three separate and individually funded programs. The drawback to a direct approach, however, would be that the program could become irrelevant or inoperable in certain areas. For example, some parts of the country may have a need for housing allowances that far outstrips any need for any new construction funds.

Indirectly: The housing revenue sharing program might provide a general set of incentives favoring one use of housing revenue sharing funds over another. For example, procedures for obtaining new construction funds might be made more difficult than those for rehab funds. Or eligible governments might receive entitlements "worth" more in maintenance or neighborhood conservation dollars than in gut rehab dollars. The major drawback to this approach, however, would be the uncertainty of total demand for housing funds, since that would depend on the decisions of eligible governments after funds were appropriated. In addition, because the approach is indirect it would have somewhat less impact on local decisions than a more direct approach.

An alternative approach would be to specify that the intent of the program is to emphasize rehabilitation, for example, and that a target figure of 50 percent of housing revenue sharing funds should be spent for this purpose. Governments would certify that their administration of program funds would be consistent with this objective. This approach clearly represents a weak tie between Federal and local government programming.

We favor an indirect approach to targeting the use of funds. The legislation would simply empower the Department of Housing and Urban Development to establish the appropriate administrative procedures for allocating funds subject to the uncertainty of eligible government decisions. (This should not be a major difficulty, however; for example, funds could be allocated in two rounds, the second not being distributed until all requests were available.) This kind of input from the Federal Government on the priorities for use of funds provides appropriate direction to eligible governments without completely constraining their ability to develop programs that meet their unique, local requirements.

The Geographical Mix Should Be Controlled

The amount of housing revenue sharing funds that an eligible government receives depends in part on an assessment of housing need in the area served by that government. In turn, that assessment will be based on some formula that could weigh urban, suburban, and rural housing needs differently. Thus the mix of areas served by housing revenue sharing could be influenced by the allocations of funds to governments.

This approach would be effective if eligible governments served essentially homogeneous areas. Then allocating funds to governments based on the type of areas served would be a

proxy for targeting funds to specific areas such as central cities. Few governments except the smallest, however, serve even approximately homogeneous areas. Even though New York City is entirely urbanized, for example, there are significant variations in housing problems from the suburban areas of Staten Island and North Bronx to the center-city ghettos of Harlem and Bedford-Stuyvesant.

If States are to be the prime recipients of these funds, then the lack of homogeneity would be especially apparent. For example, though Pennsylvania, New York, and Ohio are thought of as industrial, urbanized States, all three have significant areas of rural poverty and bad housing. Certainly, allocating funds to States would not achieve an appropriate mix of areas served by housing revenue sharing.

One alternative, therefore, would be to require eligible governments to spend their funds in rough proportion to the weight of factors in the basic allocation formula. For example, if a government received $1 million in housing revenue sharing, 75 percent of which was due to the housing problems represented by the central city (or cities) within that government's jurisdiction, it would be required to spend $750,000 in that city (or cities). This type of constraint would help focus funds and could be administered simply based on existing data.

If there were a national growth policy that defined priority growth areas by locale, then a more precise control might be required. For example, it might then be appropriate to constrain a portion of funds allocated to the States of Illinois, Indiana, Ohio, and Pennsylvania to the Chicago-Pittsburgh corridor. Without such a policy, however, stricter geographical controls could be counterproductive. One State might attempt to address the problems of its central cities by developing new towns in rural areas (as the Metropolitan Fund proposed in the Paired New Town concept for Detroit) while others might target central cities for substantial direct investment (as New York State has done through its Urban Development Corporation).

In the absence of a national policy, this variation in local solutions ought to be fostered. We therefore favor requiring eligible governments to spend funds in proportion to the weight of the geographical factor in the allocation formula. A certification of intent to direct the funds in this manner should be required, and reasonable spot checks or audits should be undertaken. Finally, governments should be provided some means of requesting exceptions to these limits for good cause (such as an approved development plan or program innovation).

Housing Funds Might Be Controlled Toward Other Ends

National economic policy issues frequently affect housing programs. The level of funding for housing programs determines the amount of activity. In fact, through its subsidy program, the Federal Government has one means of offsetting cyclical trends in the economy. To the extent that housing revenue sharing funds can be varied in amounts they represent a means of influencing the course of the economy.

The use to which housing funds are put may also affect the economy differentially. That is, the impact of a new construction dollar may be different from the impact of a rehab, maintenance, or housing allowance dollar. Such an assertion should be subject to analysis. Nevertheless, if it proves to be reasonably supportable, the ability to influence how revenue sharing funds for housing are spent would be an important tool by which the Federal Government would affect national economic policy.

Recent experience with economic "fine tuning," however, leads us to believe that housing programs should be designed for housing policy purposes. Changes in the level of funding or mix of uses should be a matter of housing policy and not economic policy. Therefore, we do not believe that strings for other than housing policy objectives, such as economic controls, are appropriate.

Additional Controls Would Be Necessary To Achieve Social Objectives

Federal housing objectives are not solely economic or developmental. There is also a significant social component affecting both economic equity and civil rights. In order to achieve these objectives, certain additional controls would be required:

- General eligibility and tenant selection rules should be specified in order to provide guidelines for program administration that is equitable across income groups
- Other relevant Federal social legislation, particularly that focusing on equal housing and employment opportunity, should be incorporated.

These objectives are important components of Federal housing policy. Many criticisms of

past programs have focused on social objectives as undermining the ability of the housing industry to build more housing. Simply building new units, however, is not the issue. Where those units are built, who builds them, and who lives in them is at least as important, since the answers to these questions provide the rationale for public involvement. Therefore, controls designed to achieve Federal social objectives should play a prominent role in the design of any housing revenue sharing program. The following paragraphs discuss the additional controls required in more detail.

General Eligibility and Tenant Selection Rules Should Be Defined

Equity considerations that have been objectives of Federal programs are two:

Vertical Equity: Equity between income groups. Vertical equity has been achieved by scaling subsidies and making them a function of the income of the beneficiary.

Horizontal Equity: Equity in the selection of beneficiaries from members of the same income group. Horizontal equity has been achieved by implementing certain tenant selection procedures.

New housing revenue sharing programs could work much the same way. For example, vertical equity could be achieved by specifying certain program characteristics such as subsidy limits, income limits, rent to income ratio limits, and target economic integration objectives. The enforcement for such limits would be a postaudit of projects or persons financed through these programs.

General guidelines for beneficiary selection could be incorporated in the law as a means of achieving horizontal equity. Alternatively, specific guidelines establishing the exact procedure could be spelled out. In either case, enforcement of the restrictions could be based on a report by the administrating of government on its procedures and audits of their performance.

Another way to incorporate these concerns into the housing revenue sharing program would be to require a certification by the unit of government administering the funds that they will meet certain minimum Federal standards for vertical and horizontal equity. A certification would be less direct than the specific incorporation of certain guidelines in the law itself. Nevertheless, if units of government were required to plan for these guidelines and incorporate them in their programs, and if they were required to certify that such plans would, in fact, be implemented, then the Federal Government might achieve a minimum level of control over the use of the funds. Certification requirements thus seem to be the minimum acceptable strings attached to housing revenue sharing in this case.

In determining the controls that are appropriate, the tension is clearly between too little specificity (in which case governments might not adequately serve lower income families) and too much specificity (in which case innovative programs and unique situations might go unexploited). Our belief is that, of the two, not enough specificity is the greater danger. Therefore, we would consider it appropriate to include income targets in the enabling legislation. Inclusion of these targets would be especially important if low income programs (such as rent supplements or low rent public housing) are among the programs to be replaced by housing revenue sharing.

The income levels themselves might be left to the Secretary of the Department of Housing and Urban Development to determine on an area-by-area basis. Targets for the number of beneficiaries in various income groups, however, could be specified in the legislation in such terms as "not less than ___ percent of the funds provided to each eligible government under this program shall be directed to low income families." Such limits would not render programs inoperable, as the limits associated with past programs have done. Rather, they would indicate to local governments the kind of programs they would be expected to design. At the worst, these limits would require deeper subsidies than current programs now provide in certain areas of the country, thus reducing the number of units that could be assisted.

Federal Social Legislation Should Be Incorporated

In addition to its focus on lower income families, the Federal Government has also been concerned with correcting racial imbalances in employment and housing opportunities through various civil rights acts. Thus the Government has required that builders be equal opportunity employers, that banks be equal opportunity lenders, and that landlords be equal opportunity providers of housing. A person aggrieved by a builder, a lender, or a landlord could seek injunctive relief or other remedies from the courts. Except in a few instances, the Federal Government did not become directly involved in either

integrating the building trades or prosecuting lenders or landlords.

A housing revenue sharing program administered by State and local governments would not disrupt this pattern of Federal involvement. The Federal Government would continue to set the appropriate rules. Aggrieved persons would continue to seek legal remedy. Thus, at this level, all that would be required would be reference to applicable Federal civil rights legislation in the statutes enabling the special revenue sharing program. Subsequently, the Federal Government should insist that each eligible government that receives and administers funds under the program obey the law of the land. Discriminatory zoning is illegal; refusing to rent units because of race, creed, or color is illegal; denying employment for similar reasons is also illegal. Impartial enforcement of the law is clearly the next step.

Beyond that, however, the housing program might provide administrative relief for complainants outside the court system. For example, if an eligible government acted in a manner contrary to the intent of the equal opportunity provisions of the civil rights acts (either directly by denying housing or employment opportunities, or indirectly by discouraging the provision of those opportunities to minority groups), complainants might seek administrative relief. The enabling legislation might provide for hearings within the Department of Housing and Urban Development and might determine the range of possible actions the Secretary of HUD could order. (The Better Communities Act contains comparable provisions.) These provisions should include actions against the government that distributed the funds and against the party directly responsible.

Such provisions are necessary because lower income families who are members of minority groups undoubtedly lack the resources necessary to pursue their cases in court. Therefore, some simpler, less costly recourse that would provide a prompt hearing and swift remedy would be appropriate. New organizational units within the Department of Housing and Urban Development may be required, but they are clearly appropriate.

Both legal and administrative decisions led HUD to specify administrative criteria for the approval of projects, including an analysis of the site itself in terms of its potential for providing equal opportunity housing. The enforcement of these rules projected the Federal Government directly into local political issues involving zoning and planning. As a result, the processing time on projects, an index of bureaucratic complications, increased.

Affirmative actions to achieve equal opportunity, however, should be the responsibility of the eligible governments receiving the funds. The Federal Government's role should focus on insuring that the standards and requirements of relevant legislation and court decisions are met. Of course, the Federal Government could provide planning and capacity building assistance. But the direct responsibility and accountability for affirmative actions should rest with governments receiving housing revenue sharing funds.

Controls on Housing Funds Should Address Regional Impact Problems

Spillover problems related to the administration of housing revenue sharing funds could be one of the most serious operating problems of this program. (These problems were discussed earlier in this paper.) In order to correct these problems and shape incentives that would lead governments involved in the program to account for overlapping housing markets, the Federal Government might include three controls on the revenue sharing program it implements:

- Selection of governments eligible to receive funds under the program might depend in part on their having an adequate overview of the relevant housing markets they would serve.
- The portion of a participating government's entitlement that is actually distributed might depend on an additional review of local market conditions.
- Participating governments might be required to document their plans for tying housing funds to other Federal programs such as community development.

Governments Eligible to Receive Housing Funds Should Be Limited

The most direct approach to insuring a reasonable overview of local markets would be to limit governments eligible to receive housing revenue sharing funds based on their size. Not every local government would be provided housing revenue sharing funds: They would go to State governments or regional units of government within the State or to large city governments. The State government (or the regional or city government) would be required to approve

and to develop and spend housing revenue sharing funds based on the needs of the whole area, taking into account the overlapping market areas.

The specific arrangements in each State might vary, subject only to the prior approval of the Department of Housing and Urban Development. In no case, however, should housing funds go to cities or regions of less than 1 million in population. In addition, where special regional units of government are created for the purpose of receiving and administering housing revenue sharing funds, the areas served by those units should correspond to the boundaries of the more important housing markets within those areas.

The decision on which governments at what level should be eligible for housing revenue sharing funds will be made for reasons other than regional impact problems. Nevertheless, from the regional point of view, it is clear that by restricting the number of eligible recipients, the Federal Government could achieve a better relationship between the program and local markets. This line of argument, therefore, suggests that State governments are appropriate eligible recipients, at least in the early stages of the program's development.

Funding Eligible Governments Might Depend on Local Market Conditions

To guard against the possibility of overbuilding for some groups and underserving others (leading eventually to defaults or wasted Federal funds), the Federal Government might require an annual review of local market conditions before releasing the funds to which the eligible government was entitled. Of course, some market data would have been included in the formula that estimated the original entitlement itself. Nevertheless, this formula would probably not be as responsive to changes in local market conditions as is necessary for an adequate accounting of regional impact. Therefore an additional market analysis requirement might be appropriate. The analysis would cover such elements as:

- Demonstration of the need for housing assistance by type of assistance (New construction, rehab, etc.) and by market served by the eligible government
- Relationship between the program for spending housing revenue sharing funds and the demonstrated market needs of the locality.

The analysis would be evaluated prior to a government's receiving funds authorized under the housing revenue sharing act. Presumably, the Federal Government could withhold some or all of the entitlement based on this analysis.

The drawback to this approach is the strictness of these controls. This means that there would be considerably more Federal involvement in the program (e.g., reviews and redrafts) than in a minimum-strings approach. But the Federal Government might be able to build the necessary analysis and review capability around the existing market analysis group in HUD. Thus this control, though strict, would be capable of fairly smooth implementation.

The advantage of this type of string is that it preserves some Federal input into the use of housing revenue sharing funds. In particular, it provides an appropriate vehicle for insuring that one community's plans do not overlap, compete, or conflict with the plans of nearby communities in the same general market area. This level of Federal input would be general, on an annual basis, not focused on a project-by-project review.

In our view, the advantages of this type of string outweigh the disadvantages, and it ought to be included. The market analysis requirement might be incorporated as part of an overall planning submission. In addition, it might serve an additional function of insuring that eligible governments do not overlook or underestimate this important administrative step. Therefore, the housing revenue sharing plan implemented by the Federal Government should require that local market needs be demonstrated before funds are actually disbursed.

Planning Requirements Should Be Specified

The administration of housing revenue sharing money should be related to other governmental efforts. Housing depends on an appropriate infrastructure of sewer and water facilities and highway and other transportation facilities. In addition tenants and homeowners need jobs or transportation to jobs that will provide incomes adequate to afford the housing. Both the infrastructure, the job, and the transportation to the job are often provided by local governments.

In addition, housing has impacts that need to be evaluated. The environmental impact of a new housing project, for example, is an important consideration in current programs. In addition, new housing development contributes to urban growth. Orderly urban growth is another consideration that is currently important to housing programs.

Preparing a housing plan may help the eligible government relate the housing funds available to it to the other programs that it and other governments in its area administer. Minimum planning requirements might be specified to insure that this important step is not slighted. The planning requirements would spell out the key elements of a housing plan. These elements might include the relationship between other expenditures of local governments and the proposed expenditures of housing assistance funds. In addition, a public review of the plan might be required.

Funds could be contingent on the plan or not. If they were contingent on the development of an acceptable plan, then a review capability would have to be developed by the Federal Government. If funds are not contingent, then the administering unit of government would only have to certify that it would meet the planning standards established by the law. Of course, its performance would be subject to audit.

The benefits of this planning requirement would be threefold:

1. The plan would be prepared infrequently. Currently, the environmental impact and urban growth impact of each project assisted with Federal funds is evaluated on a project-by-project basis. Requiring an annual overall plan would greatly simplify housing assistance programs.

2. A planning requirement provides an appropriate mechanism for coordination with other programs currently evaluated on a project-by-project basis. A planning requirement would simplify the consideration and review of the relationship between housing and other community development and social programs.

3. A well-thought-out plan would be subject to revision, not complete redrafting. Currently, impact statements and/or coordination programs are either developed from scratch for each project or reproduced from packaged statements. Rather than following this pattern, a well-thought-out plan could simply be revised to reflect the results achieved in previous years and the gradually evolving objectives of the administering units of local governments.

We feel that the benefits of this planning requirement are important enough to justify its inclusion in a housing revenue sharing program. The Federal Government's interest in insuring that programs are coordinated and the eligible government's concern for the businesslike administration of Federal housing funds both argue for a planning submission that is reviewed prior to the release of the funds to which the government would be entitled.

Program Controls Should Be Used to Offset Lack of Experience and Capability

One effect of a housing revenue sharing program would be to increase the responsibility of State and local governments for designing and administering housing programs. Because many of these governments have not previously had this responsibility, some controls would be needed to insure that minimum administrative standards and procedures had been established and were being implemented. To achieve this result, the Federal Government might:

- Promulgate minimum development standards intended to insure that minimum quality standards were met.
- Specify eligibility rules to remove one area of possible misuse of Federal funds.
- Require planning by the eligible government to coordinate programs and improve administration.

Ideally, these strings, if they were attached to revenue sharing programs for housing should not impose any burdens on well-run programs, because governments carrying out those programs would go through similar steps on their own. The additional work required of less well-run efforts should improve their administration, not hinder it. The following paragraphs discuss these strings in this context.

Minimum Development Standards Might Be Promulgated

As part of housing revenue sharing, the Federal Government might promulgate minimum code standards. Such standards would help insure that Federal monies are not spent either in overbuilding or underbuilding specific units. The tendency of local governments with "free" money might be to build palatial developments with luxury facilities. Alternatively, they might tend to underbuild units in terms of space and basic amenities. A Federal minimum code might be required to specify the band within which the administering unit of government can make independent quality decisions.

The code might be included in the housing revenue sharing act, or it could be promulgated independently in the associated rule affecting the program. An administering unit of government would be required to certify that it would stay within the bounds prescribed. Its actions would be subject to an audit.

The drawback of including minimum development standards is that they might be unnecessary. Local codes in many parts of the country are relatively severe already. In addition, because of Operation Breakthrough, many States now have statewide codes and some States are working toward performance codes that would simply specify minimum performance characteristics, not detailed construction characteristics. Therefore, inclusion of a Federal minimal code might be redundant and unnecessary.

Including a minimum development standard might also unnecessarily restrict the freedom of activity of the administering unit of government. Variations in quality standards are an important area for local input. The specific standards appropriate to an area may vary by region of the country. Thus, the ability of local managers to respond to local market conditions could become unnecessarily restricted.

Overall, we feel that adequate safeguards are now present in existing State and local ordinances. The risk of over-constraining localities, then, becomes greater. Therefore, short of an evaluation of State and local building codes with respect to their suitability for Federal programs, we believe that it is not necessary to include development standards in a housing revenue sharing program.

Eligibility and Planning Requirements Might Be Specified

In previous sections, we discussed the eligibility rules and planning requirements. It is clear that adoption of rules or standards covering these two areas would achieve multiple Federal objectives, including those related to improving the capability of eligible governments. For the reasons given in the previous sections, we favor incorporation of general eligibility rules, but we believe that a strong planning requirement is essential.

The rationale for including eligibility limitations emphasizes the risk of program abuse at the hands of inexperienced governments. The difficulty the Federal Government could expect in matching eligibility limits to local conditions and the likelihood of over-constraining possible program innovations are both arguments against including such limits in the basic program. Subsequent experience may show that specific eligibility limitations are useful. General income targets should be adequate for the early phases of the program however.

Planning requirements could serve a number of substantive program goals. For example, as we discussed earlier, planning requirements could be used to relate programs to local market conditions, to relate the programs of neighboring governments, and to coordinate housing and other programs of the same government. A strong planning requirement, however, could also aid eligible governments in formulating programs and establishing priorities. It might thus tend to enhance program administration as well. In short, carefully articulated planning submissions ought to be part of a housing revenue sharing program.

Special Provisions Should Be Made for Transition

Transition is a particularly difficult time. Agencies would have to reshift their thinking and their procedures. Developers and participants in the program would have to learn the new rules. And the programs would have to be communicated adequately to beneficiaries. Restrictions during the transition period should therefore specify the Federal role, eligible recipient requirements, and capability efforts.

The Federal role during transition should focus on building capability and determining when administering units of government are ready to assume administrative responsibility. This would require developing training programs for the Federal Government and appropriate tests of local capability. The distribution of Federal funds might be contingent on approval by the Federal Government of the capability of the administering unit of government that will receive the funds. (The Federal Government would also have to develop a transition and capacity building expertise of its own focussing on the administration of an entirely new program.)

Eligible recipient requirements should be developed to clarify which units of government will ultimately become responsible for housing revenue sharing funds. These requirements could be built into the legislation. Alternatively, they might simply be mandated into legislation and promulgated as rules and regulations developed subsequently. Developing them outside the legis-

lation itself would provide more flexibility for the Federal Government and more time to develop realistic assessments of local government capabilities.

Finally, certain capacity building efforts would be appropriate to the transition. In addition, the administering unit of local government might not become eligible to receive funds until it had completed the appropriate series of capacity-building steps. The design of the capacity-building program, however, should be outside the legislation itself.

Transition to a housing revenue sharing program would pose as much challenge to the Federal Government as to State and local governments. Program controls are clearly necessary until both the Federal Government and the governments that are eligible recipients of these funds are prepared to execute their new roles and responsibilities. A detailed discussion of the transition requirements (for either party) is beyond the scope of this report. Nevertheless, it is clear that minimum legislative provisions for conversion to revenue sharing for housing should include designation by the eligible government of the organizational unit that will receive, program, and administer the funds and a certification of the capacity of that unit to meet minimum program standards by the Department of Housing and Urban Development. The legislation might provide for a "phased" introduction of housing revenue sharing, beginning with those governments that demonstrate eligibility. Capacity-building programs might then be mandated for the remaining governments.

Summary

The tension between the interests of the Federal Government and the interests and abilities of State and local governments are particularly apparent in housing programs. This conflict is "rational" in that it is based in the fundamentally different viewpoints of the different levels of government—and therefore, it will not simply go away. A workable housing revenue sharing program must account for these differences of viewpoint by including an appropriate set of restrictions and controls. Although the strings we have discussed in the preceding sections are relatively extensive, we feel that they are essential additions to a minimum-strings program.

Implications of Short Term Funding of Housing Revenue Sharing

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The Better Communities Act sets a precedent for 5-year authorizations for special revenue sharing programs. If 5-year funding is the pattern for housing revenue sharing programs as well, housing programs would be affected in two ways:

- The number of units assisted would be reduced. Every alternative to the existing mortgage interest reduction programs implies a significant cutback in the number of units receiving public assistance.
- Governments administering housing programs would probably shift their housing strategies toward those subsidy schemes that would potentially assist the greatest number of units. Possible alternatives would be rehabilitation, mixed income (or shallow subsidy) developments, and producer bonuses.

These consequences are not explicitly part of a revenue sharing program. Presumably, the impact of short term funding could be mitigated by maintaining some long term, mortgage interest reduction payment contract authority or by establishing a housing trust fund from which payments to localities would be made on an annuity basis over a period longer than 5 years. Nevertheless, as clear implications of a housing revenue sharing program with 5-year authorizations, they deserve analysis.

In this paper, we review in a preliminary way the economic and strategic consequences of short term funding. The first section demonstrates the economic implications of nine housing assistance programs that might be undertaken by State or local governments. We focus on the number of units that can be assisted per $1 million of revenue sharing funds and on the rent reduction achieved by the various programs. In the second section, we outline some of the strategic issues that States and local governments administering housing revenue sharing funds may face.

Economic Implications of Short Term Funding of Housing Revenue Sharing

No matter how well designed a housing program may be, one conclusion must be accepted; short term financial commitments will lead to a decline in the number of housing starts and rehabilitation projects undertaken. Nonetheless, a number of different strategies can be attempted to achieve an increase in the housing supply and a higher and better utilization of existing housing stock:

- Front-end subsidies for capital write-downs and interest rate reductions.
- Front-end subsidies spread out over 5 years.
- Direct loans.
- Shift in emphasis to more rehabilitation projects.
- Projects with a greater economic mix.
- Insurance pools.
- Increase statutory powers of State Housing Finance Agencies.
- Shift subsidies to the producer rather than the financier.

Exhibit 1
Comparison of Housing Production Using Different Strategies

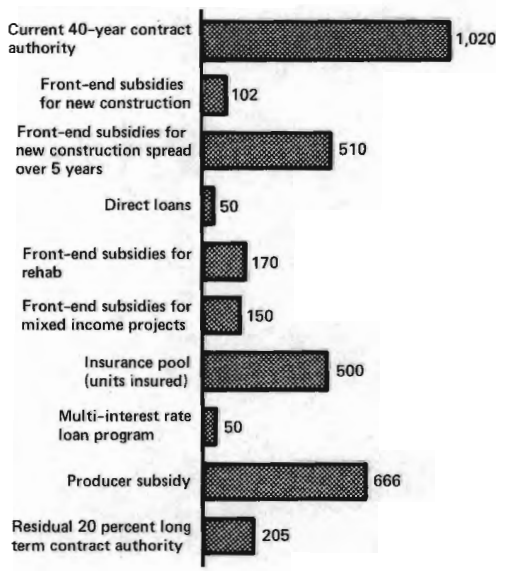

Table 1. Comparison of Housing Production and Rent Levels Using Different Strategies

Program Summary	Number of Units Financed in Year 1 For $1 Million In Subsidies	Subsequent Units Financed	Debt Service Per Unit
1. Base Case Section 235/236 40-year subsidies	1,020	None ($1 million annual obligation)	$ 50.76
2. Front-end subsidy lump payment	102	None	50.76
3. Front-end subsidy spread over 5 years	510	($1 million annual obligation, 5 years)	53.99 (average)
4. Direct loan (4 percent rate)	50	2.5 in year 2 4.4 in year 3 4.7 in year 4 4.9 in year 5 5.0 in year 6 and thereafter	84.30
5. Front-end subsidy for rehabilitation	170	None	30.46
6. Front-end subsidy for mixed income project	150	None	50.76
7. Insurance pool	500	50 in year 2 50 in each subsequent year	$ 99.80
8. Loan program of State Finance Agency 40 percent of units subsidized to 1 percent level 60 percent at 7½ percent	50	None	132.35/50.76
9. Producer subsidies	666	None ($1 million annual obligation, 5 years)	66.00
10. Residual long-term contract authority (20 percent of funding) 40-year subsidies	205	None ($200,000 annual obligation)	50.76

- Maintain some long term contract authority.

The potential housing starts under these programs compared to existing Section 235/236 capability is illustrated in Exhibit 1. The effect of these programs on rents is compared in Table 1. Clearly, the exhibit and table show that short term funding strategies can provide a wide range of both housing starts and rent levels. The following sections review these alternatives in detail.

Front-End Subsidies

Capital writedowns and interest rate reductions can lower per-unit rent, but their costs will significantly limit the number of new housing starts possible if financed in the short run. Subsidies to lower housing costs can be aimed at any of the components that make up total rents, but such subsidy approaches have different levels of efficiency.

Table 2.

Item	Rent Impact of 10 Percent Reduction
Land cost	0.6%
Construction cost	2.8
Total capital cost	4.7
Mortgage term	1.3
Loan interest rate	3.5
Operating costs	3.1
Taxes	1.7

Source: Ohio Project Profile.

Current programs have been most successful in encouraging new housing projects with guarantees of Federal subsidies to reduce interest rates. But in guaranteeing the money to pay the difference between a market loan of 7.5 percent and a tenant rate of interest equivalent to 1.0 percent, the Government incurs a 40-year financial obligation. Such long term commitments can be telescoped into a front-ended subsidy in

either a lump sum or spread out over a period of 5 years. But despite the efficacy of front-ended subsidies in reducing rent levels, they inevitably cannot stretch housing dollars across as many new units as a subsidy over 40 years. For example:

- Given $1 million for housing under a program like Section 236, subsidizing the difference between 7.5 percent and 1 percent on a $20,000 mortgage over 40 years costs the government $980 per year. This represents the difference between a yearly payment of $1,588 at 7.5 percent and a yearly payment of $608 at 1 percent. (Note that 7.5 percent represents the federally determined market interest rate.) Thus, $1 million in housing funds could subsidize the production of 1,020 units in the first year, but entails a continuing $1 million obligation for each of 40 years.

- In contrast, a front-end subsidy, or lump-sum payment, can reduce interest rates without long term annual obligation. Presumably, such subsidies would be most effective when applied by State and local governments to reduce the interest on a low rate bond. A $20,000 mortgage over 40 years, financed by a tax-exempt bond with an interest rate of 5.2 percent,* requires a lump sum subsidy of $9,828 to reduce the interest rate to 1 percent level over the life of the mortgage.

Thus, $1 million for housing could provide this kind of a subsidy for 102 new units. Clearly, this is a drastic reduction from the 1,020 new units that can be funded for the same amount under a 40-year contract authority. This tenfold decrease in housing starts underlines the importance of seeking further financing alternatives.

Front-End Subsidies Over 5 Years

There are no appreciable savings by spreading out a front-ended subsidy over the first years of a mortgage. In spreading out the financing of $20,000 equally over the first 5 years of a 40-year mortgage of 5.2 percent, the resulting subsidy totals $9,560 after 5 years:

Table 3.

Year	Amount	Term	Front-End Subsidy
1	$4,000	40 years	$1,965.65
2	4,000	39	1,939.54
3	4,000	38	1,912.73
4	4,000	37	1,885.22
5	4,000	36	1,856.98
		Total subsidy in 5 years =	$9,560.12

This figure of $9,560.12 after 5 years represents a savings of less than 3 percent over the lump sum payment of $9,828.00. The timelags associated with housing projects from funding and planning through construction will probably make such a spread subsidy desirable. The spread subsidy also allows for more initial starts (510 in the first year). (In addition, interim financing costs required to carry the investment over the 5-year period could well erase the 3 percent advantage of spread subsidies.)

Direct Loans

Direct loans can be made available as a primary use of revenue sharing funds. This would not result in many new starts, but would result in a housing "trust fund" that could be used in later years for maintenance or new housing starts. Housing funds of $1 million made available as direct loans would finance 50 housing starts at $20,000 each. These loans, and their consequent debt service, could be made at an appropriate level below the market interest rate depending on the eligible recipient's income. For example, $1 million loaned over 20 years at 4 percent (debt service = $84.30/month) could have the following return:

Table 4.

Year	Amount Lent	Amount Received On Previous Year	New Units	Cumulating New Units
1	$1,000,000	—	50.0	50.0
2	50,523	$50,523	2.5	52.5
3	25,526	76,049	3.8	56.3
4	12,897	88,946	4.4	60.7
5	6,516	95,462	4.7	65.4
6	3,292	98,754	4.9	70.3

Thus, $1 million loaned at 4 percent would return sufficient interest and principal payments to finance several new starts each year. As the table shows, new starts would stabilize at about five per year after several years. While this finance power is not great, "costless" additional housing units in subsequent years may make this option attractive for some recipients. Certainly State and local jurisdictions which cannot find alternative sources of finance should consider such a program.

* This 5.2 percent represents the latest 20 Bond Municipal Index; it is the typical rate to be used throughout the rest of the paper.

Rehabilitation

Because the cost of rehabilitation programs is less than the cost of comparable new units, short term housing strategies should place additional emphasis on rehabilitation projects. The cost of a rehabilitation project averages around 60 percent of a new housing start. Thus, instead of financing a $20,000 new unit, financing for a rehabilitation project would only be necessary for $12,000. If the bond rate is 5.2 percent, subsidizing the debt service to 1 percent in the front-end requires a capital grant of $5,897. With a given $1 million in housing funds, 170 rehabilitation projects could be undertaken.

The major benefit of a shift to rehabilitation is in lower construction costs. Housing dollars produce more rehabilitation than new units because the subsidies go further. But while rehabilitation helps to maximize housing units under the constraint of short term funding, federally funded rehabilitation projects subsidized over 40 years support a much greater number of units: $1 million in contract authority over 40 years will provide funds for about 1,391 rehabilitation starts. Even with significantly lower construction costs, short term funding aimed at interest rate reduction will result in decreased production.

Greater Tenant Economic Mix

Given the scarcity of capital in the short run, there would be an additional incentive to develop mixed income housing projects. This would assure an increased housing supply while at the same time furthering social objectives.

As the following table shows, both the number of housing starts and the amount of rent reduction depend on the depth of the subsidy:

Table 5.

Depth of Subsidy	Capital Grant Required Per Unit	Number of Units Per $1 Million	Debt Service Per Month	Rent Reduction * Per Month
4.2%	$9,828	102	$50.76	$82.24
3.2	7,790	128	60.93	71.07
2.2	5,550	180	72.10	59.90
1.2	3.125	320	84.21	47.79

* Rent reduction is calculated as the difference between this subsidized debt service and the debt service on the base case of $20,000 at 7.5 percent for 40 years.

Clearly such a strategy is particularly attractive for an all-middle-income project. An interest reduction of just over 1 percent (from 5.2 percent to 4 percent) requires a front-end subsidy of only $3,125/unit. One million dollars in payments for such a modest reduction would provide subsidies for 320 new housing units.

Even a thoroughly mixed project can stretch housing dollars across more units. For example, $1 million in front-end subsidies could produce the following mixed project:

- Forty units subsidized from 5.2 percent to 1 percent (capital grant = $9,828/unit, debt service = $50.76)
- Forty units subsidized from 5.2 percent to 2 percent (capital grant = $7,790/unit, debt service = $60.93)
- Thirty units subsidized from 5.2 percent to 3 percent (capital grant = $5,550/unit, debt service = $72.10)
- Forty units subsidized from 5.2 percent to 4 percent (capital grant = $3,125/unit, debt service = $84.21).

This totals 150 units in a mixed, front-end subsidy project. Given the constraints of short term funding, this option offers both increased production capacity and desirable social consequences.

Insurance Pools

To guarantee loans or other mortgage money needed for housing development, Federal funds could be placed in insurance pools. In effect, these would operate as cash reserve funds to guarantee mortgages in case of default. Given what is a conservative margin of 10-to-1, $1 million in Federal funds could be used by the local jurisdiction to open access to up to $10 million mortgage money. This money, however, becomes effectively frozen for the term of the insurance period except for investments. Furthermore, it offers no reduction in rent levels.

There are important advantages in continuing a Federal insurance program. The effects leaving municipalities to guarantee their own bonds or mortgages could have disastrous consequences for the housing strategies of many States and localities. The bonding capacity of many communities is already strained. Where the State constitution requires a two-thirds majority for passage of local bond issues, housing bond issues could have difficulty in passing in the areas where they are most needed. Furthermore,

institutional investors are unlikely to be attracted to bond issues that are not guaranteed for a long period by the Federal Government. A recent $40 million bond issue for housing in the city of Newark, New Jersey, backed by the "full faith and credit" of Newark, carried an interest rate of 8.25 percent. Clearly, the full faith and credit of some communities are not enough.

At such high rates, debt service rises sharply. To front-end a subsidy for a debt service so large is impractical. To subsidize the difference between an 8.25 percent bond rate and the effective 1 percent rate to be paid by the tenant, a front-end subsidy of $12,927 is needed on a $20,000 mortgage financed over 40 years. Where the finance cost approaches the total construction cost, another method of financing is clearly indicated. The feasibility of a number of State and local housing projects may hinge on a Federal insurance program.

Increased Powers for SHFA

The future delineation of responsibilities and roles between State and locality is not yet clear. But because of its financial powers and its ability to target housing markets (that are not always the same as jurisdictional boundaries), a State housing finance agency can do much to raise needed capital.

There are now 24 State housing finance agencies. The purpose of these agencies is primarily to increase the available supply of mortgage money and to lower its cost to the homeowner by capitalizing on the State's bonding capacity. An interest subsidy program can be costless to the State. The agency in effect borrows funds by issuing long term tax exempt bonds—and then issuing loans to developers at a rate determined by adding a small service charge to the nominal rate of SHFA bonds. But, the SHFA could finance additional loans at below the normal interest rate by issuing loans at above its borrowing rate.

At present, the excess earnings on such loans is limited by Treasury rules. However, an increase in such statutory limitation could significantly strengthen the financial power of State agencies. For example, if a SHFA issues $1 million in tax exempt bonds for 40 years at 5.2 percent and makes 60 percent of its loans at 7.5 percent, it makes an income of $11,730 per year over the repayment of its bond issue. This income would allow the SHFA to make the remaining 40 percent of its loans at lower interest rates. In fact, the cost of subsidizing the remaining 40 percent of the loans from 5.2 percent to 1 percent comes to $11,792 per year; almost the entire interest rate subsidy program can be financed by the additional income earned by the SHFA on its higher interest loans.

To be sure, such a program puts the SHFA in direct competition with other conventional institutional lenders. But this is an important source of funding that can do much to raise needed finance capital.

Producer Subsidies

Traditional methods of housing finance have subsidized the financier. By subsidizing the cost of capital, unit costs have been reduced, and rents have been lowered. But as we have seen, this method is extremely costly in the short run. An alternate strategy, as yet untried, would be to subsidize the producer directly. The following example will demonstrate the benefits of such a strategy.

A producer usually puts up 10 percent equity. Thus, for a $1,954,189 project, the producer puts forward an equity of $195,419. (This is not, of course, a cash equity. Given BSPRA, the cash equity may be as low as $15,000.) When rent, tax, cash flow, and depreciation have been calculated, this investment brings a total benefit return of about 11.5 percent per annum across a 30-year stream (see Exhibit 2). The remaining 90 percent of the project is financed through a bond at 6 percent over 40 years. Debt service equals 97.40 per month. As we have noted, the cost of front-ended subsidies aimed at reducing this debt service sets a low limit on possible construction ($1 million could only subsidize 92 units of $20,000 from 6 percent to 1 percent over 40 years).

If the producer were to put up a greater equity, however, and if he were to be given a direct subsidy for each unit produced, interesting results would follow:

- Producer contributes 40 percent equity
- $1,500 cash subsidy per unit is paid for each unit constructed for each of 5 years.

Calculating this subsidy in addition to rent, cash flow, depreciation, and tax loss, the 40 percent equity will yield about 17 percent per annum over a 30-year stream (see Exhibit 3). Even when the cash return on equity limit is lowered to 3.5 percent, the yield with the $1,500 per unit subsidy is about 13.5 percent. This is an attractive package; with 10 percent equity, return was only 11.5 percent (see Exhibit 4).

Exhibit 2. Total Benefits from a Typical Project

YEAR	RENT	BTOCF	DEPR	TAX LOSS	BTOCF + TAX GAIN
1	284729	11725	75278	−52189	37819
2	284729	11725	71514	−47743	35596
3	284729	11725	67939	−43444	33447
4	284729	11725	64542	−39281	31366
5	284729	11725	61315	−35242	29346
6	284729	11725	58249	−31316	27383
7	283729	11725	55336	−27491	25470
8	284729	11725	52569	−23757	23603
9	284729	11725	49941	−20103	21776
10	284729	11725	47444	−16519	19984
11	284729	11725	45072	−12995	18222
12	284729	11725	42818	− 9520	16485
13	284729	11725	40677	− 6085	14767
14	284729	11725	38643	− 2679	13064
15	284729	11725	36711	707	11371
16	284729	11725	34875	4084	9682
17	284729	11725	33132	7462	7993
18	284729	11725	31475	10851	6299
19	284729	11725	29901	14261	4594
20	284729	11725	28406	17702	2873
21	284729	11725	26986	21185	1132
22	284729	11725	25637	24721	− 635
23	284729	11725	24355	28321	− 2435
24	284729	11725	23137	31996	− 4273
25	284729	11725	21980	35758	− 6153
26	284729	11725	20881	39617	− 8083
27	284729	11725	19837	43588	−10069
28	284729	11725	18845	47682	−12116
29	284729	11725	17903	51912	−14231
30	284729	11725	17008	56293	−16421
EQUITY			195419.		
TOTAL BSPRA			150558.		
LETTER OF CREDIT			35175.4		
INITIAL CASH INVESTMENT			80036.7		

BASE CASE: 100 Units
$20,000/Unit Construction Cost
10 Percent Equity
5 Percent Return on Equity
40 Year, 6 Percent Mortgage

Further, the debt service in the unsubsidized case was $97.40 per month. With 40 percent equity, the 6 percent mortgage is needed on a smaller amount, about $12,000 per unit. The debt service on such a mortgage is only $66 per month. If such a debt service is acceptable, all subsidies can go to the producer, thus providing 666 new units for $1 million in the first year. ($1 million will also be required in years 2 to 5.)

However, debt service can be reduced even further. A capital grant of $6,501 will subsidize the interest rate from 6 to 1 percent, leaving a debt service of $30 per month. One hundred such units can be subsidized for $650,000. Overall, the initial subsidy per unit equals:

$1,500 per unit to producer
6,500 per unit to reduce interest rate
$8,000 per unit total subsidy per unit

For a given $1 million subsidy, 125 units can be produced. Such a short term subsidy program that includes producer subsidies is about 25 percent more effective than front-end interest reduction programs alone. However, annual producer subsidies of $187,500 are required in years 2 to 5.

Because this strategy produces a relatively low rent per unit of $225 without interest rate reductions, it is also particularly attractive for a mixed income project. With the interest rate subsidized for one-half of the units (and with relatively low debt service on the remaining units), $1 million in producer and financier subsidies could fund an extremely attractive 210 unit mixed income project. (Annual producer subsidies of $315,000 are required in years 2 to 5.)

The producer-subsidy strategy is summarized in Table 6.

Exhibit 3. Total Benefits from Producer Subsidies

YEAR	RENT	BTOCF	DEPR	TAX LOSS	BTOCF + TAX GAIN	SUBSIDIES
1	275078	46900	75278	−20802	57301	150000
2	275078	46900	71514	−16583	55192	150000
3	275078	46900	67939	−12525	53163	150000
4	275078	46900	64542	−8618	51209	150000
5	275078	46900	61315	−4849	49325	150000
6	275078	46900	58249	−1210	47505	0
7	275078	46900	55336	2310	45745	0
8	275078	46900	52569	5722	44039	0
9	275078	46900	49941	9034	42383	0
10	275078	46900	47444	12256	40772	0
11	275078	46900	45072	15396	39202	0
12	275078	46900	42818	18463	37668	0
13	275078	46900	40677	21467	36166	0
14	275078	46900	38643	24416	34692	0
15	275078	46900	36711	27318	33241	0
16	275078	46900	34875	30181	31809	0
17	275078	46900	33132	33014	30393	0
18	275078	46900	31475	35826	28987	0
19	275078	46900	29901	38623	27588	0
20	275078	46900	28406	41416	26192	0
21	275078	46900	26986	44212	24794	0
22	275078	46900	25637	47019	23390	0
23	275078	46900	24355	49846	21977	0
24	275078	46900	23137	52702	20549	0
25	275078	46900	21980	55595	19102	0
26	275078	46900	20881	58535	17632	0
27	275078	46900	19837	61530	16135	0
28	275078	46900	18845	64590	14605	0
29	275078	46900	17903	67724	13038	0
30	275078	46900	17008	70943	11428	0
EQUITY			781675.			
TOTAL BSPRA			150558.			
LETTER OF CREDIT			23450.3			
INITIAL CASH INVESTMENT			654568.			

NOTE: Equal = 40 Percent of Project
Return on Equity = 3.5 Percent

Residual Long Term Contract Authority

Clearly, even the best of the front-end subsidy programs results in a decreased number of units started. To maintain an acceptable level of new housing starts, the Federal Government must guarantee part of its program to contain contract authority over a long term of about 40 years. This can be a relatively small portion of the HUD annual budget, but it must be an annual obligation for 40 years. If 20 percent of the HUD revenue sharing funds were to be guaranteed as long term subsidies, such contract authority could increase housing starts drastically. Given $1 million in Federal revenue sharing funds for housing, 20 percent reserved as contract authority could finance 205 new units. States or localities could choose any one of a number of combination strategies, depending on their current needs. Housing production using different short term strategies in conjunction with 20 percent residual contract authority is compared in Exhibit 5.

Exhibit 5
Comparison of Housing Production Using Different Strategies +20 Percent Residual Contract Authority (RCA)

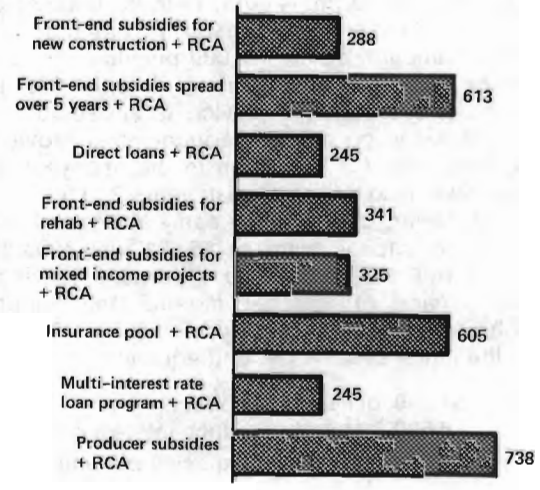

Exhibit 4. Total Benefits from Producer Subsidies with Reduced Cash Return on Equity

YEAR	RENT	BTOCF	DEPR	TAX LOSS	BTOCF + TAX GAIN	SUBSIDIES
1	255536	27358	75278	−40343	47530	150000
2	255536	27358	71514	−36125	45421	150000
3	255536	27358	67939	−32067	43392	150000
4	255536	27358	64542	−28160	41438	150000
5	255536	27358	61315	−24391	39554	150000
6	255536	27358	58249	−20751	37734	0
7	255536	27358	55336	−17231	35974	0
8	255536	27358	52569	−13819	34268	0
9	255536	27358	49941	−10507	32612	0
10	255536	27358	47444	−7285	31001	0
11	255536	27358	45072	−4145	29431	0
12	255536	27358	42818	−1077	27897	0
13	255536	27358	40677	1925	26395	0
14	255536	27358	38643	4874	24921	0
15	255536	27358	36711	7776	23470	0
16	255536	27358	34875	10639	22038	0
17	255536	27358	33132	13472	20622	0
18	255536	27358	31475	16284	19216	0
19	255536	27358	29901	19081	17817	0
20	255536	27358	28406	21874	16421	0
21	255536	27358	26986	24670	15023	0
22	255536	27358	25637	27477	13619	0
23	255536	27358	24355	30304	12206	0
24	255536	27358	23137	33160	10778	0
25	255536	27358	21980	36053	9331	0
26	255536	27358	20881	38993	7861	0
27	255536	27358	19837	41988	6364	0
28	255536	27358	18845	45048	4834	0
29	255536	27358	17903	48182	3267	0
30	255536	27358	17008	51401	1657	0
EQUITY			781675.			
TOTAL BSPRA			150558.			
LETTER OF CREDIT			23450.3			
INITIAL CASH INVESTMENT			654568.			

Note: Equity = 40 Percent of Project.
Return on Equity = 3.5 Percent

Strategic Implications of Short Term Funding of Housing Revenue Sharing

There are several major advantages to short term programs:

Flexibility: New projects can be started yearly in response to new housing needs and utilizing new housing technology.

Administrative Efficiency: Lump-sum payments, or even those spread across 5 years, reduce long term administrative costs.

Fiscal Freedom: With no long term obligation (or a minimal one), the Federal Government is free in the future to shift its resources to new programs.

However, the proposed shift from direct housing production and assistance programs to support given to subordinate jurisdictions raises significant problems for housing strategies. Current Federal programs (Sections 235, 221, etc.) have financial time horizons of up to 40 years. New programs to be funded by proposed revenue sharing money cannot be guaranteed for more than the time period of the revenue sharing bill; in the Better Communities Act, this period was 5 years. Given the current housing needs and prevalent standards of institutional investment and mortgage financing, new programs will be necessary to achieve target goals of housing production and assistance programs.

Current plans for a short term strategy promise greater local autonomy, but lesser financial resources in a shortened time horizon. The withdrawal of the Federal Government as a major actor and guarantor in the housing field can have an immediate negative impact:

- Lenders, such as savings and loan associations, may not come forth with funds if repayment is not guaranteed.

Table 6. Comparison of Producer and Financier Subsidies With Varying Equity Requirements (100-Unit Project)

	Percentage Equity	Cash ROE	Front-End Subsidy (Interest-Rate Reduction)	Developer Subsidy (Required For Each of 5 Years)	Units Subsidized With $1 Million *	Rent	Debt Service
Plan 1							
Base case	10%	6.0%				$250	$97
Plan 2							
Front-end subsidy	10	6.0	$975,000		103	199	46
Plan 3							
Developer subsidy with 6 percent ROE	40	6.0		$150,000	666	241	66
Plan 4							
Developer subsidy with 3.5 percent ROE	40	3.5		150,000	666	224	66
Plan 5							
Front-end subsidy and developer subsidy	40	3.5	650,000	150,000	125	196	30
Plan 6							
Combined Plans 4 and 5; mixed project; interest rate subsidized for							
50 percent of units only	40	3.5	325,000	150,000	210	196 224	30 66

* Implies various levels of continuing producer subsidies in years 2 to 5.

- Contractors may not undertake a number of high risk projects if they are not guaranteed subsidies.
- Local authorities may be unable to raise their own sources of finance capital; alternately, the cost of such finance may be prohibitive.
- Housing recipients, besides facing a decreased supply of housing, will find that local jurisdictions are unlikely to assume rent supplement programs.

None of these results would necessarily take place, but the short term features of revenue sharing funds are certain to elicit appropriate short term responses. Municipalities, for example, would rather spend their money on one-time commitments than in assuming the burdens of social services that would be politically difficult to cut back if revenue sharing funds were to be cut off or decreased in future years. There is already some evidence that this will prove to be the case with Federal funds. An April survey of the Federal Revenue Sharing office showed how 770 communities had developed their priorities for the use of Federal funds. Seventy-two percent of all local governments and 82 percent of all large (over 250,000 population) cities spent their funds for capital improvements. The lowest priority (only 8 percent of all local governments, 16 percent of large cities) was for social services for the poor and aged.

Rent supplement programs are thus unlikely to be developed from Federal revenue sharing funds on the local level. But as we have seen, State and local jurisdictions will still have a wide range of programs available to them under short term funding. We expect that an individual community's circumstances will determine its own choice of optimal programs.

An older city with a housing shortage, for example, might find rehabilitation to be its best strategy. As we have seen in an earlier section, the lower per-unit cost of rehabilitation projects means that short term funding can be spread out over more units. A city may well decide that the 170 low-interest rehabilitation units produced for $1 million in front-end subsidies fulfills its needs more than the 102 new units produced for the same amount. Given a choice, the city would probably also take as much contract authority as

possible; long term interest rate reduction contract authority remains the most efficient means to increase housing supply.

Suburban areas with housing shortages may well look toward housing projects with a greater tenant economic mix. Giving subsidies at various depths to income-qualified tenants can result in a substantial increase in housing starts. A 320 unit project could be subsidized for $1 million if interest rates are subsidized 1.2 percent in the front end; it could fund a 150 unit project with subsidies at depths varying from 1.2 percent to 4.2 percent. Such mixed economic projects also recommend themselves to cities on both social and financial grounds.

Local jurisdictions that have already strained their debt capacity will probably seek sources of funding outside of their own bond issues. Some cities may wish to set up their own finance agencies with a debt ceiling distinct from that of the city as a whole. Other cities and suburban areas will seek greater cooperation with State housing finance agencies, particularly if the SHFA is given greater statutory powers. Where no finance is obtainable, localities may choose a direct loan program.

The constraints of short term funding will undoubtedly force State and local governments to think hard about their housing needs. But because Housing Revenue Sharing could offer programs with a wide choice of production capacity and rent levels, State and local jurisdictions should be able to deal effectively with their housing problems.

What Current Federal Housing Functions Should Be Moved to State or Local Government or to the Private Sector?

By Robert J. Harris
Harris and Lax

Summary

With minor exceptions, no more housing functions should be shifted from the Federal Government to either the private sector or to State or local government.

However, it would increase local government options somewhat if current earmarking of public housing development appropriations as between conventional and leased public housing were removed. And it would increase options for private sponsors of moderate income housing if the appropriations for Sections 235 and 236 were merged. If concentrated code enforcement's tendency to dispossess some poor owners without compensation were cured by some redesign of that program, it would be wise to merge the CCE and urban renewal appropriations too.

The decentralization and privatization proposals considered and rejected include: (a) Requiring local and/or State match in subsidized housing programs; (b) block grants of various kinds; (c) formula allocation of public housing capital development money; (d) a "needs" formula for allocation of public housing operating subsidies; (e) State or local administration of the public housing functions now performed by HUD; (f) State or local administration of rent supplement, Sections 235, 236 functions now performed by HUD; (g) State or local making of the eligibility and other rules governing federally funded subsidized housing programs conducted within the jurisdiction; (h) delegating rulemaking, allocation, or administration of FmHA programs to the States; (i) restricting the FHA (and VA) mortgage insurance role and promoting private mortgage insurance to replace it; (j) giving State or local government more of a role in the blight control programs (e.g., urban renewal, concentrated code enforcement) with respect to fundraising, allocation, rulemaking, or administration; (k) replacing (public-sponsored) public housing with (private-sponsored) rent supplement housing; (l) delegating secondary mortgage market operations to the States.

In addition, there is a comparison of costs and benefits of leased versus conventional public housing, concluding that there is no clear superiority of either variant without a tight rental housing market.

Appendix III presents a rough proposal to facilitate large, private residential construction/merchandising companies playing a larger role in the market: Federal aid to local government would allow the latter to develop raw land and sell it to the construction/merchandising companies "ready-to-go"—zoned, platted, subdivided, with onsite and offsite water, sewer, roads, etc., in place.

Introduction

The Topic

This paper explores current Federal functions in housing that might be moved to State government, local government, or the private sector. The shift to State and/or local government is referred to as "decentralization," and the shift to the private sector as "privatization." It does not explore shifts in the opposite direction. It does not explore the wisdom of certain current functions to determine if they should be scrapped altogether.

Two Inconsistent Goals: Program Effectiveness and Decentralization

In considering transferring current Federal housing functions to the States or to the local government units, one is encouraged towards such transfers by the idea of decentralizing big government. On the other hand, in many situations it is pretty clear that cost effectiveness will be reduced by decentralization. If one looks only at Federal annual appropriations and fails to ask what is being purchased with this Federal expenditure, a decentralization proposal might appear promising; but when one looks further and discovers, as is often the case, that the quantity and quality of what is being purchased for housing occupants with the Federal dollar declines with decentralization of certain kinds, the question must be faced: Which do we want more, decentralization or effectiveness? For purposes of

this paper, I have assumed that cost effectiveness is preferable to further decentralization or privatization.

Two Inconsistent Goals: Effective Administration Versus Reducing Criticism of the Federal Government

Housing programs are a political headache for whoever runs them. By thrusting them off to States, cities, and counties, the Federal Government can reduce criticism of itself. However, such a thrusting off sometimes must involve a reduction in the effectiveness of the program. I have assumed that when good public relations for the Federal Government collides with good program management, the readers of this paper are more interested in good management than good PR.

Two Inconsistent Goals: Reduction of Federal Personnel Versus Quality Control over the Products of Federal Programs

I have assumed that readers of this paper are more interested in maintaining a decent level of quality control in housing programs that are federally funded than in reducing Federal bureaucrats to the absolute minimum level possible. Hence, where a conflict arises between these two goals, I have indicated the superiority of that course which assures some reasonable level of quality control.

Two Inconsistent Goals: Increasing Local Options Versus Maintaining Federal Support for Housing Subsidies for Low Income Families

Given the unpopularity of subsidized housing for nonelderly, low income families, and given local government's responsiveness to what is popular, the dilemma often arises: Do we prefer to maximize local government's options—including the option to provide no housing subsidies for this group? Or do we prefer to continue the longstanding Federal commitment to provide housing subsidies to this group? The author has assumed that readers prefer the latter.

Local Government's Political Clout in Resisting State or Regional Encroachment on Local Government's Control of Land Use

Current literature on housing problems is full of proposals for breaking the traditional local government monopoly on land use control to permit such control to be exercised on the State or regional (e.g., metropolitan area) level. The social and economic advantages of a shift from localism to regionalism are many. Nonetheless, local government has been very successful in resisting the pressure towards regionalism whether the fight has been waged within the Congress, within HUD, within State legislatures, within councils of governments, or within the executive branch of State government. Machinery for regional and State planning proliferates, but the zoning power, for all practical purposes, remains at the local government level. And proposed community development special revenue sharing legislation reinforces this preeminence of local government in the process of making land use decisions.

In the recent history of the New York State Urban Development Corporation—originally created with powers of eminent domain and the power to override local government zoning and building codes—the political clout of local government in this sphere is demonstrated again.

It is the author's assumption that in the short time between the mid-June deadline for this paper and the mid-September date proposed for introduction of new housing legislation in Congress, there is no intention of working through a Federal strategy for breaking the local government monopoly on land use controls and shifting that power to the state or regional levels. The continuation of local government control of land use—within the framework of merely advisory regional planning—is an assumption of this paper—based on political realities rather than on any conclusion—that it is best for the United States that the local perspective be continued.

Limited Amount of Technical Literature Suggesting Further Decentralization or "Privatization"

Since Federal housing programs have already gone through at least one earlier wave of privatization (e.g., the development of rent supplement, leasing, Sections 235 and 236, Turnkey I and II), with only a limited time for evaluation prior to funding cutbacks and the moratorium, it is not surprising that there is virtually no suggestion in the current literature for further privatization. The Administration's proposed legislation combining into special community development revenue sharing several categorical programs

(principally urban renewal and code enforcement) sparked serious discussion of decentralization of these functions. The congressional hearings provided a focal point for a discussion of the merits of this proposal. However, the concept of block grants for low and moderate income housing purposes—because it has not yet been reduced to specifics—has received only limited written comment. Many groups and individuals are now considering the matter. I have relied on public finance literature which discusses in general the merits and demerits of block grants and categorical programs.

Because of the limited nature of the literature, the author has solicited the confidential opinion of various people knowledgeable about housing to see if they had proposals for further privatization or decentralization. By and large, they disfavored further efforts in these directions.

To carry out the mandate of the assignment, the author has nonetheless analyzed existing programs into component functions and has explored, for each such function, the pros and cons of further privatization or decentralization. Not too surprisingly, the conclusion reached, almost consistently, is against further decentralization or privatization at this point in time.

HUD Subsidies for Low and Moderate Income Housing

Introduction

The chief programs are: (a) Conventional public housing not leased (including Turnkey I and homeownership); (b) leased (Section 23) public housing; (c) operating subsidies for LHAs; (d) rent supplements; (e) Section 235 sale housing; and (f) Section 236 rental housing.

Farmers Home Administration programs are discussed separately because of their deference to private lending and because of special problems involved in transferring to State or local government programs operating exclusively in rural areas.

The Federal Government's Current Function of Raising the Money

There is no current requirement of local matching funds, which means that the Federal Government raises 100 percent of the subsidy.

This has the disadvantage of reducing local government's interest in seeing that the LHA operates in a cost-conscious way.

This disadvantage, however, is offset by several advantages: (1) There is enough limited local government support for these programs that a requirement of local match would end almost all existing local government interest in participating; (2) public finance experts are in agreement that income redistribution programs —which these are—should be financed by the national Government [1]; (3) because the benefits of the programs "spill out" from the locality where the subsidized unit is located whenever the benefited occupants move away, the Federal Government should be the one that raises at least the "benefit spillout" share of the cost; (4) since there is a "cost spillin" whenever low income or moderate income people are attracted to a community by virtue of its subsidized housing (and residency requirements are illegal), the Federal Government should be the one that at least raises the "cost spillin" share of the cost of these programs; (5) because the Federal Government is less burdened by the phenomenon of tax increases driving the tax base elsewhere than are State and local governments, this argues for Federal, rather than State or local, fund-raising; (6) because the Federal Government has available constitutional authority to adjust the level of its income taxes (which grow as the Gross National Product grows), and many States and almost all cities lack such constitutional authority, the Federal Government should continue to be the level of government that raises the money for these programs. This, of course, does not preclude a State or local government unit from raising additional money to supplement the scale of these programs within its boundaries. However, to the extent that local or State housing subsidy funds are raised by the sale of bonds which sell at a premium because they enjoy exemption from Federal income tax, it should be realized that the Federal Government is also subsidizing the State or local housing subsidy program to that extent.

The Federal Government's Current Function of Allocating the Money it Raises for These Programs

At present, Congress divides the appropriation for these purposes among programs, appropriating separate sums for public housing, rent supplements, Section 235 interest subsidies, and

[1] See, for example, John F. Due and Ann F. Friedlander, *Government Finance, Economics of the Public Sector,* 1973, p. 486; Wallace Oates, *Fiscal Federalism,* 1972, p. 7; George Stigler, "Tenable Range of Functions of Local Government," in *Private Wants and Public Needs,* Edmund S. Phelps, ed., 1965, p. 173.

Section 236 interest subsidies, with the additional GNMA subsidy for Section 235 and 236 programs being still a separate item. A percentage of the public housing capital money is earmarked for Section 23 leased public housing, which amounts to a further separation of leased and conventional public housing monies.

Combining some or all of these subsidies into a broader block grant has the practical effect of moving one aspect of the allocation process from the Federal Government to the recipient of the block grant. However, a move to block grants would mean a switch from the present discretionary allocation system to a formula allocation system. The practical advantages and disadvantages of formula allocation in the housing field are discussed in Appendix I. The Appendix concludes that the disadvantages are greater.

The merits of categorical programs versus block grants have been debated by various governmental commissions. The Kestnbaum Commission in 1955 endorsed Federal grants confined "to fairly small segments of broad activities in order to secure a clearer definition of objectives, as well as closer supervision." In 1958, the House Committee on Government Operations stated, "While aware of the administrative difficulties caused by the use of special categories within some programs, the subcommittee, nevertheless, is appreciative of the strong legislative reasons for confining grants to narrow segments of a general activity." (H.R. Rept. 2533, 85 Cong., 2nd Sess. (1958) p. 51)

If, however, it is decided to consolidate some of the subsidy monies, the following principles are relevant. There are disadvantages, without offsetting advantages, in combining private sponsor program monies (rent supplements, Section 235, Section 236) with public sponsor program monies (conventional and leased public housing). Giving local government a block grant which includes some of the private sponsor monies would increase local government veto power over the activities of the private sponsors and seriously curtail the programs.[2]

There are major policy implications in combining low income housing subsidy capital and moderate income housing subsidy capital in a single block grant, since the grant recipient—local or regional or State government—will be under strong pressure to furnish more moderate income housing and less low income housing than is presently provided. The result of a block grant so designed would be to close off funds from the neediest—low income individuals and families.

Similarly, there are major policy implications in combining in a single block grant housing subsidy capital and "blight control" capital (urban renewal, concentrated code enforcement, etc.). The beneficiaries of housing subsidy money are the poor—either the very poor or rather poor; the beneficiaries of blight control money are primarily the owners of property located in the area being assisted and, secondarily, the owners and occupants of the entire locality in which the blight control program occurs. Neither the primary nor the secondary beneficiaries of blight control programs are necessarily poor. Blight control programs tend to have more political support in local governments than do housing subsidy programs (since the affluent have more clout than the poor), and a block grant which lets local government or State government use the funds for either housing subsidies or blight control will result in shifting money away from aid to the poor towards aid for the nonpoor.

Given the difficulties of formula allocation, the most desirable change in current practice would be: (a) To retain the current system of discretionary grants by HUD; (b) to combine the appropriation for Section 235 with that for Section 236, so that the area office of HUD has a single source from which to fund either a rental or a sales subsidy for moderate income occupants; and (c) to remove the earmarking of part of public housing money for Section 23 leased public housing, so that the area office of HUD has a single source from which to fund either leased or conventional public housing. By freeing the area office of some of its present restrictions in allocation, options for local government are somewhat increased: At least the locality no longer runs into the phenomenon that the kind of public housing money it wants and needs is unavailable, although there is still available the kind of public housing money it does not want and does not need.

In Appendix II there is a discussion of the pros and cons of Section 23 leased public housing as an alternative to conventional public housing, reaching the conclusion that local housing authorities (LHAs) should be free to adopt whatever mix of leased and conventional public

[2] Local government now has what amounts to a veto power over the use of the rent supplement program, but not the 235 or 236 programs. In June 1972, congressional testimony before the House Banking & Currency Committee, there was far-ranging support for deleting the local veto from the rent supplement program, and no suggestion that it should be provided for the 235 and 236 programs.

housing they prefer, subject to HUD area office determination that the LHA is not using leased housing to the point that it is inflating rent levels.

The Current Federal Function of Making Formula Operating Grants to LHAs

The current formula essentially reflects the historic level of funding in a parity year rather than current needs. Hence it produces inequalities among LHAs in dividing up the money appropriated for operating subsidies. Those LHAs that were flush in the operating department in the parity year remain relatively flush, and those that were lean that year remain lean. (Indeed, they became leaner, because the add-on for inflation is only 3 percent a year and costs actually increased more than that in the intervening years.)

The question is whether the current formula, using base year plus add-ons, should be replaced by a system of discretionary operating grants or by formula-funding with the formula based on "need."

The advantages of a need formula allocation are: (1) It is perhaps susceptible of being administered by a smaller HUD bureaucracy than is required for discretionary grants; (2) it is perhaps more susceptible than a discretionary grant system of having Federal content review occur as postaudit, rather than pregrant; (3) it is perhaps more conducive of LHA cost efficiency. These advantages are stated with the word "perhaps" for reasons to be explained.

Whether the formula grant takes less HUD manpower than discretionary grants depends on whether HUD cares about the effectiveness with which the LHA spends the grant money. An LHA can be grossly inefficient under a formula grant approach in at least two ways: (1) It can house woefully few people in relation to the amount of Federal money being consumed; (2) it can house them in a very low-quality way.

"Quality" in this context includes all the following things and more: (a) The esthetics of the housing; (b) the sensitivity of the management; (c) the level of maintenance; (d) the attention to, or disregard of, the nonelderly part of the eligible population; (e) the attention to, or disregard of, the larger family that requires three or more bedrooms; (f) the attention to, or disregard of, the local elementary school's desire to avoid concentrating a great many young, low income children in a single location.

If HUD is going to be concerned with these quality questions in the formula grant system, it will take a HUD bureaucracy to police the LHA's annually or biennially. And this is true whether the level of formula grant varies with the quality of the work done by the local LHA or whether the formula grant is accompanied by regulations specifying the quality level required by the Federal Government.

Doubts as to the superior postaudit susceptibility of formula grants arise on two scores. First, it should be noted that discretionary grants can be adapted to postaudit review too: The original allocation can be based on fairly general representations by the LHA with the detailed review of how the discretionary grant was used being made later. Second, the inherent difficulties in postaudit enforcement are many: There is less incentive to make waves after the money has been spent than before; formula granting creates "entitlement" in the LHA, increasing the LHA's standing in a court fight with HUD as well as its clout in a political tug of war; money already spent by the LHA cannot be recaptured from it without forcing the LHA to go out of business (unless the local unit of government is willing to pick up the debt, which is very unlikely).

This postaudit problem applies not only to cost effective spending of the formula grant, but also to LHA observance of the conditions attached to the grant. These include requirements of affirmative action, observance of Davis-Bacon Act, maintenance of Workable Program certificate, etc.

The notion that formula grants induce LHA cost-consciousness more than do discretionary grants probably exaggerates the true situation; it assumes that LHA's consciously make extravagant decisions, hoping to weasel more money out of HUD next year through tthe discretionary grant process. Most decisions that are later lamented as having been too expensive fall into one of these categories: (1) The LHA used care and good faith to keep costs down, but it guessed wrong, as can be seen with hindsight; (2) the LHA took a course it deplored because it was forced to do so by HUD regulations; or (3) the LHA took the more expensive course because it felt it got a higher quality housing program that way, and it would do the same again under either formula or discretionary grants.

Nor does it follow that a system of formula operating grants will end HUD's dabbling in the administration of the LHA. HUD can still exert pressure to tighten up rent collection proce-

dures, for example, by threatening to withhold capital grants (if they are still discretionary) or modernization grants (which probably must remain discretionary). Nor is it at all clear that HUD should lack this ability to dabble, given the fact that the program is 100 percent federally funded.

The difficulty in ending HUD oversight is that LHAs, being responsive to local government pressures, are not 100 percent committed to the Federal goal. Local government itself gives subsidy of the poor very low priority, as indicated by how much local general-purpose millage is applied to this purpose and how much is applied to such purposes as fire, police, and public works. Local government—including the LHA's—inevitably subordinate the Federal program goal to local concerns of higher importance to local government: Avoiding interference with existing neighborhoods; avoiding upset to the middle class; avoiding hard problems of administration, etc. However well formula grants may work when the grantee is deeply committed to the goal of the grant, housing subsidy grants made to LHA's have the character of giving a man who has many irons in the fire some money to put yet another iron into the fire—he caring less for this last iron than for his other ones.

The difference between discretionary operating grants and formula operating grants is small, because under a discretionary system the HUD Area Office will actually use a formula prima facie and then make adjustments in it to reflect such things as (a) the insufficiency of a total pot of money to fund all the LHAs in the Area at this level; (b) the difference in quality from one LHA to another; and (c) the area offices' efforts to induce a given LHA to do something. It is not clear, however, whether the same factors would go into a formula that was officially adopted by Congress and the executive branch. And, of course, there is some importance to the question of whether a formula is prima facie or final.

A good formula should reflect such things as: (1) Number of units to be occupied during the fiscal year; (2) size of units; (3) whether units are leased or owned—if that affects per-unit operating cost; (4) local variations in labor costs; (5) the impact of large scale on overhead costs; (6) the impact of scattering on overhead costs; (7) the impact of "quality" on costs; and (8) percentage of families with severe social problems. Careful analysis of local conditions, needed to apply a defensible formula, would require approximately the same amount of HUD staff work that now goes into discretionary review.

Efforts have been made to give public housing tenants a larger voice in LHA operating decisions. If these efforts to turn the tenants into effective critics of the LHA were successful, perhaps the tenants could replace HUD as the group watchdogging the LHA. But tenants have too little clout in the general political process of local government. Efforts to create a special mini-political system for electing tenant representatives and plugging their input into the LHA are likely to fail, if OEO-CAP, and Model Cities experiences are any guide.

Finally, it should be noted to what extent formula operating grants increase local options. This is not a situation of consolidation of a number of categorical grant programs into a single formula block grant. In that consolidation context, local options are significantly increased. Here, however, the scope of the grant is the same whether it is formula or discretionary. Here, as noted, formula granting does not eliminate HUD oversight. And, of course, the basic rules remain Federal and continue to define all the really important questions an LHA faces.

The conclusions are: (1) HUD must maintain a bureaucracy that watchdogs the LHA's for both quality and observance of the conditions on which the grant is made; (2) that bureaucracy is more effective working on a pregrant basis than on a postaudit basis; (3) if the formula is to be final, and not merely prima facie, it must take the "quality" questions into account, even though they are hard to quantify; (4) alternatively, there could be a system in which the formula distributed money based on the assumption of minimal quality, with HUD being given discretion to make additional grants for above-minimum-quality aspects of the operation.

In any event, a long term congressional/Administration funding commitment would be welcome, to facilitate LHA and local government planning.

The Federal Government's Present Function of Making the Rules Concerning Eligibility of Sponsors, Occupants, etc.

At present, the Federal Government decides almost all major aspects of the shape of the federally funded housing subsidy programs. Certain kinds of sponsors are permitted, others are not. Certain kinds of occupants are eligible, others are not. Subsidies will take a certain form, a certain size, will be available on certain conditions, etc.

It is at least theoretically possible to combine a block grant system with a delegation of rulemaking power to the grantees (States, local government, regional government), so that the grantees are free to tailor their own housing subsidy programs to their own taste.

This is not the place to discuss which of the existing Federal rules should be altered. But it was the unanimous opinion of the people I interviewed that the Federal Government should not delegate the rulemaking power to another level of government, even if it were to delegate the administration of programs to State or local government. State housing authorities recently said the same thing.[3] By and large, the existing rules are there to serve a legitimate function—to see that the funds get to the most appropriate beneficiaries; to avoid waste; to avoid fraud; to accomplish whatever secondary objectives Congress had in mind.

The shape of the housing subsidy program a State chooses affects income distribution. If the subsidies are deeper than those of a neighbor States, we may see the same cost spill-ins, due to in-migration, discussed earlier. To the extent that rulemaking leads to income redistribution between States, it seems an inappropriate State function.

The present rules also have "going-concern value." It will take State or local bureaucracies a long time to come up with other rules that are as good, and there will be much delay, waste, and confusion in the transition period.

Moreover, both public and private sponsors have an investment in the current rules; over the years they have learned how to work with them. It will cost them time (and lowered performance quantitatively and qualitatively) to learn new rules.

Moreover, as State or local experimentation with new rules is encouraged, it becomes less and less possible for sponsors and builders and lenders and investors to engage in multi-State operations, since the rules are no longer the same across the land. Moreover, GNMA could not continue its operations if subsidized project mortgages were not fungible, but varied in quality from State to State.

Hence the conclusion is that rulemaking should remain uniform at the national level, even though it needs some improvement.

The goal of increasing local options can be accommodated to the goal of Federal rulemaking: the Federal rules should provide for a series of variants available to the LHA and to private sponsors; this is already the case to some extent.

The Present Federal Function of Administration Above the Sponsor Level

HUD's "administration" of capital grant applications from sponsors embraces the whole process of passing upon an application from an LHA or private sponsor, supervision of the rehab or construction phase of the project, and long term monitoring of the project to assure its solvency and the eligibility of its occupants. These three aspects of administration cannot be separated very easily, since he who approves the application should supervise the work and remain responsible for its long term solvency.

To some extent, HUD currently delegates some of its administration responsibility to State housing agencies under ad hoc annual arrangements. An area office may furnish a State housing authority with some of the area office's Section 236 and/or rent supplement and/or Section 23 money. At least in the case of the Detroit Area Office/Michigan Housing Development Authority agreement, the applications "approved" by the State housing agency must be formally approved by HUD before they become official, but the HUD approval is pretty much pro forma.

This delegation of administrative responsibility has occurred in at least nine States.[4] I have the impression that, in all of these States but Maine, the State housing agency is engaged in direct lending of State money to the same project for which the State agency approves additional Federal subsidy money for some units.[5] Thus, with the possible exception of Maine, it is my impression that the State housing authority has a direct stake in the long term solvency of the projects; hence, there is no divorce of the function of approving applications from the function of maintaining long term monitoring of the project for solvency and occupant eligibility.

Given the growth of State housing authorities and the increased activity of those already existing, a question arises: Should this process of delegating administrative responsibility from

[3] Policy Statement of the Association of State Housing Authorities, issued Feb. 21 1973. "Under this system, subject, to federal guidelines confined to fundamental policy matters, the State involved would have responsibility and broad discretion in formulating and administering State housing assistance programs . . . "

[4] Connecticut, Illinois, Maine, Massachusetts, Michigan, New Jersey, New York State, New York City, and West Virginia administer Federal subsidy housing programs, according to the (undated) chart prepared by the Subsidized Mortgage Insurance Division of HUD.

[5] Ibid.

HUD to the State housing authority be encouraged? Note that we are looking at State administration of Federal funds pursuant to Federal rules. In theory, at least, a State housing authority could be given full responsibility for administering all Federal housing subsidy funds in the State that previously were administered by HUD: Conventional public housing, leased public housing, rent supplements, Section 235, Section 236. Or the delegation could fall short of that—only certain programs or only part of the money for a certain program.

The chief advantage of such delegation occurs in those States where the State housing authority is already engaged in massive housing subsidy programs with State funds. In that situation, delegation substitutes one (State) bureaucracy administering both State and Federal funds, for a pair of bureaucracies (one State and one Federal) performing the same function in the same cities and counties. Eliminating one bureaucracy should save some costs and should make life easier for the public and private sponsors who otherwise would have to deal with two sets of officials.

There is no particular advantage in the delegation in those States where there is no massive State housing subsidy program in existence or about to come into existence.

I turn now to the disadvantages of this kind of delegation. The problem mentioned to me most frequently by the people I interviewed was that in several States that currently have housing authorities with large operations, there is more political dabbling with the State bureaucracy than with the HUD bureaucracy. This kind of political intervention for parochial favors upsets both the officials who administer the State programs and the sponsors.

With Michigan, and perhaps New York, as exceptions, there is also the general impression among the people I interviewed that State housing bureaucracies will be a long time in developing the degree of expertise in processing applications that HUD has now. The interviewees were not particularly favorable to HUD (and never worked for HUD), but they were less favorable toward the State bureaucracies.

On a more abstract level, there is room to worry about the long term effectiveness of a State housing authority in the general scheme of State government. In most States, the agency will, of necessity, be among the smaller agencies without much clout vis-a-vis the Governor, the legislature, and the powerful executive branch bureaucracies that control civil service, office space, executive budget, etc.

In some States, where State politics tends to be dominated by one major city, people living outside that city are more inclined to trust the Federal bureaucracy than the State bureaucracy.

Finally, there is a problem in State housing agencies recruiting specialists to do the work now done in HUD. If the HUD staff is let go, not all of them who are talented will gravitate to the newly expanded State housing agency, and the untrained staff recruited by the State agency is likely to perform less well in the early years. Moreover, the price of this talent will be bid up by interstate competition.

All of which leads to the conclusion that it would be wise to go slow in delegating the current HUD area office function in the subsidized housing programs to State housing agencies, even in those States where there is a massive, parallel State program. And it argues against delegating this function in States where there is no large, parallel State program.

What has been said about delegation to States applies to delegation to cities, too; certainly there should be no delegation of the HUD area office function to any city that does not have a massive, parallel housing subsidy program of its own, run through its own bureaucracy. And the same applies to such special-purpose units of government as Urban Development Corporations.

The Present Local/Private Function Performed by the Sponsor

With regard to moving local government functions to the private sector, the relevant question is whether the LHA-sponsored forms of subsidized housing for low income people should be replaced in favor of either (a) the rent supplement approach or (b) housing allowances. Rent supplements involve private sponsors, and most housing allowance proposals would eliminate the role of sponsor as it exists in current HUD housing subsidy programs.

The rent supplement program has been small [6] and has drawn occupants who are poorer than conventional public housing occupants, on the average, but have smaller families.[7] Rent supplementation involves very high interest

[6] Nearly 5 years after enactment, 46,000 units were started (less than $\frac{1}{10}$ of what was envisioned originally). Henry Aaron, *Shelter and Subsidies*, 1972, p. 134. The pace seemed to be picking up in later years, with 21,000 units with rent supplementation scheduled to be completed in 1972.

[7] Ibid., p. 135

payments over 40 years—which pleases the mortgage bankers but not the fiscal critics of the program, who would prefer direct lending.[8] Rent supplements generally piggyback on Section 236 projects or projects that have State mortgage assistance analogous to Section 236; the 236-rent supplement project usually pays full local taxes, which are more than the payment in lieu of taxes that comes from conventional public housing—hence some local government preference for the rent supplement approach. About two-thirds of the rent supplement projects are in blighted or core city areas, and only 9 percent in the suburbs[9]—breaking the original hopes for dispersal. Moreover, less than a third of the units in rent supplement projects are unsupplemented[10]—breaking another hope: That rent supplements would lead to income-integrated projects. While changes in the program could increase its utility, it does not appear to have been so successful that it should replace conventional and leased public housing.

Housing allowance proposals do not eliminate the need for a bureaucracy to determine, and periodically redetermine, the income eligibility of recipients. Allowances also cost a lot of Federal money each year, since they work on an entitlement basis, rather than the present system of having most of the people theoretically eligible receiving no benefits because they are on a waiting list, or are disinterested in the kinds of housing offered, or have no LHA available where they live. Moreover, allowances probably will inflate shelter costs unless they are accompanied by another program to stimulate supply as housing allowances stimulate demand. The program to stimulate supply may be complex if, as some suggest,[11] the normal play of market forces would introduce new units at a price range so high that the housing-allowance poor could not afford these units new until the units were many years old. If it is deemed important to introduce many new units at a price the housing-allowance poor can afford (to break the bonds that confine the poor to the core city), some government intervention of some sort is needed to make this happen.

I am assuming there is no serious Administration consideration of replacing conventional and leased public housing with housing allowances right now, while the HUD housing allowance study is in process and has yet to report its findings.

HUD Subsidies for Blight Control Programs

This section will be shorter, because much of what was said earlier applies here, too.

Fundraising

Some of the arguments for Federal fundraising that applied to housing subsidies apply here, too. But the argument based on income redistribution as a Federal fiscal responsibility has diminished force because these blight control programs are not concerned primarily with income redistribution. And since the beneficiaries of the blight control programs are defined geographically, rather than by income level, it probably is the case that few of the intended benefits of blight control "spill out" of the local community and there is little tendency to attract "cost spillins." Hence the argument for 100 percent Federal funding is somewhat weaker. Moreover, local political support for urban renewal and concentrated code enforcement is much higher than for subsidized housing, making it feasible to extract a local share without having too many cities shun the program.

There are two disadvantages, however, to requiring a local (or local-State) matching share: (a) The requirement discourages participation by hard-pressed cities—unless they can meet the match requirement through some form of "soft match" which they were going to invest anyhow (which frustrates the purpose of a match

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[8] For example, Robert Taggart III, *Low-Income Housing: A Critique of Federal Aid*, 1970, p. 71.

[9] Ibid, p. 59.

[10] Ibid, p 58.

[11] See, for example, Al Hirscher and Richard Le Gates, "The Dreary Deadlock Revisited," *Architectural Forum*, p. 138, March 27, 1973: "While a *housing allowance* system may ultimately be more workable than the existing public housing program, there are many pitfalls in the achievement of a workable housing allowance program. Without the safeguards of rent control, strict code enforcement, enforcement of anti-discrimination laws, tenants rights protection, and capital funds for needed rehabilitation, a housing allowance program would almost certainly lead to inflated rents, shoddy maintenance and arbitrary treatment of tenants." Anthony Downs in *Urban Problems and Prospects*, 1970, p. 135, speaks of the high cost of an adequate housing allowance and the frictional factors which inhibit its success. Frank de Leeuw and Nkanta F. Ekanem, "The Supply of Rental Housing," *The American Economic Review* LXI, No. 5 (Dec. 1971), p. 817, tentatively conclude that "subsidizing the demand for low income housing would drive up rents"
Better information can be expected from the HUD housing allowance study now under way.

requirement);[12] (b) the requirement exacerbates problems in the process whereby cities define their urban renewal and concentrated code enforcement areas in a manner that partially frustrates the aims of the Federal Government but facilitates local political back scratching. If a large share of local money is going to be consumed, there is a strong desire to get a large payoff in local political gratitude.

In a handful of States, State government pays part of the nonfederal share of urban renewal. Because some of the benefits "spill out" of the city but remain in the State, this kind of State participation in footing the bill can be justified on a benefit theory to some extent. Moreover, the States that are doing this tend to be States that have a State income tax, so, on an ability-to-pay basis, the State is better equipped than the city, which probably lacks discretionary power to adopt an income tax, or to raise the rates if it has one.

The disadvantages of State payment of part of the local share are: (1) It reduces the cash investment of local government and hence may reduce local government vigilance to see that the program is administered frugally; (2) three bureaucracies are now involved (Federal, State, local), whereas only two need to be harmonized in the typical Federal-city funding arrangement. The advantages of State participation are: (1) Increasing the participation in the programs by relatively poor communities that cannot come up with the match required without State aid; (2) increasing participation by marginally motivated communities that could afford the match, but are not sufficiently committed to the importance of blight control to pay the entire one-third themselves. One can question whether encouraging the latter kind of city to participate is entirely good.

To the extent that State aid to cities to meet the local share requirement of urban renewal gets allocated, because of State politics, in a manner that reflects population and/or political clout, rather than "need," such State aid merely operates as an indirect form of State revenue sharing with those cities that participate in urban renewal programs. And to the extent that the State aid is financed by selling bonds that are exempt from Federal taxation, the ultimate source of this part of the local match is the Federal Government itself.

All of this provides an argument against making it mandatory that the State come up with some of the match and the city come up with the rest. Such a requirement would also be bad with respect to States that cannot or would not participate: The requirement would deprive their cities of the power to participate. There is no strong case against the present state of affairs that permits States to pay part of the local share if they so desire. In any event, since there are so many ways States can and do share their revenues with cities, it is almost impossible to keep this from happening indirectly; so an effective prohibition on it, even if deemed wise, would be too hard to enforce.

Allocation

Turning to the matter of allocation of blight control funds, the case against formula allocation is similar to what is discussed in Appendix I concerning formula allocation of housing subsidy capital. Here, too, the conclusion is against formula allocation and in favor of discretionary allocation, for the reasons cited in the Appendix.

In addition, one would assume that the condition of housing units should be an important factor in arriving at an equitable allocation formula. Unfortunately, those data are at present woefully inadequate. More reliable data are essential before this factor can reasonably be used.

The question arises in the blight control context too as to whether Congress should combine the appropriations for various kinds of blight control programs so that the HUD Area Office would have a single source out of which to fund blight control operations, rather than a number of separate accounts with no power to transfer between them. Combining the appropriation pools would increase area offices' flexibility and hence would increase local government options—a good thing.

It is hard to see why the Congress should care what the ratio is of Concentrated Code Enforcement spending compared with urban renewal spending, particularly now that urban renewal spending is generally Neighborhood

[12] Former HUD Secretary Romney discussed the difficulty in administering the local cost-sharing requirement in his testimony before the House Committee on Banking & Currency (92d Cong., 2d Sess.), June 13, 1972, p. 613. In presenting the Administration's position opposing the local-share requirement, he stated that, if enacted, it "would drag along with it a number of troublesome problems. For example, it would be necessary to determine precisely what activity or undertaking may count as a noncash local credit, whether to permit the pooling of local share credits from year to year, and whether to permit noncash grant-in-aid credits under the urban renewal program to be applied to this program."
He believed the requirement served a useful purpose with a categorical program, to prevent a community from using funds for a project "not very important to its well-being." But the motivation would be different with a block grant, he indicated.

Development Programs (NDP). The beneficiaries tend to be similar, albeit not identical. In some communities, the state of blight and the age of the housing inventory is such that one program is appropriate; in other cities, the most pressing need is for the other program.

One problem with a combined operation is that urban renewal—despite its past reputation as a cruel program that victimizes low income residents—presently is less cruel than concentrated code enforcement. If urban renewal takes the home of a poor owner, it compensates him fairly well, what with the generous appraisal of the property condemned and paid for, a grant for substitute housing to be purchased, and the relocation grant.

Concentrated Code Enforcement, on the other hand, drives out those owners who cannot bring their property up to code standards even with the grant and the 3 percent loan. These owners fare much worse under urban renewal, since their property was not legally "taken;" they simply abandoned it or sold it at forced sale prices because they could not afford to repair it or to demolish and replace it, and they could not legally continue to use since certificate of occupancy was denied. While efforts are made to avoid designating a neighborhood for concentrated code work if it has structures in it that will suffer this fate, it is impossible to define a broad geographic area appropriate for code work without embracing some "can't-be-salvaged" structure. The solution, however, would seem to be a change in the design of Federal concentrated code work to permit the condemnation of such structures under the urban renewal rules. Without such a change, urban renewal and concentrated code funds should not be pooled, lest this pooling lead local government into doing more concentrated code work rather than urban renewal.

Rulemaking

The case against delegating rulemaking in the blight control area is not as strong as the argument against such delegation in the subsidized housing area, because in the blight-control area there are few, if any, nationwide firms engaged in doing the physical work and interested in nationwide uniformity of rules. Similarly, there is no GNMA operation requiring fungible locally generated collateral.

But the two other arguments against delegating rulemaking apply: (1) The pain during the transition period—for LPA's, primarily; and (2) the likelihood that the States or cities that inherit the rulemaking power will, in some instances, develop rules that fail to protect the public interest as well as existing HUD rules tht have evolved during the past decade and a half's experience with urban renewal.

The criticism is made on occasion that HUD has been so slow processing applications with its current multivolume rules that it will be a blessing to let cities or States develop their own, simpler rules. But there are two problems with this argument. First, it tends to confuse delay that flows from administration with delay that is attributable to the current rules; some delay is inevitable as long as a branch of local government, which has incentive to overestimate costs and underestimate difficulties, is being reviewed by another bureaucracy which is interested in getting accurate cost estimates and accurate judgment as to the obstacles that will be encountered. Second, there is the familiar trade-off: Simpler rules make for faster processing, but protect less against waste, favoritism, unnecessary taking and disruption, etc.

The present, complex rules are designed to channel the Federal funds to do the things the Federal Government most wants done, including putting the cleared land to primarily residential uses. In the same vein, simplification of rules which is accomplished by stripping off collateral requirements—such as affirmative action, Davis-Bacon Act, etc.—purchases speed at the expense of the Federal policies embodied in such Executive orders and legislation.

The pressures on City Hall to design urban renewal programs to cater to powerful interests in the city, at the expense of the well-being of the city as a whole, are real, leading the author to the (marginal) conclusion that, even in the blight control programs, rulemaking should not be delegated to either the cities or States.

Administration

Presently the Federal Government performs the function of administration of the urban renewal and other blight control programs above the level of the work done by the LPA or equivalent local agency. Administration includes approval of the original application plus supervision of the work done, but there is no long term monitoring function after the project is completed. While there is at least one State that performs somewhat similar functions to HUD in the urban renewal area, the number of States doing this does not approach the number of States

which parallel HUD's subsidized housing work. To the best of my knowledge, there is no comparable annual arrangement between HUD area offices and State housing agencies in the realm of urban renewal or other blight control programs. For the reasons discussed in the housing subsidy section, there should be no delegation of HUD's current administrative function to State or local government.

The basic operating function is now performed by local government through the LPA or similar agency. The function cannot be moved to the private sector even if this were deemed desirable, since the required eminent domain power cannot be delegated to private groups in most States.

Farmers Home Administration Programs

The major Federal direct loan program that remained in operation before the freeze was Farmers Home Administration, which operates under a rule that forbids them to make a loan if a private sector lender would make it. So there is no possibility of delegating their lending function to the private sector.

Nor is it particularly feasible to delegate administration of their program to local government. The FmHA program is restricted to places with a population of under 10,000, and in Michigan at present there is only one field office for two counties in some areas and for four counties in other areas. It would be quite impossible to have each county run the program in that county unless the staffing of the administering bureaucracy were vastly increased. Delegation to consortia of counties is unworkable.

It is theoretically possible to delegate the administration of FmHA programs within a given State to that State's housing authority. The pros and cons are largely the same as those discussed earlier in the context of housing subsidies. About the only situation in which any case can be made for such delegation is in a State which is running a large housing subsidy program and has been delegated the administration of all HUD housing subsidy programs in the State. Such a State housing agency could argue that in many metropolitan areas the total housing market embraces communities under 10,000 in population as well as communities with a larger population, and rational spatial location of new subsidized housing requires a single consolidated program, rather than a State-run program in larger communities and the FmHA program in smaller ones. The State could continue to operate the same number of field offices that FmHA does now; indeed, it could run them at the same locations, and it could try to hire the personnel FmHA would be discharging.

The question is whether the social gain in having a single agency-run programs in both large and small communities outweighs the social loss in transplanting a bureaucracy and encountering the other problems of State administration discussed in the housing subsidy section. Given the possibility of coordinating large community and small community operations through the A–95 clearinghouse process, and given the limited extent to which we actually locate subsidized housing spatially with respect to metropolitan area needs, it would seem that the case is weak for transferring the FmHA programs to the State housing authority, even in a State that has all HUD housing subsidy programs administered by that State agency.

FHA Mortgage Insurance (and VA Mortgage Guarantees)

For reasons discussed above, there is no strong case for moving the current FHA function to State housing authorities or to local government. The only live question is whether private mortgage insurance (PMI) should be federally assisted to enable it to supplant more of the FHA mortgage insurance business than it has already supplanted. Perhaps, if there were a Federal subsidy program or a Federal program to reinsure the mortage that already has private insurance, the private mortgage insurance company might be willing to take greater risks than it takes now.[13]

However, there are several problems with this effort to give PMI a larger share of the mortgage insurance market. For one thing, little would be gained by reducing the Federal role as direct insurer and then giving the Federal Government a new role as subsidizer or reinsurer. For another thing, the people I interviewed were

[13] David S. Engleman, *Federal Home Loan Bank Board Journal* No. 5 (March 1972), p. 5: "The private sector can be expected to handle all housing needs for middle and moderate income home buyers, leaving the Government to care for the requirements of low income families." James Carberry, "Home Buyers, Lenders Cheer as Private Firms Insure More Mortgages," *Wall Street Journal* No. 180 (Aug. 10, 1972), p. 1: "The private insurer can't see themselves getting into the sort of trouble the FHA has. For one thing, they stay away from insuring loans to low income prospective home-buyers, where the risk of default is very high compared with middle and upper income buyers."

uniformly dubious that private lenders and private mortgage insurers would in fact take greater risks just because the private mortgage insurance was backed by a Federal reinsurance policy. If the Federal reinsurance were for only a fraction of the mortgage—as is the case with private mortgage insurance—much risk would still remain for the insured. And if the Federal reinsurance were for 100 percent of the mortgage, the Federal premium would be high and the Federal Government could not travel on the lender's decision, as PMI companies tend to do now. Moreover, it would be necessary to charge two premiums—one for the PMI and one for the Federal reinsurance.

The PMI is already free to supplant FHA insurance to the extent that lenders prefer it, and it has gone a great distance towards supplanting FHA insurance in parts of the market. People I interviewed felt that Federal reinsurance would not induce PMI to cover the risky transactions that FHA insurance is designed to facilitate. PMI, for example, is not feasible for those subsidized projects in which part of the subsidy comes from GNMA. In the Section 236 transaction, the mortgagee is really not a lender, since it is arranged in advance that the mortgagee will immediately sell the mortgage to GNMA at an artificially high price; the mortgagee does not carry the risk of default by the mortgagor (FHA does); the mortgagee is really only agreeing to service the mortgage for a fixed fee.

Undoubtedly, there are some instances in which individuals who could be using PMI are using FHA mortgage insurance, and they are doing this to their economic detriment. If FHA were forbidden to write insurance in these transactions, this evil would be prevented. But the evil is hardly great: It is one of a million similar situations in the economy in which a consumer may buy a higher priced product when he could have met all his practical needs with a lower priced product. Here, as elsewhere in the economy, competition tends in time to eliminate this evil.

If the range of legally permitted FHA activity were shrunk, there would be several negative effects. For one thing, FHA would have less fee-generated income with which to operate in its riskier (and hence most socially needed) transactions. For another thing, FHA could not be revived quickly if economic conditions changed, and it were desired to have FHA reenter some fields from which it had been chased.

The chief objection I heard to FHA insurance in situations where PMI was available was the belief that FHA insurance—involving a discount that the seller must absorb at once at the closing—resulted in sellers' increasing their prices to cover the discount. But this could be cured if FHA's artificial interest ceiling were removed, eliminating the need for discounts. The ceiling, of course, does not keep interest rates down; it only means that the extra interest gets paid by the seller at once with no tax deduction for it, rather than having it paid by the buyer over the life of the mortgage, deducting it for tax purposes.

There was also some parochial pleading for FHA insurance from savings and loan associations that only have legal authority to lend on property out-of-State if the loan is federally insured, rather than covered by PMI.[14] This aspect of the S&L/FHA relationship may have desirable effects in moving capital to regions where there is greater demand for it.

There are transactions in which FHA insurance is more expensive than PMI. There are transactions in which FHA insurance involves a higher downpayment than PMI. Universally, FHA insurance takes much longer to process than PMI.[15] And on new construction of multiples, FHA adds to construction costs because of delays in processing, special inspections, and application of the Davis-Bacon (prevailing wage) Act. But it does not follow from all this that FHA should be precluded from competing with PMI; presumably, FHA will come out the loser in the competition.

The problem of improving FHA insurance is really beyond the purview of this paper, except insofar as improvement involves a shift of some FHA function from the Federal Government to somewhere else. One person I interviewed, long involved in private construction, suggested that FHA speed up its processing time by delegating some of its work to local government. In particular, he suggested that FHA emulate the PMI practice of having a list of approved appraisers rather than an inhouse group of appraisers. (Those interviewed universally belived that FHA appraisals are not of consistently high quality

[14] Oliver H. Jones, "Can FHA Be Replaced?" *Mortgage Banker* 32:11, p. 8, argues that FHA-insured mortgages "have been, and can again be, the principal vehicle for moving funds from surplus to deficit areas." Thus, without Federal mortgage insurance programs, the scope of savings and loan lending and profit opportunities would be considerably narrowed, and the transfer of mortgage funds from capital-rich areas to capital-poor areas would be inhibited, is the argument.

[15] Carberry, op. cit. supra, note 13.

and often tend to run high.) He suggested that the would-be individual purchaser of a new or used home should go first to the private lender, and if the lender were willing to lend with FHA insurance, the next stop would be some local government housing office, which would (1) review the appraisal made by the certified appraiser selected by the lender; (2) certify to FHA that the would-be borrower was a decent credit risk (something the lender had already decided); and (3) certify to FHA that according to the local building and safety department the house was in decent condition.

By delegating these functions to local government, FHA could speed up its processing time and keep these functions geographically closer to where the borrower, the lender, the house, the building and safety department, and the borrower's credit and employment references are located.

I got mixed reactions to the question of whether FHA should abandon its role in inspecting the new construction for which it insures mortgages. One person felt that recent scandals cast doubt on the quality of these inspections. Another person felt that over the long haul FHA had improved quality and protected the consumer much more than would have occurred if the only inspections had been made by lenders and local government.

One aspect of FHA's losing its market share to PMI is that the PMI-conventional mortgage developments do not pass through the A–95 review process or the FHA process of screening the suitability of the location for things such as access to transportation, schools, shopping, etc. Given the weaknesses of the land use planning process in many communities and the dearth of institutions concerned with areawide implications of new housing location, it probably is a good thing to run as much of the new construction as possible through these kinds of review, rather than leaving it all to the entrepreneur, his lender, the local planning process, and the virtually nonexistant regional plan's housing element.

In used housing, in core cities, in subsidized housing transactions, in small transactions, and in transactions involving borrowers who present above-average risks, it seems agreed that FHA's role is absolutely essential.

The role played by the Veterans' Administration was the same as the FHA role for purposes of this paper, and the same comments apply to VA guarantees that apply to FHA insurance.

Housing Relocation Grants

The Federal Government now pays 100 percent of these grants, although the matter of a local share in the future is under debate right now in Congress. Since the programs causing relocation vary so, it is hard to discuss the extent to which there are benefit spillouts or cost spillins justifying Federal financing rather than State/local financing.

The previous discussion of subsidized housing raises the policy arguments that apply here, too; once again, the conclusion is that rulemaking should remain on the Federal level, as should administration above the line-agency level. At present, the line agency actually dealing with the relocatees is on the local government level. I have not pursued the question of possibly trying to contract out relocation work to private companies.

FNMA, GNMA, FHLBB Operations

Given the national nature of the mortgage market, it is impractical to delegate these functions to State government, let alone to local government. FNMA has already "gone private," and the Federal Home Loan Mortgage Corporation serves conventional mortgages as well as "privatization" existing under FHA.

Regional Planning and A–95 Review

The Federal Government presently requires that there be regional planning agencies; it subsidizes the operations of these agencies with Section 701 planning grants; it annually certifies the work of these agencies toward preparation of a regional plan; it requires that a host of applications for Federal subsidy or Federal insurance go through a clearinghouse (A–95) process involving both the regional planning agency and the State planning agency. One aspect of the regional plan is the housing element.

Generally speaking, neither the regional planning agencies nor the State planning agencies have produced detailed housing plans that indicate what kind of housing should go where in the years ahead. Without such detailed housing element plans on the regional or State levels, the A–95 review process is not really a vehicle for checking a particular application for conformity with a regional plan. Even if such detailed housing element plans eventually get produced, it is not clear whether the Federal

Government will reject a regional agency's proposed plan because of Federal disagreement concerning the substantive contents of the plan; there is some belief among the staffs of some regional planning agencies that the Federal Government will accept whatever housing element the regional planning agency can agree upon.

Given this state of affairs, the only real Federal roles are: (1) Determining that there should be efforts at regional planning; (2) providing some of the operating funds for such regional planning; (3) requiring clearinghouse operations through the regional planning agency; and (4) requiring clearinghouse operations through the State planning agency.

There should be no abandonment of the effort at regional planning; difficult as such planning is (given local parochialism), any effort is better than none. There is no way to delegate this responsibility to State or local government; if the Federal Government drops this requirement, there is no likelihood the States will uniformly pick it up.

Presently, the Federal Government provides only a fraction of the operating costs of regional planning agencies. Were the Federal Government to reduce its support, many of these agencies, already hard-pressed financially, would collapse completely. They lack the level of political support on either the State or local levels to furnish them adequate funding to replace Federal funds.

While the clearinghouse operation is not really a process of matching applications against a regional housing plan or a State housing plan, it is an opportunity to draw comment on applications from a variety of interested sources (e.g., local government, county government, State antidiscrimination agency). States should not have the option to kill clearinghouse operations; where they are killed, the amount of intergovernmental cooperation will drop, and the amount of waste of Federal funds will increase.

The requirement of State clearinghouse operations is often met in name only, the State lacking an agency to conduct a clearinghouse effectively. Moreover, there is awkward duplication in having two clearinghouse operations (three, in some metropolitan areas). But this can be solved (politics permitting) by new Federal rules concerning clearinghouse structure and procedure; it does not require the Federal Government giving the States the option to have a State clearinghouse or not, as the State sees fit. At present, the State virtually has the option to run no clearinghouse at all; it can run an operation so atrophied as to be virtually nonexistent.

Nondiscrimination and Affirmative Action

Title VIII (Federal Fair Housing Act of 1968) gives the Federal Government responsibility for handling complaints of ethnic discrimination and related ethnic practices in the housing market. The Secretary of HUD is authorized to receive complaints and to try to adjust them. If he fails, the alleged victim can bring a civil action in court for redress. The statute provides, however, that the Secretary is obligated to refer the complaint to the State or local antidiscrimination agency that has concurrent jurisdiction if such an agency exists, and provides "rights and remedies for alleged discriminatory housing practices which are substantially equivalent to the rights and remedies provided (by the federal law)." [16]

Thus the Federal role is limited to handling complaints when, as, and if there is no State or local agency willing and able to handle them. Hence, the Federal function cannot be shifted down any more than it has been by the language of the 1968 Act.

While the 1968 Act deals with postdiscrimination complaints, there is another Federal Government program which is concerned with planning in advance to avoid practices that are ethnically injurious. The three major components are: (1) Affirmative merchandising plans—to see that the housing or home financing is merchandised in a way that reaches minorities; (2) affirmative employment plans—to see that the enterprises engaged in the housing market hire minorities or upgrade them; and (3) site selection—to see that sites are not selected in a way that prejudices minority interests. The latter is a complicated notion involving two policies that sometimes collide. On the one hand, there is a minority interest in seeing that more housing subsidy flows to where minorities presently dwell —core cities. On the other hand, there is a minority interest in seeing that subsidized housing is created in suburbia, where few minorities live and where the jobs are tending to relocate.

The requirement that individuals and firms covered by the affirmative action regulations file acceptable affirmative action plans and adhere to these plans is enforced—to the extent it is enforced—by the threat of Federal denial of an application for subsidy, loan, grant, or insurance, and by the related threat of long term Federal blacklisting.

[16] 42 U.S.C.A. §3610(c).

Given the scant likelihood that Congress will legislate to create a new enforcement device (e.g., cease and desist order; administrative fine), continuation of the affirmative action requirement and the requirement of ethnically sensitive site location means that these requirements must be enforced by a bureaucracy which passes upon applications for loans, grants, subsidies, and insurance, and has the power to deny an application for noncompliance with these ethnic rules.

As long as the Federal bureaucracy is administering the Federal loan/grant/subsidy/insurance programs, there is little point in delegating the review of the ethnic aspects of the application to a separate State or local race-relations agency. In many States, no such State or local agency exists, and there is little likelihood that a significant agency will be created. Where one exists, it is usually overworked and has limited expertise in these aspects of housing.

At present, to a limited extent in certain States, some Federal subsidy money (rent supplement, Section 23 leasing) is administered by State housing development authorities (and, in New York State, by the city housing development authority as well as the State UDC). To the extent that there is such State/local administration of Federal subsidy money, the question arises: Should the application for Federal funds, which the State/local housing agency is passing upon, be given its ethnic review by the same State/local housing agency? Or should the ethnic aspects of the application be reviewed separately by HUD in its area office?

The disadvantages of separating the ethnic review from the review of other aspects of the application become most apparent when we get to site selection. For in approving or disapproving a site, both ethnic and nonethnic considerations come into play. This argues for letting the State/local housing agency review the ethnic aspects of the application as well as the nonethnic ones. (Both, of course, are to be reviewed against Federal rules and regulations.)

The advantages of a separate Federal review of the ethnic aspects of an application are: (1) The possibility that the HUD area office will have ethnic specialists that the State/local housing agency lacks; and (2) the possibility that the personnel in the HUD area office are more committed to the Federal ethnic requirements than are the personnel in the State/local housing agency.

It should be noted that the State and local housing agencies that presently are administering any Federal housing subsidy funds are all located outside the South, although Texas and Florida housing agencies are expected to get into the housing subsidy business with State funds shortly and hence may soon be administering Federal housing funds too.

The impression among the people I interviewed was that there was small likelihood that the vigor of current Federal ethnic efforts would be reduced if the current rules were enforced by State/local housing officials rather than by HUD officials. This conclusion was based on the assumption that the State/local housing agencies could not be any weaker in this respect than HUD has been. Part of HUD's problem is that site selection, as explained above, is plagued by inconsistent policies. Moreover, there is inadequate manpower to do compliance checks on affirmative action plans. Beyond this lies political resistance to affirmative action.

If the State/local housing agency that is administering Federal housing funds is allowed to do its own review of the ethnic aspects of the application, there is at least the possibility that in some States and cities it may do a more vigorous job than HUD has done.

Tax Deductions

Whatever the merits of the deductions for mortgage interest, property taxes, accelerated depreciation of rental property and similar depreciation of property held for rehabilitation for low income occupancy, there is no feasible way to delegate this kind of subsidy to State or local government, so I shall discuss it no further.

Welfare and Housing

The whole question of the future of welfare, including the housing allowance it presently provides, seems best discussed in the context of welfare reform and income maintenance. It would be inappropriate here to attempt to summarize the vast literature on this subject.

Market Information

There is no basis for reducing the current level of Federal involvement in the gathering and dissemination of this information, which is a by-product of the national census and the operation of various Federal agencies. Indeed, one of the advantages of having a single set of subsidized housing program eligibility rules nationwide is

that it facilitates gathering of information on a standardized basis.

Omissions

Looking at Housing Study Team #1 DRAFT: Government Activities Affecting Housing, which I was furnished late in the course of my study, I note that I have not covered items II–3; III–1; III–2; III–3; III–5; III–7; III–8; IV–2–7; VII, except obliquely. I have encountered no literature or opinions suggesting that these functions should be shifted from the Federal level in whole or in part.

I have deliberately ignored the Federal relationship to housing in places without State government (e.g., District of Columbia, territories, and possessions) or on military bases or Indian reservations or parks. I have assumed that housing infrastructure programs involved in the special revenue sharing program for community development are outside the ambit of this study.

Appendix I: Formula Versus Discretionary Capital Development Grants to LHAs

At present, "new" public housing capital (both for development of additional units and for modernization of the existing inventory of the LHA) gets allocated through a discretionary process within HUD. Each LHA submits to HUD in advance of the new fiscal year its estimated development needs for the coming year. The congressional appropriation is first divided by HUD among the area offices; each area office, in turn, then divides its allocation among its LHAs. In effect, each LHA is submitting capital development grant applications to HUD which the area office screens. The area office may deny a project completely or scale it down. Once the area office has decided upon the quantity of development to be funded, there are HUD formulas that fix automatically the amount of money to be furnished the LHA for that many units of that kind of housing in that geographic area.

There have been proposals that a different process be used whereby the congressional appropriation for new public housing capital would be divided up among the LHA's by a Federal formula that would leave no discretion to HUD. Each LHA could be assured of a certain percentage of whatever Congress appropriated for new public housing capital. (Presumably, there would be separate funding of the annual Federal contributions to LHAs that had made capital development commitments in prior years on the Federal promise of annual payments for a fixed number of years.)

If formula allocation were being used, it would be possible to relax or eliminate present HUD per-unit and per-room limits on capital development expenditure. Similarly, the present Federal rules that require certain kinds of bidding could be eliminated. And the Federal restrictions that restrict an LHA's ability to use leased, rather than owned, public housing could be jettisoned.

The possible advantages of formula allocation would be: (1) Reducing the number of personnel employed by HUD; (2) increasing capital development options of LHAs; (3) making it clear where responsibility lies for good or bad LHA capital development decisions. (Formula allocation lends itself to bloc granting, whereby several categorical grant programs are combined into one. In the housing subsidy area, however, this paper recommends against combining low income housing subsidy grants with any other program, so this possible advantage of formula allocation is not applicable.)

The extent to which these first three advantages are real deserves examination. The desire to reduce the number of HUD employees may not be served by a switch to formula capital development grants, since HUD personnel probably will still be needed to make sure the Federal Government gets a dollar's worth of capital development for every dollar pumped to an LHA for that purpose. Whether the surveillance of LHA spending is done in the pregranting period or whether it chiefly occurs as a postaudit, there must be some serious Federal scrutiny of what happens to the dollars when they reach the LHA.

In theory, formula grants are supposed to require less monitoring by the grantor than discretionary grants, since the grantee is expected to be highly motivated to see that the grant money is wisely spent. This assumes either (a) that the grantee gives the goals of the grant program high priority and is strongly motivated to reach those goals as efficiently as possible; or (b) that there is some effective watchdog in the picture with clout vis-a-vis the grantee, and that this watchdog has such motivation.

In the low income housing field, the LHA-grantee, it must be admitted, has a limited motivation to reach the Federal Government's goal of providing a decent home in a suitable environ-

ment for all low income people. This goal just does not have the same high priority in the eyes of general purpose local government as do many other goals. Lest there be any misunderstanding of this, one need only consult the way local government allocates its general purpose, locally raised dollars. Nowhere does the subsidy of low income housing draw local dollars in the same manner that certain other government functions do—fire, police, public works, etc. The LHA, which reflects the politics of the city or county which spawned it, frequently is willing to subordinate the interest of low income tenants to such higher priority matters as avoiding the disturbing of existing neighborhoods, avoiding disturbing the middle class, and avoiding hard administrative problems.

Nor is there an available watchdog to monitor the LHA on the local level. Local taxpayers press for some efficiency in programs funded with local taxes, but these groups are much less interested in the programs that are funded entirely with Federal dollars; they see those dollars as doomed to be wasted somewhere else if not wasted here. The ultimate beneficiaries—the existing or potential low income tenants—are hard to organize and too few in number to serve as an effective lobby. And local government itself—elected officials, city manager, etc.—is unlikely to put the same money and energy into monitoring the public housing program as the traditional line departments. There is less likelihood that there will be line responsibility to the city manager or his counterpart. There is less likelihood that local government will spend money auditing and hiring consultants to improve organization and procedures. To the extent that top officials spend time reviewing the program, there is more likely to be a review of the way the program upsets other people than the way the program should be run to reach the Federal goals with maximum efficiency.

Meanwhile, the temptations for abuse of the program are great. Construction, acquisition, leasing, and rehabilitation work offer opportunities for profit to local enterprises. Local lawyers, architects, appraisers, and lenders stand to make a profit. Unmarketable land and structures can be peddled. The ultimate consumers are in a weak position to protect themselves if the final product delivered to them is not up to snuff; they will be expected to be grateful for whatever subsidized housing they get.

HUD could reduce the opportunities for abuse, waste, and error by continuing current restrictions on what LHAs can do with the money. But the more detailed the HUD restrictions on what an LHA can do, the more HUD manpower it takes to be sure the restrictions in fact are observed.

What has been said about the formula grant as a theoretical means of reducing HUD manpower is also true of the formula grant as a theoretical means of increasing the options of LHAs: The more freedom LHAs have, the more room there is for scandalous bad practice. If HUD is not going to inspect the quality of units being inspected or rehabilitated, some very bad units will come into some LHAs' inventory. If HUD is not going to have a voice in site selection, some cities and counties are going to pick some terrible sites. And there remain such questions as whether LHAs are to be free from such current "collateral" conditions as the Davis-Bacon (prevailing wage) Act, the affirmative action programs in employment and tenant selection, the Hatch Act, etc.

Whether responsibility—now shared by HUD and the LHA—will become clearer under formula allocation depends on the extent to which congressional appropriation levels fluctuate from year to year and the extent to which HUD retains a number of restrictions on procedure and/or content in order to restrict the opportunities for waste, graft, favoritism, and bad design. If such restrictions or such funding fluctuations remain, the LHAs can always claim that it was for these reasons, rather than poor LHA management, that local public housing capital development turned out badly.

Given the small likelihood of local government or tenant monitoring of the LHA, some significant HUD monitoring would seem obligatory to protect both the public housing tenants and the Federal taxpayers. Once this HUD monitoring capability is built in, the formula grant system loses all three of its alleged advantages: It no longer increases local options; it no longer reduces the HUD bureaucracy; and it no longer places responsibility for capital development solely on the LHA.

Some of the alleged advantages of formula grants are in fact available under a discretionary grant system. Thus both discretionary and formula grants can concentrate their Federal review of LHA action in the postaudit period, rather than pregrant; a discretionary grant system allows the grant application to be very general and skimpy, with the detailed report on how the money was spent coming later. It is true that

formula allocation is a little more susceptible to postaudit monitoring than is discretionary allocation; however, for reasons discussed in the text of this paper, postaudit enforcement of Federal conditions is less effective than pregrant insistence on those conditions.

There are some real disadvantages to formula capital grants as compared with discretionary capital grants: (1) The formula creates a commitment to locating the housing within existing political units to the detriment of the kind of regional location of units that is to some extent possible under the present discretionary system; (2) the formula makes it harder to enforce grant conditions by a future cutoff of funds to the LHA, because the formula creates "entitlement;" (3) the formula must apply to all LHAs, but some of them have no serious capital development plans; this means that the formula amount for those LHAs either is never drawn down or else is subject to discretionary reallocation later in the fiscal year; but discretionary allocation later in the fiscal year is even worse than what we have now.

Note that the choice between formula and discretionary capital development grant money allocation is different from the choice between 1-year and long term commitment. Presumably, if an LHA's capital development is to be financed via a 40-year flow of money from the Federal Government to the LHA, there must be a long term commitment made by the Federal Government whether the decision to start the flow is made by formula or by discretion.

Taking all the factors together, the balance tips very clearly in favor of discretionary, rather than formula, allocation of capital development grant money to the LHAs.

Appendix II: Leased Public Housing Versus Conventional Public Housing

There is obviously concern in some quarters about giving local government freedom to use its public housing dollars to lease, rather than own, public housing units which are then rented to the poor. At present, Congress earmarks only a share of public housing appropriations for the Section 23 leasing program.

One dimension of concern is that the Section 23 program fails to provide additional units [17]; thus it is viewed as doing only half the job—the job of income maintenance for the poor, without the other job of increasing the housing supply. This is true, but the other side of the coin is the degree to which Section 23 leased public housing is superior to public housing that is owned by the LHA: (1) The leased units have an initial lease term of, at most, 5 years, thus giving the LHA greater flexibility over time to change its inventory as conditions change; (2) the leased units give the people being subsidized less visibility and hence less stigma; (3) leased units can be acquired faster than conventional units can be bought or built; (4) leased units lend themselves to scatteration—a big boon to the elementary school that does not want to be overloaded with low income children; (5) the leasing arrangement is susceptible to having both the advantages of scatteration and the advantages of having maintenance and management done by a large enterprise which has its units concentrated at one location; (6) the leasing arrangement gives local government full local tax payment instead of payment in lieu of taxes at a lower amount; (7) in many communities there are vacancies in the leasing market but no raw land for building and no units fit for purchase at acceptable prices; (8) in many communities there is overwhelming political resistance to providing public housing to families through the conventional route, but no comparable resistance to taking the leasing route; (9) leasing lends itself to neighborhood income integration much more easily than construction does; (10) when full costs are considered, the addition of one leased unit (at this program level) costs less than the addition of one conventional unit.[18]

[17] Unless existing substandard units are improved in expectation of leasing, or new units are built only because of the Section 23 program.

[18] This statement is made by Frank de Leeuw and Sam Leaman, *The Section 23 Leasing Program* (1973), pp. 649–56. They are considering full costs, as shown below. Others, who consider only the annual unit subsidy, generally conclude that the leasing program is more expensive per unit. See, e.g., Aaron, op. cit. supra, note 6 at p. 119 and Taggart, op. cit. supra, note 8 at p. 47.

The de Leeuw-Leaman data appears in this table:

Leasing		Conventional Turnkey		
1) Rent paid to owner	$123	1) Dev. cost (Converted to monthly basis)	$136	$128
2) LHA administrative costs	18	2) Operating costs	62	62
3) Util., if paid by tenants	8	3) Forgone property tax revenue	21	21
4) Federal tax revenue forgone because of accelerated depreciation	5			
	$154		$219	$211

Figures given are for an average 2-bedroom unit, under the assumptions made by the author. The full cost of a conventional or turnkey unit is thus approximately 40 percent higher than that of the leased unit.

The further disadvantages of the leased program as compared to conventional are: (1) There is less security for the tenant, since an attractive unit that the tenant is subleasing may have to be given up when the LHA-owner lease runs out and is not renewed; (2) the economics of the program do not work out for the LHA in high rent areas, because the subsidy is limited—this is particularly true if the LHA is trying to house a high percentage of very poor families; (3) HUD resists use of the program if there is less than a 3 percent vacancy rate in the market; (4) some LHAs resist the program because they cannot recover enough administrative costs from HUD through the leasing program; and (5) on a broad enough scale, the leasing program will drive up rents because it increases demand without increasing supply[19], as Anthony Downs points out.

The demand-without-supply argument has limited force, however, under current circumstances. HUD resists the program if there is less than a 3 percent vacancy rate. The per-unit cost limit works to end the program in a given locality when rents get high. The total amount of public housing money flowing into a community is miniscule when compared to the total amount paid each year by all persons in that community for shelter.

Appendix III: A New Federal Program to Encourage National Construction Corporations by Furnishing Them Ready-To-Go Land

It may be the case that the pace of private construction could be increased and the price of housing units lowered if nationwide private corporations were encouraged to expand the scale of their operations in the housing construction, housing sales, and rental management businesses.

One major impediment to large-scale operations by such corporations at present is in the first phase of the production process—assembling land, getting it zoned, getting onsite and offsite water, sewer, roads, etc.

If this "development" process were done well by someone else, and the nationwide production corporations were buying the land ready-to-go for construction, they might be more successful, particularly if the improved land being offered for sale to them around the country were being sold to them in fairly standardized ways on fairly standardized terms.

This suggests the desirability of having someone else do the development work described above. The logical entity to do it is a branch of local government, such as the LPA that does something similar in the urban renewal process. The reasons for picking the LPA are: (1) With the aid of State enabling legislation, it could have the power of eminent domain—which would be of vast aid in assembling land; no private entity can be given this power; (2) Since local government, through its zoning and related powers, has a practical veto on the development-construction process anyhow, giving local government this additional power probably does not clog the process much more than it is clogged now; (3) of the various government entities that could exercise eminent domain power, the best entity is local government, since any other level of government, including a State Urban Development Corporation, will run into intense local government opposition when it seeks to override local preferences; (4) since local government already has the zoning power and the responsibility for local public capital improvements, giving it this additional power means that in well-run cities they can do a better job of land use control, since they add the powers of a proprietor to the powers of a regulator; (5) this would force local government to combine two perspectives that are now too often divorced—the perspective of the regulator of development, which wants to avoid or mitigate the negative social consequences of development, and the perspective of a producer, which wants to convert raw land into residences that someone is willing to buy or to rent; such a combining of perspectives might lead to more realistic government planning; (6) the program could be tailored to give local government an economic incentive to make its land use decisions without inordinate delay—say a delay that exceeds 18 months; these delays currently increase the cost of shelter needlessly.

If local government is to play the role of developer for the nationwide construction-sale-management companies, as suggested here, local government would have to be provided with

[19] See note 11, supra. Leased public housing is like housing allowance in increasing demand without increasing supply directly. However, it differs from housing allowances in that there are both LHA and HUD bureaucracies designating the tenants and the units participating, matching tenants to units, and fixing the terms on which the units are leased and subleased. Either or both bureaucracies can adopt policies that avoid carrying the leasing program to the point where it inflates rents.

the risk capital and the debt financing that private developers now raise. This could be arranged through a new HUD program analogous to urban renewal. The LPA would get a preliminary planning grant and then a final grant covering administration, relocation, and land sale loss. (There might well be a land sale profit, rather than a land sale loss, as contrasted with the situation in urban renewal, where land that is already built on must be acquired and then cleared.) The debt financing could be provided as the Federal Government now provides it in other subsidized housing programs: Direct lending, or private lending with government insurance, or guaranteeing locally issued tax-exempt notes or bonds. The risk capital could be provided by the Federal Government in the form of a grant, or by having the local government put in a small share of the capital and the Federal Government seeing that the debt financing covered a larger share of the project cost than a conventional lender would lend.

Before local government, through its LPA, bought any land to develop, it would have to get its application approved by HUD, in the manner that HUD now approves urban renewal project applications. In addition to making sure the land was marketable, the HUD bureaucracy could assure certain other things: (1) Conformity with areawide planning; (2) affirmative action; (3) restriction on the ultimate use of the land by the resale purchaser to assure compliance with a HUD formula for mixed residential development—a certain share of the units would have to be moderate-income subsidized housing, and a certain share of those would have to carry further subsidies to be available for low income occupants.

One obvious problem is whether local government, through its LPA, will have the skill to do the job private developers now do. There probably is not sufficient inhouse skill, and there probably never will be. But the LPA could contract with people who are now doing development work as entrepreneurs, letting them do the job for the LPA for a fixed fee. The actual developer today often is working for a fee in many instances within the limited partnership that performs this function; he owns only a small share of the equity in the partnership; he keeps only a small part of the tax loss himself; he sells his part of the equity without recourse when the rental project is sold off.

There are opposing perils in this arrangement between a private developer and an LPA. In one direction there is the fear that this will wind up—despite the requirement of HUD approval—as nothing more than a private developer now being armed with the eminent domain power as he continues to do precisely the same work as before, with no more concern for the public interest than before. In the other direction lies the fear that the same person or firm that did effective and imaginative development work in the private sector will prove less effective and imaginative when employed by local government, with all its restrictions, vacillations, and competing social and economic policies. One would think that the details of the program could be worked out to steer between these two evils.

Another problem is that land, after it has been through its legal and physical changes, will prove unsalable. The simplest solution would be to require the LPA to procure at least one buyer in advance of getting the major HUD grant, and this buyer would, in effect, give the LPA an option to sell to him if the LPA carried out the HUD-approved plan within a fixed period of time. The obvious disadvantage of this is that this inside-track buyer might be in a position to dictate to the local government unit and HUD and become, in effect, a private purchaser now armed with the eminent domain power. An alternative, more awkward, solution is to create a national quasi-public corporation to serve as the buyer of last resort in the event there is no private bid at a reasonable price over a certain period of time. This agency would play a role somewhat analogous to the secondary mortgage market agencies—FNMA, GNMA. Given the general tendency of land to appreciate in value, the risks such an agency would run in acquiring a land inventory would not be too great.

It seems safe to predict that if such a Federal program were created, the necessary State enabling legislation would not be forthcoming in many States at once. Probably one or two States would come through in the short run; this would be valuable, because it would provide a laboratory for testing the idea.

Obviously, the requirement that the developed land be used for mixed-income housing will reduce the interest in the program by both local governments and private purchasers. Such a requirement, however, removes some of the State law obstacles to the use of the eminent domain power for this purpose. And there are undoubtedly private purchasers who are willing to build mixed income developments if the units can be sold or rented profitably. More than a dozen private firms in Massachusetts have been building

such projects with State financial assistance for the past 2 years, and the sales resistance does not appear to be any worse than in more conventional developments. The real obstacle is likely to be local government, particularly in those suburban communities that are presently resistant to housing for low income and moderate income people.

It is possible to sweeten the package for local government by including in the Federal grant a sum which compensates the local general-purpose government (and school district, if that is separate) for the gap between what the subsidized units will pay in local property taxes and what it in fact costs the general-purpose government (and school district) to service these subsidized residents. This can be approximated on a formula basis. To the extent that local communities face a growing body of court precedents precluding them from exclusionary zoning, such communities may, in some instances, decide that it is better to participate in the program than to let nature take its course.

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11 Housing Allowances

Implications of the Experience with the Shelter Component in Public Assistance for the Design of a National Housing Allowance

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Summary

The identification of a budget item for the cost of shelter as part of the basic public assistance standard in each State is part of the development of the Federal-State categorical assistance programs following the enactment of the Social Security Act in 1935. In principle, States first adopted policies that provided for the payment of the actual cost of rent to a maximum level established on either a statewide or district basis. Thus, the shelter component could have served as a form of housing allowance, similar to a "percent of rent paid" design for those low income households which were eligible under the categorical criteria established in the Social Security legislation.

In reality, the functioning of the shelter component as a housing allowance has been severely constrained in the decades since 1935, through a number of features in the State public assistance programs that developed. Definitions of eligibility were narrowly specified to minimize the size of the potentially eligible set of households. Administrative difficulties were created to discourage households from applying for assistance. Assistance standards, including those applied to shelter, were allowed to lag behind actual cost levels. Actual payment levels in many States, particularly in the AFDC program, were set at less than 100 percent of the official budgetary standard, and other States established maximum payment levels, well below the requirements of individual households as determined by the application of the State standard. States did not use any criteria of standardness for housing occupied by welfare recipients. Systematic information on supplementary or "special allowance" benefits to meet unusual shelter related costs, such as moving costs, was not made available, and limited efforts were made to provide supplementary housing services, including housing information in most jurisdictions.

As a consequence of these constraints, and a variety of financial and political factors among the States, 50 different public assistance programs now exist, with wide variations in terms of benefits, level of benefits, the level of the shelter component, and the relation of benefit levels to actual living costs in the State. States with the highest median family income generally have higher levels of benefits in proportion to the median family income, more provision for special allowances, and more provision for housing services. States with the lowest level of benefits, limited provision for special allowances, and no housing services, have the highest proportion of Federal reimbursement for public assistance expenditures.

Within the AFDC program, additional variations have developed as a result of Federal policies since 1967 that apply to the disregard of earned income. The result is that families with an employed worker have a higher allowable standard of living than those households without the employed worker.

The public assistance programs in New York City illustrate the complexity that can develop in dealing with the shelter component in urban areas with high rent costs, a shortage of housing units, and large welfare recipient population. Although benefit-level policies are high, and special allowance provisions and housing services are extensive, compared to other jurisdictions, welfare households occupy the oldest and the poorest housing in the City. Efforts to improve the condition of housing stock, by increasing the income flow to landlords, however, result in sharply increased costs in the public assistance budget, and therefore sharply increased cost to the city of New York.

Since 1969, a number of States have changed from a "rent as incurred to a maximum" policy to policies involving some type of "flat" shelter allowance on a statewide basis. In six States, the shelter component is incorporated in a single "flat" income payment to individual households which varies only by family size. The change to this policy has been part of a general

effort to simplify administration and reduce the degree of variation in assistance payments among individual households. One effect of the "flat" grant has been to reduce the income available, to families with unusually high rental costs. There are no systematic data available, however, on the actual impacts on individual households of this change in policy. The change in policy is largely made for political and fiscal reasons, without systematic examination of the potential consequences for individual households.

The relation between welfare recipient status and housing outcomes is primarily affected by the low level of assistance benefits and the highly skewed characteristics of the recipient population, particularly in the AFDC program. In addition there may be specific consequences for housing outcomes that are directly related to welfare status alone. Several explanations of this "welfare effect" are offered. One is the behavior of welfare households, including a high level of moves and the destructive behavior of children in single-parent households in which a mother is engaged in part-time or full-time employment. A second explanation is explicit discrimination against welfare recipients in addition to that discrimination that they may suffer because of other household characteristics. A third explanation is that higher rent charged by landlords, or reduced services, are a rational response of landlords to possibilities of lost income because of frequent moves and the potential damage of properties from destructive children.

A frequent association has been found between problems of housing abandonment and existance of large numbers of welfare recipients as renters. It is clear that many other factors are involved, and there is no clearly established explanation as to whether the presence of welfare tenants is a major causative factor, or is only one of a number of indicators of a general process of housing abandonment in certain urban areas.

Examination of the experience with the shelter component indicates that it has not served as the equivalent of a formal housing allowance, even for those households included under the categorical definitions of eligibility. It is also evident, given the present characteristics of public assistance programs that the shelter component is not currently an adequate alternative to a national housing allowance, although there is variation in this regard among major categories. The new federally administered adult categories, established in January 1974, might be an alternative to a housing allowance, given reasonably high levels of income support. Local programs of general assistance, now available to intact families in some areas, could not serve as an alternative. It appears that the degree of change that would be required for the AFDC program, or some replacement, to serve as a housing allowance would be at least as far-reaching as the changes required in adopting a separate and universal housing allowance.

The experience of the shelter component in public assistance has several implications for the design of a separate housing allowance. First, major attention would need to be given to the effect of a housing allowance on present Federal-State relationships in a public assistance program. Second, the choice between "percent of rent paid" and "shelter gap" designs involves important administrative considerations as well as equity and cost considerations. Third, categorical limitations and the treatment of earned income may create subcategories within the housing market leading to highly concentrated population groups with social characteristics that create new difficulties at the community level. Fourth, the level of benefits, and/or provisions for special allowance payments are critical factors in achieving the objectives of an income provision program. Fifth, the characteristics of the assistance benefit system can have marked impact on housing market conditions, including substantial negative effects if benefits levels are unrealistically low.

Introduction

This paper deals with three questions of importance in the design of a national housing allowance program.

1. Has the experience with the shelter component in public assistance programs constituted an effective test of a national housing allowance?

2. To what extent could the shelter component provisions in public assistance programs be used as an alternative to a national housing allowance?

3. What are the implications of the experience with the shelter component in public assistance for the design of a national housing allowance program?

Background

Any examination of the experience of public assistance programs in the United States can be divided between the period prior to the enactment of Social Security legislation in 1935 and the period following. Prior to 1935, provision of financial assistance to those in need was primarily a local responsibility, with a few statewide programs for widows and the elderly having been established during the 1920's. Local programs included public "poor relief" based essentially on historic provisions of English poor law, and, in larger cities, "organized charity" provided by private philanthropic agencies. In both programs the amount of financial assistance provided to a particular household was tied to its specific household budget situation. To the extent that financial assistance was provided specifically to pay rent, such assistance could be considered to have been a form of housing allowance, just as other components of the assistance allowance could have been considered to be food allowance or a clothing allowance.

However, the scope of these financial assistance programs and their impact on the housing market were limited in the following ways:

1. Financial assistance was generally limited to those households that had no other significant source of income and had exhausted all savings or similar resources.

2. Financial assistance was provided on a temporary basis with maximum pressure on the household to obtain income from other sources.

3. The amount of financial assistance provided for housing was at the minimum level needed to secure whatever shelter was available in the community. There were no explicit criteria used to determine the "adequacy" or standardness of housing as a condition for receiving assistance.

4. It was specifically assumed that there would be no redistributional effect from any financial assistance provided and that any household receiving assistance would be supported at a level below the standard of living available to a full-time worker at the lowest wage rate.

5. Many small and medium sized cities, and rural areas, had no systematic program at all.

6. Assistance was often provided by voucher or in kind, rather than through cash allowances.

In these poor relief and charity programs, decisions about the level of financial assistance required for particular households were made by staff personnel on a case-by-case basis. Although information may have been available about general rent levels in the area, the actual determination of the amount of a rental allowance was made by the staff person responsible for a particular "case." A single staff person was responsible for determining the level of assistance required for "basic needs," for securing funds for any unusual, or "special" needs, and for providing any "services" required in helping a family to find housing.

Except in periods of high unemployment, financial assistance was primarily limited to persons who were unemployed because of physical handicaps, age, or responsibility for the care of several young children. The specific objectives of these welfare programs were to relieve destitution while maintaining pressure on households to be self-supporting through employment.

The Shelter Component in State-Federal Categorical Assistance Programs

In the Social Security Act of 1935, provisions were made for Federal support for State-administered (or State-supervised and locally administered) public assistance programs for persons over 65 [Title I (OAA)] and for widows with young children [Title IV A (AFDC)]. Later provisions were added covering the blind [Title X (AB)] and the totally and permanently disabled [Title XIV (APTD)]. Under these provisions the prior system for financial assistance was changed in the following ways:

1. Financial and administrative responsibility for such programs was assigned to publicly controlled, tax supported agencies, with the key agency being the State public welfare department.

2. The coverage of financial assistance programs was broadened through the extension of assistance programs to areas which had previously had no program and through the establishment of statewide eligibility criteria.

3. Categorical distinctions between households defined as being outside the labor market and households that were defined as including participants in the labor force were systematized and made nationwide. Federal financial reimbursement was restricted to programs covering persons defined as outside the labor market.

Other households requiring financial help were required to rely on State and local "general assistance" programs where they existed. The status of the ADC program (later the AFDC program) as covering a categorical group primarily outside the labor market was never as explicit as that of the other programs for the elderly, the blind, and the disabled. Federal legislation in the late 1960's and early 1970's effectively divided AFDC recipients into three subcategories: "unemployable," "potentially employable," and "employed," with different regulations applying to each group.

4. Statewide budgetary standards were established in conformance with a basic Federal requirement that all public assistance policies be consistent throughout a single State.[1] These budgetary standards included a definition of "basic needs," together with guidelines for determining the amount of financial assistance for each basic need item to be provided a household depending on the number and age of household members. Inclusion of shelter costs as a basic need was made in all State program plans.

5. Public assistance benefits for basic needs were provided through regular cash payments.

These Federal-State categorical assistance programs assumed that the household had little or no income from any other source. The assistance agency therefore determined the "budgetary needs" of the household, including shelter costs, subtracted the full value of any other available income from whatever source, and provided financial assistance to meet the "household budget deficit." This variable income provision procedure took into account "rent as incurred" in determining the basic budgetary need of an individual household.

In addition to financial assistance to meet the cost of basic needs, including the cost of shelter, State plans made varying provision for meeting the costs of "special needs," including such shelter-related items as moving costs, rent deposits, storage fees, utility deposits, etc. These special needs allowances originally were not reimbursable by the Federal Government. (Some special allowances are now reimbursable as "Emergency Assistance," limited to one 30-day period each 12 months in any one case. Twenty-three States, in 1972, were making some use of this provision.) Included in the responsibilities of the public welfare social worker was the responsibility for providing those housing "services" which a household might require in addition to cash assistance to find housing or to stay in the unit presently occupied.

The inclusion of "rent as incurred" in determining the household need budget, together with provisions for special need allowances covering certain shelter-related costs, and the provision of "housing services" by the public welfare social worker constituted, in principle, a potential type of housing allowance program. It allowed variations among households according to the rental market conditions actually faced by those households. It also permitted case-by-case adjustments to individual rent increases over time. In principle, it resembled the housing allowance design which has been identified as "percent of rent paid." However, the actual operation of Federal-State categorical assistance programs since the 1930's has been such that the potential of these programs serving as an alternative to a separate housing allowance program has never been realized.

Constraints on the Development of the Shelter Component as a Housing Assistance Program

Although Federal-State public assistance programs could have included many of the features that are now proposed in a national housing allowance program—at least for major segments of the low income population—such an outcome was never achieved. While Federal regulations were applied to the administrative structure of the assistance programs as carried out by the States and to the eligibility procedures, there were no Federal regulations which dealt with the actual level of financial payments to be provided by the States. The pattern of benefits that did develop, therefore, was determined by State and local decisions, although Federal reimbursement policies did set fixed payment levels above which there would be no Federal reimbursement. It continued to be assumed that households dependent upon public assistance should not receive support to maintain a standard of living above that available to a household with a fully employed worker at the lowest local wage rate.

In addition to the financial constraints that were applied to Federal-State public assistance

[1] The first Federal regulation that required States to establish formal Budget Standards came in 1947. See Florian DuMornay, "A Brief Review of Current State Practices in Establishing Budgets for Welfare Recipients." The Urban Institute, Washington, D. C., Working Paper: 963–10, Mar. 1, 1973.

programs, there were a number of other constraints:

1. Definitions of categorical eligibility were narrowly defined and efforts were made to minimize the size of the potentially eligible set of households. This included the use of State standards of "family suitability" as a device to exclude substantial numbers of single-parent households from eligibility for AFDC.

2. Complicated administrative procedures, limited accessibility of service offices, and the behavior of staff personnel were also used to discourage potentially eligible households from applying for assistance benefits.

3. Assistance standards, including the rent maximums established under a "rent as incurred" policy, were allowed to lag behind increases in actual cost levels in most States. Adjustments in the formal statewide budgetary standards were infrequent.

4. Payment levels in individual States, particularly in the AFDC program, were often set at less than 100 percent of the budgetary standard. In most instances, but not all, this "ratable reduction" was applied to the shelter component as well as to other budgetary components of the assistance payment.

5. Some States established an absolute maximum on the level of the assistance payment that could be made to any household regardless of the level of budgetary need, including rent costs that had been documented.

6. States did not establish any criteria of "standardness" for use in determining the adequacy of housing occupied by recipient households. Where regulations existed requiring that violations of local housing code requirements be brought to the attention of local officials by public welfare workers, these regulations were largely ignored in day-to-day operations.

7. Systematic information on regulations dealing with special needs allowances was not made available to recipients. The provision of such allowances was defined as primarily within the discretionary judgment of the public welfare worker and/or supervisor. Access to State manuals and other sources of information on special allowances was denied to recipients. In many States there were no detailed statewide policies for the provision of special needs allowances.

8. No systematic effort was made in public assistance programs to provide specialized housing services, either through inservice training of public welfare personnel or through the development of specialized staff units, except in a few cities with very stringent housing shortages.

The Shelter Component in AFDC

Although these constraints have been general to all of the Federal-State categorical programs, they have been most severe in the AFDC program. Benefit levels have been set at a somewhat higher level for Old Age Assistance recipients, or have been cut less rigorously when State budgets were inadequate. A similar situation has existed for AB and APTD. Many OAA recipients have occupied their own fully paid homes, and shelter costs have been a less pressing issue in this program, in comparison to medical care costs, particularly before the enactment of Medicare and Medicaid provisions. The balance of this paper deals with the shelter component only in the AFDC program, in part because there has been more concern with the problems of housing under this program, and more information developed, and, in part, because the public assistance program as it applies to elderly, blind, and disabled citizens will be substantially changed in 1974 as a consequence of the passage of H.R.I. in 1972. Moreover, the AFDC program deals with those households that face the most difficulties in obtaining housing and raise the most serious policy problems in any housing subsidy program.

The pattern of Federal-State programs that emerged between the mid-1930's and the end of the 1960's varied widely among the States. Although recommendations by Federal staff consultants were one factor in efforts to improve the level of assistance benefits in many States, the actual characteristics of the public assistance program, including the level of benefits provided, were primarily a consequence of political and budgetary processes at the State level. Information on actual market costs of essential household items were a minor factor in determining the actual level of benefits in any State. Raising the quality of living for assistance recipients above a basic subsistence level was never a specific objective of the operational policies actually established at State or local levels. Direct reduction of inequality among households in a given State through substantial income redistribution using public assistance payments was not an objective of these programs.

Table 1. Comparison of Benefit Levels, Family of Four, in AFDC-States with Variable Income Provision Policies

State,	Annualized Rate State Standard [1]	Annualized Payment Level [1]	BLS Lower Level Consumption Budget, in Major City [2] (1971)	AFDC Payment Level as % of BLS Consumption Budget	Median Family Income, State 1970 [3]	AFDC Payment Level as % of Median Family Income
Louisiana	$2448	$1368 (56% of standard)	$5425 (Baton Rouge)	25.2%	$7530	18.1%
Missouri	$3756	$1560 ($130 a month payment maximum)	$5855 (St. Louis)	26.6%	$8914	17.5%
Illinois	$3276	$3276 (100% of standard)	$6106 (Chicago)	53.6%	$10,959	29.8%
Pennsylvania	$3612	$3612 (100% of standard)	$5825 (Philadelphia)	62%	$9558	37.6%

SOURCES:
[1] Assistance Payments Administration, SRS, HEW, internal document, "State's Methods for Determination of Amount for an AFDC Family Size of Four," dated 1/72, corrected to 2/31/72 and Questionnaire on Public Assistance Shelter Policies, Joint Center for Urban Studies—MIT Harvard, March 1973.
[2] U.S. Department of Labor, Office of Information, April 27, 1972, Table I.
[3] *Statistical Abstract of the United States, 1972*, Table 532, p. 326.

Some illustrations of the variation among the States in the AFDC assistance payment provisions which developed among the States are shown in Table 1. (The figures in Table 1 and following tables are based on information available in early 1973. Both standards and payment levels as reported may be changed by State action at any time.)

Table 1 includes four States, all of which use a variable income provision policy, including a "rent-as-incurred" shelter component. As of 1973, approximately two-thirds of the States were using this type of benefit policy. The annualized State standards, based on figures reported by the States to HEW include a figure for the shelter component. In most States, including Illinois and Pennsylvania, this amount is the maximum rent payment allowed in the largest city in the State. In States such as Louisiana and Missouri without a formal schedule of rent maximums, the shelter component in the State standard is an assumed amount representing a typical or average shelter item. The actual budget standard for specific households with rent costs below the maximum shelter allowance level would be lower than the figure in this table. The standard would also be lower for those districts within a State in which the maximum rent ceiling was set at a level lower than that for the largest city. The "need budget" for an individual household is determined by subtracting all other sources of income, including a net income after disregard for earned income, from the budget standard that would apply to the particular household, including variations for family size, age of children, and level of rent actually being paid.

As this table indicates, the actual level of payments to households may be set either at or below the standard. In the instance of Louisiana, the actual payment level in 1973 is set at 66 percent of the household budget deficit, while in Missouri an absolute maximum of $130 is set for a family of four regardless of the level of household budget deficit that has been determined. Illinois and Pennsylvania, on the other hand, have a payment level of "100 percent of standard," and households receive the actual amount of the household budget deficit.

These four States represent, generally, the extremes in benefits levels available under AFDC programs. Mississippi has a lower level of AFDC payments with an annualized maximum payment level—regardless of the number of children in the household—of $1,296. Connecticut and New Jersey, using a "flat grant" payment policy (see discussion below) have annualized payment levels of $3,720 and $3,888, respectively.

Table 2 sets forth the provisions of the shelter component policies in the AFDC program in the four states included in Table 1. Table 3 shows the actual benefits available under these policies, including the shelter component in the basic monthly grant as well as the provisions for

shelter-related special allowance payments and provisions for specialized housing services.

Table 2. Shelter Component Policies

Louisiana

Policy: "The actual monthly cost of shelter shall be allowed. No maximum figure is provided but the shelter allowance as described in C (renting) shall not exceed the cost of comparable and available shelter in the community. The allowance shall provide for a family's reasonable shelter needs which are compatible with minimum standards of healthful living and comparable to family and community standards."

Shelter Standard: An assumed figure of $50 a month for shelter costs is included in the $204 "State standard" for a family of four as reported to HEW.

Payment Level: Actual grant payment is set at 56 percent of the need budget as determined for the individual household.

Provision for Exceptions: Provisions for exceptions to rent maximums do not apply.

Missouri

Policy: Rent is included in the household need budget on an "as paid" basis without either regional or statewide maximums.

Shelter Standard: An assumed value of $40 a month is included in the "State standard" of $333 for a family of four as reported to HEW.

Payment Level: Maximum payment to any household of four without other income is $130 a month. Earned income is disregarded up to the amount of the difference between $130 and the "need budget" established for a particular household using the State standard.

Provision for Exceptions: Provision for exceptions to rent maximums do not apply.

Illinois

Policy: Rent is included in the determination of a household need budget on an "as paid to a maximum" basis.

Shelter Standard: There is a statewide maximum of $97 a month for an unheated apartment for a family of four.

Grant Level: Actual grant payments are based on 100 percent of the need budget established for individual households, including actual rent to the maximum.

Provisions for Exceptions: Exceptions to the statewide maximum for rent can be made by the central State office.

Pennsylvania

Policy: Rent is included in the determination of the household budget on an "as paid to a maximum" basis with variations by district within the State.

Shelter Standard: The maximum rent level allowed in the administrative district including the largest city in the State is $74 a month for a family of four for an unheated apartment. In the administrative district with the highest maximum the ceiling is $86.

Payment Level: Actual grant payments are based on 100 percent of the need budget for individual households, including actual rent to the maximum.

Provisions for Exceptions: There is no provision for exceptions to the rent ceilings established for a particular district.

SOURCE: Questionnaire on Public Assistance Shelter Policies, Joint Center for Urban Studies of the Massachusetts Institute of Technology and Harvard University, Cambridge, Mass., March 1973.

Tables 2 and 3 illustrate the variations in shelter component policies and shelter component payment procedures that have developed among different States. There are obvious differences in the actual level of payments and in their relation to median rent levels, taken as one indicator of housing cost. An important issue is that all four States impose some form of constraint on the absolute level of financial assistance which they provide towards rental costs for a public assistance household. Louisiana and Missouri determine the household need budget on the basis of the full cost of rent "as paid" and then constrain the actual level of the payment through the application of a "ratable reduction" (Louisiana) or a payment maximum (Missouri). Illinois and Pennsylvania pay 100 percent of the individual household need budget, but they establish rent maximums that must be taken into consideration in determining the need budget. Illinois has a provision for approving exceptions to the rent maximum, but this decision must be made at the State level. All 50 of the States use at least one of the procedures illustrated by these four States to limit the actual amount of rental assistance to be provided to a particular household.

When the figure for the shelter component in the "State standard" is reduced on a prorata

Table 3. Comparison of Shelter Component Provisions, Family of 4, in AFDC-States with Variable Income Provision Policies

State	Shelter Standard [1] [3]	Shelter Standard Prorated	Median Contract Rent Largest City [2]	Prorated Shelter Standard	Types of Shelter-Related	Housing Services [3]	
Missouri		(prorated portion of $130)	(St. Louis)				
Illinois	$97[a]	$97	$110 (Chicago)	88.2%	Eight [b]	Yes	30
Pennsylvania	$74[a]	$74	$77 (Philadelphia)	96.1%	Three [b]	Yes	1

SOURCES:
[1] Assistance Payments Administration Document, dated 1/72, corrected to 3/31/72. "State's Methods for Determination of Amount for an AFDC Family Size of Four."
[2] General Housing Characteristics United States Census Summary 1970, Table 17—Contract rent with all plumbing facilities: specified renter occupied.
[3] Questionnaire on Public Assistance Shelter Policies, Joint Center for Urban Studies—MIT, Harvard, 1973.
[a] In Louisiana and Missouri this Figure is an "assumed amount" included in "State standard" as reported to HEW. In Illinois and Pennsylvania this is the maximum in district with largest city.
[b] Louisiana—Home repairs, home repairs under Title 1119. Illinois—Moving costs, storage, rent arrearages, utility arrearages, accumulated rent and utility arrearages at time of application, security deposit, hotel housing in evictions, home repairs. Pennsylvania—Moving costs; storage, home repairs.

basis in the case of Louisiana and Missouri, in proportion to the "ratable reduction" or "maximum payment" restrictions, the gap between the shelter component and the median rent level in urban areas is striking. However, the State policies do not make a specific assumption under these conditions that the household actually reduces each item of expenditure on a proportional basis. That is, there is no consistent or fixed relation between the theoretical amount included in the public assistance payment for shelter costs and the amount of rent that an individual household may actually be paying. There are additional variations both among and within States in the shelter component, depending upon the size of the household and whether or not heat is included in the rental payment. Moreover, States have separate shelter schedules for households that are not sharing housing accommodations with one or more persons who are not included in the public assistance grant.

Variations among States are also evident in the provisions for "shelter-related" special needs allowances and the provision for housing services. The most frequent form of special allowance provision is for housing repairs. Illinois is the only one of these States that makes relatively complete provision for payments for a variety of special costs related to shelter consumption. Three of the States report that housing services are specifically identified within their "State plan" as one of a series of social services. However, only Illinois reports a significant number of housing specialists, with 30 persons at State and local levels. Pennsylvania and Missouri report that such services are provided by the public welfare social service generalist, who is also responsible for providing a wide variety of other types of social services.

The inclusion of rent in the need budget on an "as incurred" basis is, in theory, a limited form of "earmarking." However, the application of ratable reduction and payment maximums, as well as the application of rent maximums which are below median rental levels, particularly in large cities, means that this form of earmarking is essentially meaningless in encouraging higher household expenditures for housing, since most, if not all, recipient families—at least in urban areas—will have no choice in paying as much or more in rent payments as the amount identified in the actual grant as being applicable to shelter costs.

Treatment of Earned Income [2]

The first three tables deal with the policies applied to the household without other sources of income or in which 100 percent of income is applied against the amount of the assistance grant that would otherwise be available to the

[2] For a fuller discussion of the treatment of earned income in public assistance programs, see, "Integrating Housing Allowances With the AFDC Program: Issues of Income Definition and the Implicit Tax Rates." Interim Report, Analysis of Selected Census and Welfare Data to Determine Relation of Household Characteristics, Housing Characteristics, and Administrating Welfare Policies to a Direct Housing Allowance, Joint Center for Urban Studies, M.I.T.—Harvard, Jan. 31, 1973.

Table 4. Comparison of Effects of Income Disregards on Monthly Household Net Income—Family of 4, in AFDC—Net Earned Income $100 a Month [a]

State	State Standard	State Payment Level	Income Applied as Offset to Assistance Allowance	Net Assistance Payment	Disregarded Earnings	Household Net Income	Increase from Earnings	Percent Increase from Earnings
Louisiana	$204	$114	$100	$14	$80	$194	$80	70%
Missouri	$313	$130	0 [b]	$130	$180	$310	$180	138%
Illinois	$273	$273	$100	$173	$80	$353	$80	29%
Pennsylvania	$301	$301	$100	$201	$80	$381	$80	27%

Source: "Annualized Standard Payments and Payment Methods for an AFDC Family of Four as of 7/72," Document, Assistance Payments Administration, Assistance Standards Branch, July 1972.

Notes:

[a] Gross earnings are $180 a month. $30 and one-third of the remainder ($50) are disregarded under federal policy. Work-related expense allowances are omitted from consideration in this table.

[b] In Missouri net earnings would be applied to reduce the grant only after earnings and assistance payment exceeded $313.

household. The exception to this is Missouri, which allows retention of all earned income up to the amount of the gap between the State maximum and the level of the "need budget" for a particular household.

However, the 1967 Social Security amendments introduced a major change in policies dealing with earned income in an effort to establish a financial incentive for AFDC adult recipients to seek employment. Based on the 1967 amendments, an adult in an AFDC household may deduct from earnings specified amounts for work-related expenses plus $30 a month and one-third of any remaining amount of above $30. The application of the "$30 and one-third rule" essentially established a dual set of income policies within the AFDC program, with a higher level of household income allowed for households in which there is an employed adult than for households in which there is not.

Table 4 illustrates, in the four States, the effect of the income-disregard policies. These provisions for the income disregard are unrelated to the process of determining the components of family "need budget" and, therefore, there is no assumption made about the allocation of the retained earnings to specific budgetary items. This further confuses the issue involving the basis of the shelter component within the family need budget and the amount which it is assumed a recipient household may, in fact, be spending on rental payments. In a study in 1971, 17 percent of AFDC households nationwide reported earnings with variations among the States from a high of 29 percent to a low of about 10 percent.[3]

[3] "Findings of the 1971 AFDC Study: Part 2. Financial Characteristics," DHEW Publication No. (SRS) 72-03756.

New York City Experience

The shelter component policies of the Department of Social Services of New York City are among the most elaborate and comprehensive in the United States. Moreover, this is the only public assistance administrative unit in which there have been systematic studies of the administrative experience with the shelter component policies and their effect on the local housing market. Because the New York City situation represents an extreme situation both in the characteristics of the policies and in the nature of local housing market conditions, the findings that have been reported in local studies are summarized here. (A more extended summary of a number of studies dealing with welfare and housing in New York City is being prepared as a separate document by the Joint Center for Urban Studies.)

The State of New York instituted a "flat grant" for all basic need components in the AFDC budget, except shelter, in 1969. Shelter remained on an "as incurred to a maximum," with each administrative district establishing rent ceilings for households of different sizes, subject to State approval. New York City is one of the administrative districts. In New York, local government pays part of the costs of the AFDC program from local tax sources and is, therefore, directly affected by the cost effects of public assistance payment policies. In the instance of New York City, 25 percent of the 1971 AFDC assistance payments came from the city budget. The Department of Social Services is the administrative agency responsible under State supervision for assistance payments and social services in all of the Federal categorical programs, plus Home Relief and Veterans Assistance.

The New York City policies explicitly provide for administrative approval of exceptions to the general schedule of rent maximums. Three different levels of approval are provided for; through this process for appeals, it is possible to attain approval for any level of actual rent which a household must pay in order to obtain housing. In 1971, some 20 percent of all of the rents approved by DSS for inclusion in a household need budget were above the administrative ceiling, for a family of four which was set at $125 in 1972 for an apartment with heat and hot water. DSS also makes extensive provisions for special allowance payments. A 1972 study by the New York City Rand Institute, "Welfare Housing in New York City," [4] lists 16 different types of shelter-related special allowance payments under four major headings: Moving-Related Expenses, Payments to Assure Continuation of Services, Disaster Payments, and Housing Maintenance Payments. DSS provides specialized housing services with 135 housing specialists in the 42 local service centers and a citywide central administrative unit of 35 persons.

DSS is heavily involved in the rental housing market in New York City. Some 1,300,000 persons in New York City—or one in every six persons in the entire population—were receiving some type of public assistance in early 1972; [5] 63.3 percent of all welfare households received assistance through the family assistance programs (AFDC, AFDC-UP and Home Relief). The total public assistance caseload increased 486 percent from 1961 to 1971. In 1971, payments to welfare recipients towards basic rental costs were $350.5 million out of the total of $408 million in rental expenditures by assistance households.[6] Within the DSS amount, expenditures for private rental housing were $311.5 million. The shelter expenditures also included $29.9 million for special need allowance payments. The total shelter allowances therefore were over $380 million—just over one-third of the total expenditures of $1.1 billion in 1971 for assistance payments. Of this total, New York City provided $284 million, or 25 percent.

Although the New York City policies provide substantial flexibility in both rental levels and special allowances, rent control provided a substantial constraint on the actual level of benefits to particular households until the early 1970's. As a result of rent control, the actual rent allowances included in the majority of public assistance grants were below the administrative ceiling, with 71 percent of the basic shelter allowances at $15 or more below the administrative ceiling in 1971.

A series of studies during the last half of the 1960's documented in detail the failure of public assistance families to obtain adequate housing in New York City. A 1966 study reported that one-third of the buildings in which welfare families lived had rats and hallway garbage.[7] George Sternlieb, using 1968 information, reported that "Regardless of the several inputs in the mix, there is no question of the concentration of welfare tenantry in the oldest and poorest housing." [8] He also reported that "basic levels of rent paid by welfare recipients buy relatively little in the way of housing amenities." A study carried out for the NYC Bureau of the Budget, also using 1968 information, reported that 50 percent of all the units occupied by welfare households were classified as "unsound." [9]

Overcrowding is also extensive among public welfare households. The 1972 study by the New York City Rand Institute reported that—on the basis of a standard of one-person-per-room up to four persons, and one additional room for every two persons above that—over 50 percent of the welfare households of eight persons or more were overcrowded.[10] However, small welfare households—up to three persons—were undercrowded, as was true among all renters in New York City.

Although welfare households were reported as highly concentrated in substandard units throughout the 1960's, there was a marked shift in their location during the last half of the decade. In 1965, four out of five of the New York City Community Corporation Areas (target areas of the OEO antipoverty program) with the highest rates of welfare dependency were in Brooklyn.[11]

[4] Ira S. Lowry, Judith Gueron, and Karen Eisenstadt, "Welfare Housing in New York City," New York City Rand Institute and Department of Social Services, City of New York, Oct. 1972.

[5] George S. Sternlieb and Bernard P. Indik, *The Ecology of Welfare: Housing and the Welfare Crisis in New York City*, New Brunswick, N. J.: Transaction Books, 1973. Chapter 1, "Some Parameters of Welfare."

[6] Lowry, et al., op. cit., Chapter IV, "Housing Assistance Costs 1969–1971"

[7] Lawrence Podell, "Families on Welfare in New York City," Center for the Study of Urban Problems, Graduate Division, Bernard M. Baruch College, The City University of New York, 1969.

[8] George S. Sternlieb, "The Urban Housing Dilemma: The Dynamics of New York City's Rent Controlled Housing," Housing and Development Administration, The City of New York, April, 1970.

[9] Joan Ransohoff and Carol L. Ganz. "The Housing of Welfare Recipients: Opportunities for Improvements," New York City, Bureau of the Budget, 1969–1970 (unpublished).

[10] Lowry, et al., op. cit., Chapter V, "Is Welfare Housing Adequate?"

[11] Abraham C Burstein, "New York City Community Corporation Area," Human Resources Administration, City of New York, Mar. 1972.

By 1970, four of the five areas with the highest rates of welfare dependency were in the Bronx. The available data do not indicate whether this represents a movement of the same families, or a higher than average increase in new recipient households in the Bronx in comparison to other areas. In 1971, however, there were 22 moves for every 100 assistance cases, and 26 per 100 in the AFDC program.[12]

New York City has also been marked by intensive efforts to devise housing policies that would both protect and improve the existing housing stock and improve the housing conditions of low income families, including public assistance households. Among the alternatives have been several proposals for the use of shelter payments in public assistance to create incentives for the improvement of the housing stock [13] and a proposal to complement the shelter provisions welfare eligibility level.[14] None of these proposals was adopted. The proposals to use the shelter component as a source of long term incentives to improve the quality of particular buildings were found to be unfeasible because the degree of concentration and stability of welfare households in single buildings, and even in particular neighborhoods, was not as high as had originally been assumed. The proposal for a New York City housing allowance was not implemented, at least in part because of the additional costs to the city budget at a time of budget stringency.

Action was taken, however, on other recommendations from these studies which called for changes in the rent control in order to provide more income to owners of older rental units. The New York City Council established the Minimum Base Rent (MBR) rent control program, which provided for a controlled, but steady increase in rent levels. Simultaneously, the State legislature took action to remove rent control restrictions totally from units where there was a change in tenancy. Although the effects of these changes in rent control were delayed by Federal rent controls under Phase II, both the city MBR program and the State "de-control" policies are now resulting in rent increases in a number of units.

Since these changes in rent control, in effect, began to remove the constraints that had existed on the actual level of shelter allowances for assistance households, the Department of Social Services was faced with the prospect of a rapidly increasing level of shelter allowances. Since DSS is, in fact, the largest single rent payer in New York City, any substantial increase in the amount of income made available to owners of older units through the relaxing of rent controls would come through the DSS budget. The New York City Rand Institute 1972 study [15] was carried out in order to anticipate the possible consequences and to analyze the policy alternatives. The two basic alternatives dealt with in the study for establishing some constraint on the potential level of shelter allowance costs were establishment of firm rather than flexible administrative ceilings, or the establishment of a "flat grant" shelter provision. In both proposals the critical factor was the dollar level to be used. The study reported that the policy that would be most effective in reducing administrative complexity and improving the housing stock—that is, a "flat grant" at a relatively high level—would also be the most expensive. The study strongly recommended that although some type of constraint on the level of basic shelter allowances should be established, the provisions for shelter-related special allowances should be retained. The report argued that in the complex New York City housing market, a substantial degree of flexibility is essential in dealing with individual case situations.

The city administration presently has under consideration recommendations from this study. In the meantime, further action has been taken by the New York City Council on rent control policies which may have a further impact on the level of shelter allowances and on the level of costs to the public assistance budget.

There is general agreement among all of the studies on welfare and low income housing in New York City that additional funds on a large scale are required for the preservation and improvement of the existing housing stock. There is no agreement yet as to whether these funds should come from private lending institutions, from increased rent payments by households at all income levels, from State and Federal housing subsidies, or from increased public assistance expenditures, of which 25 percent are direct costs to the city budget.

[12] Lowry, et al., op. cit., Table 6.8, "Mobility of Public Assistance Recipients and DSS-Supported Moves by Assistance Category," 1971, p. 88.

[13] Ransohoff and Ganz, op. cit.

[14] Ira S. Lowry, editor, "Rental Housing In New York City, Volume I, Confronting the Crisis," The New York City Rand Institute, Feb. 1970.

[15] Lowry, et al., op. cit., Part 3; "Alternatives to Present Policies."

The "Flat Grant"

As described above, the shelter component under a variable income provision policy using "rent as incurred" and using the household budget deficit as the basis for determining the assistance payment is, in general principle, a form of direct housing assistance, or housing allowance. As has been described above, however, the shelter component policies have varied widely among the States and in every instance have been subject to some type of cost constraint set below the level of the full cost of standard housing in the open market. The use of ratable reductions, maximum payment policies, or the establishment of maximum allowable rent ceilings have the effect of "flattening" or restricting the rental levels actually provided for in a public assistance grant. In New York City, until very recently, rent control—rather than public assistance policies—provided the constraint. The effect of such limitations, which are more severe in some States and localities than in others, has been to limit the access of households receiving assistance payments to a particular segment of available housing in a particular urban area even if these households actually spend more for rent than is recognized in the assistance budget. The most severe impact of such limitations has been on those households facing the highest housing costs among all low income families, particularly large families from ethnic minority backgrounds in urban housing markets with low vacancy rates. These same limitations also restrict access of welfare households to rental housing in moderate to high rent suburban housing markets, including families who may have been residents in such areas prior to application for assistance. On the other hand, under variable income policies with "rent as incurred," households with relatively low shelter costs—such as families with modest, fully paid for, owner-occupied homes—had their actual level of cash assistance reduced in proportion to their lower shelter costs.

To varying degrees in those States with provisions for shelter-related special allowances, households facing unusual shelter costs could be assisted on a case-by-case basis by making maximum use of these provisions even if the basic shelter allowance was low. In most situations, however, the use of such special allowance payments has been highly erratic depending upon the amount of information made available to the recipient, the information actually available to the public assistance worker, and on the attitudes of the public welfare worker or of the local office administrator toward a particular welfare household.

In the late 1960's, a number of factors led a number of States to the consideration of alternative payment policies for public assistance programs, particularly for the AFDC program. In the late 1960's, a number of changes were taking place in public assistance, particularly in the AFDC program. These changes were a result of both Federal actions and of events at local levels. There was a sharp increase in the number of AFDC cases, particularly in large cities. Accompanying this increase was the increase in costs, and in the administrative problems resulting from efforts to carry out procedures requiring decisionmaking on the level of the individual assistance grant on a case-by-case basis in the face of growing caseloads and shortages of experienced staff personnel. In a number of cities, there was also a sharp increase in administrative and fiscal difficulties as organized groups of welfare recipients demanded special needs allowances for all recipient households for such items as seasonal clothing and household furnishings.

At both State and Federal levels, there were efforts to simplify administrative procedures and to gain fiscal control over expenditures. Two changes were initiated from the Federal level. One was separation—that is, the separation of the staff functions and routine administrative tasks associated with assistance payments from the technical or professional functions associated with the provision of social services, responsibilities which had previously been handled by a single public assistance worker. HEW requirements for State implementation of separation were announced in 1969, and the final date for implementation was set at January 1, 1973.

A second change was the use of a simplified declaration form in filing an original application for assistance and in periodic eligibility redeterminations. The simplified declaration uses a limited amount of information provided only by the recipient in determining eligibility. Its use eliminated many of the prior procedures involving investigation of other sources of information to verify recipient statements. Although Federal regulations called for the use of the simplified declaration, many States still retain elaborate procedures for verifying eligibility information, including home visits.

A third development, which was not the result of Federal regulations, was a move to simplify the determination of the amount of the assistance grant for individual households. The

objectives in making this change were to reduce the amount of administrative work and the number of administrative errors by simplifying the process of determining the grant for particular households, to establish a firmer framework for estimating probable expenditures for State budget planning, and to eliminate the special allowance provisions which had been the focus of organized protest movements by recipients. The basic approach in this move to the "flat grant" was to establish a single schedule of public assistance payments, with variations only on the basis of family size, and to eliminate provisions for special need payments. The initiative in the move toward a "flat grant" policy has come primarily from the States. Although there has been Federal support for such a policy, there has been no Federal action, to date, to require States to adopt it.

The first step in the direction of a flat grant was to establish a single statewide schedule of benefits dealing with all basic needs other than shelter. New York State established such a system in 1969 with the "rent as incurred to a maximum" policy being retained for the shelter component. Other limited versions of the flat grant adopted by various States include the following:

1. A single statewide schedule for basic needs other than shelter, and a flat or standard shelter allowance which varies by district within the State.

2. A single set of statewide standards, which vary only by family size, but with explicit standards identified for specific budget components—food, clothing, shelter, utilities, etc.—together with a reduction or elimination of provisions for special need allowances.

3. A single statewide schedule of benefits covering all basic needs without separate standards for specific budget components, together with the retention of a limited range of special need allowance provisions.

The "complete" flat grant policy carries the process of rationalization and simplification further and changes the fundamental logic of the public assistance grant. The key characteristics of a complete flat grant are as follows:

1. A single statewide schedule of payments which vary only by household size, without separate standards for specific budget components.

2. The elimination of provisions for special need allowance payments, with the possible exception of payments for daycare and homemaker services.

3. The establishment of the level of such payments through a sample study of the median level of expenditures among welfare households for all basic need items previously included in the State standard, including an average annualized cash value per household of the special need allowance provisions which are eliminated (fair averaging).

Connecticut and New Jersey have adopted a complete flat grant policy, while California, Alaska, Iowa, and North Dakota have assistance policies that are very similar. Ten other States have "partial" flat grant policies, the major difference being that separate standards for specific budget components are still identified. The complete flat grant policy has been tested and approved in Federal courts in New York and Connecticut.

The adoption of a flat grant policy does not change the authority of States to establish actual payment levels. Some States with flat grant provisions are currently paying less than 100 percent of the flat grant standard. Table 5 illustrates variations in benefit levels among states that have flat grant policies, including a "flat" or single standard provision for the shelter component in place of a "rent as incurred" policy.

The change to a flat grant policy has come largely as a result of political and administrative considerations rather than after a systematic analysis of the effects on public assistance recipients.

The change to a complete flat grant can substantially simplify the administration of public assistance payments by reducing the number of alternative formulas for determining household payment, by reducing the number of occasions on which changes are made in the amount of the individual family payment, and by eliminating the administrative procedures involved in application for and approval of special allowance payments. This simplifying and routinizing of the payment standard also increases the ability to predict expenditures for a given number of cases and the ability to audit the accuracy level of administrative procedures. The elimination of special need allowances also removes the most effective organizing device used by the Welfare Rights Organization in many cities.

In the case of many recipients, particularly those receiving an average or "typical" level of

Table 5. Comparison of Benefit Levels, Family of 4, in AFDC-States with "Flat Grant" Policies

State	Monthly State Standard [1]	Shelter Standard [1]	Monthly Payment Level [1]	Annualized Payment Level	Median Family Income, State, 1970 [2]	Payment Level as % of Median Family Income
Georgia	$226	$46	$149 (70.2% of standard) [b]	$1788	$8167	21.8%
Arizona	$282	$81	$183.30 (65% of standard) [b]	$2200	$9187	23.9%
Nebraska	$307	$75	$190 (maximum) [b]	$2280	$8564	26.5%
Wyoming	$283	$74	$227 (maximum) [b]	$2724	$8443	32.3%
Iowa	$341	N.A.[a]	$243 (71.2% of standard) [b]	$2916	$9018	32.3%
Connecticut	$310.69	N.A.[a]	$310.69	$3720	$11,811	31.5%
New Jersey	$324	N.A.[a]	$324	$3888	$11,407	34.1%

SOURCES:
[1] Questionnaire on Public Assistance Shelter Policies, Joint Center for Urban Studies, March 1973.
[2] *Statistical Abstract of the United States, 1972*, Table 532, p. 326.
[a] State standard is not broken down by specific household budget components.
[b] Actual payment levels may be determined by legislation setting fixed maximums or by adjustment of anticipated expenditure requirements to meet the level of budgetary appropriations.

assistance and who had not utilized special allowance provisions, the change in policy may have made little or no difference in the amount of the assistance grant or in the relation of the recipient to the public assistance agency. However, the policy change does have important implications for the public assistance program as a whole and in particular for the shelter component in public assistance, and it may create hardships for particular households.

The most basic change is in the concept of horizontal equity reflected in the assistance payment policy. A variable income provision policy is based upon the concept of equity in household outcomes (regardless of how ineffectively this concept of equity is implemented in particular State programs). The theoretical objective is to enable all assistance households to achieve some minimum level of adequacy in the consumption of basic household necessities with variations in the financial resources provided depending upon the particular needs of the family. In contrast, a "flat grant" income provision policy is based upon the concept of equity in income inputs to the household. This change in the concept of equity has particular implications for the shelter component because an equity in income inputs assumes that all households receiving benefits have essentially equal access to a variety of housing units in a given area with a single schedule of rents, and that all families are able to reduce their rent expenditures if necessary to adjust to a particular level of income and still obtain housing. This assumption—which has some validity in the instance of food and clothing purchases—is less likely to be true in the case of standard housing for which prices may be very inflexible.

The most significant aspect of the shift to a flat grant policy is the extent to which it "flattens" the shelter component provision.

The change to a flat grant has the most significance for individual households in those States which have had relatively high maximum allowances for shelter or in which administrative exceptions to the shelter ceiling have been possible. In these States, the provision of increased funds for the shelter component in the basic grant, together with the provision of special alloance payments for households facing abnormal housing costs, is no longer possible. In States which have had a low maximum payment level, or in which the maximum allowance for the shelter component has been below the median rental level, the change may result in the same general level of income provision across all welfare households, as was the case under the previous system.

It was estimated that in Connecticut, a State with relatively high benefits, approximately one-third of the households receiving public assistance grants had a reduction in the level of their payment after the change to a flat grant, while

two-thirds had some increase.[16] The families with reduced grants may have relocated from adequate housing to substandard housing, reduced expenditures on other basic needs in order to maintain payments for rent, or sought new or additional part time employment to supplement assistance payments. For households whose assistance payment level was increased, even though there were low shelter costs, there may have been a significant "windfall."

Another potentially significant change involved in the shift to a flat grant policy is in the nature of the decision process required to increase the general level of benefit payments. Under a variable income provision program, it is possible to make selective increases (or reductions) in particular budget items when cost of living increases take place. Moreover, it may be possible to accommodate to changes in the relative cost level of areas within a State by adjusting the maximum allowable rent ceilings in particular districts on an administrative basis without legislative action. Adjustments in the schedule of flat grant assistance payments, however, require an across-the-board adjustment for all households. This adjustment is likely to be a major political decision. In this regard, changes in the level of public assistance benefits at the State level become similar to changes in the level of social security benefits made at the Federal level.

Public Assistance Shelter Policies and Housing Outcomes

There is little systematic information on the relation between specific shelter component policies in public assistance and housing outcomes for public assistance recipients. The most extensive studies are those that have been already referred to in the discussion of the New York City experience. There are other case studies of the housing conditions of assistance recipients in Newark, Baltimore, and Chicago, but these studies do not include a systematic analysis of the nature of the shelter component policies in effect at the time of the study. The data from the SEO Census and the Michigan Panel Study deal with a national sample of public assistance recipients and other low income households, but they also do not have information on the relation between housing outcomes and the characteristics of the specific public assistance policies determining the payment level for particular households.[17] The 1 percent studies of assistance recipients carried out by SRS in 1967 and 1971 have extensive information on recipient characteristics and sources and amounts of income, including the assistance grant, but they have no information on housing conditions of recipients.

All available sources of information, however, indicate generally that public assistance recipient households: 1) occupy the poorest quality housing units in a given area, 2) receive less in the way of housing services when rent is comparable to that paid by other households, or 3) pay higher rents than other households for comparable housing services. Welfare recipient households also include a disproportionate number of large households living in overcrowded units.

These outcomes in substantial part reflect two basic factors: 1) lack of adequate income, and 2) the special household characteristics of recipient households in the AFDC program. In 1971, the national average of recognized household "budget need" for AFDC households, using the official budgetary standards in each State, was $242.34 a month.[18] Of this recognized need, $29.72, or over 10 percent, was "unmet need" after all sources of income, including assistance payments, were taken into account, meaning that the average actual income was $212.34 a month. The range across the States was from a high of $300 a month of recognized need, and of actual income in both New York and New Jersey, with less than $1.00 a month of "unmet need," to a low in Kentucky, with a recognized need of $159.70, actual income of $142.40, and unmet need of $17.30. A major factor in depressing these assistance payment levels, particularly in the AFDC program, is the emphasis both at Federal and State levels on maintaining high work incentives through a low income support floor.

Using a rent burden rate of 25 percent, this would mean that the average expenditure for rent should have ranged from a high of $75 a month in New York and New Jersey to a low of $35 in Kentucky, with a median household size of 3.9 persons. At these income levels, welfare recipients, together with other households with similar income, are likely to be limited to the lowest cost units available in any given housing market area. Moreover, the existence of a substantial concentration of households with incomes at this level may have the further effect of

[16] Joint Center for Urban Studies, Interim Report, op. cit., "Case Study: Connecticut Moves to a Single Flat Welfare Grant."

[17] Ibid, both the SEO Census and the Michigan Panel Study are discussed under Task 5 in the Interim Report.

[18] Findings of the 1971 AFDC Study, op. cit., Part II, Table 41.

creating a depressed market condition in which the value of the bundle of housing services provided by housing suppliers is adjusted downward to meet the actual demand situation.

The public assistance population, particularly in AFDC, is also a population with highly skewed household characteristics, including a high concentration of those types of households that face handicaps in the housing market regardless of income level or source. AFDC households include many large families, single-parent families with a woman as household head, and black, Chicano, and Puerto Rican families. In general, these are types of families that face discrimination in the housing market expressed either through higher rent charges or through absolute exclusion from particular types of housing.

However, there is also some information—particularly from the SEO Census study—to indicate that when income and household characteristics are held constant, there is still an unexplained difference in the housing outcomes of welfare recipients in comparison to those of nonrecipient households, a difference which may be associated specifically with welfare recipient status.[19] Although there is no body of data that indicates what specific factors involved in recipient status may be directly affecting housing outcomes, there have been a number of suggested interpretations by George Sternlieb and others who have studied inner city housing markets in New York City, Newark, and Baltimore.[20]

One explanation identifies behavioral characteristics of specific recipient households as a significant factor in the actual condition of the housing that they occupy. One such is the transience of recipient householders, which may incur additional costs for a particular landlord. It is not clear whether the frequency of moves is a result of efforts to find better housing or an indicator of general anger over the economic and social situation of the family which is expressed in particular through discontent with any housing situation, or whether it is a specific response to specific public assistance policies (provision of moving costs may encourage moves, low payment levels may encourage rent-dodging). A second characteristic which has been cited is the destructive behavior of older children in recipient households in which the mother is employed and therefore often out of the home at times when the children are there.

A second explanation argues that there is an explicit pattern of direct discrimination against welfare recipients by landlords and brokers, over and above any discrimination that may occur as a response to other household characteristics. Such discrimination may result from general negative community attitudes, including the attitudes of many public officials, towards AFDC recipients, or from the specific feelings of individual property owners about households who are dependent on public assistance payments. In any area in which there are an appreciable number of assistance households, information about identity of assistance households is difficult to disguise, particularly when all recipient households receive payment checks on the same day of the month in a single type of envelope.

A third explanation is that landlords are behaving rationally by either charging more, or reducing the quality of housing services to recipient households as a group, because they can anticipate that there are likely to be additional costs associated with the provision of housing services to such households, regardless of the specific behavioral patterns of any one household. These costs are those associated with a high rate of household moves, which pose a threat both of losses from rent arrearages and periods of vacancy without income, and losses from damages to the structure and to facilities and appliances because of destructive behavior of children in a one-parent household.

While these or similar hypothetical explanations may account for the character of housing outcomes of AFDC recipients in many areas of the country, a more complex situation appears to exist in large urban areas where there are concentrations of public assistance households, a shortage of housing units, and a process of housing abandonment. Although the relation of public assistance policies and of welfare status to abandonment has been commented on in connection with studies in New York, Newark, and Baltimore, there is no accepted model of

[19] The difficulties of specifying differences in housing outcomes among welfare and nonwelfare households is complicated both by the mix of household characteristics that also may affect the outcome and the difficulty in establishing any single measure of outcomes on which there is consistent information. None of the data so far available deals with both the differences in sources in income and with neighborhood characteristics associated with a particular housing unit. Yet neighborhood characteristics appear to be a major factor on which families assess the quality of their own housing.

[20] Sternlieb, *The Ecology of Welfare,* op. cit., Sternlieb, "The Urban Housing Dilemma," op. cit., Sternlieb, *The Tenement Landlord,* New Brunswick: Rutgers University Press, 1966; Michael Stegman, *Housing in the Inner City: The Dynamics of Decline,* Chapel Hill, N.C.: University of North Carolina Press, 1972; and William Grigsby, *Housing and Poverty,* 1972; University of Pennsylvania (In preparation).

how the many complex factors in this situation interact. It is clear, however, that in situations of large-scale abandonment, the presence of large numbers of welfare recipients is part of a neighborhoodwide or areawide process that is more complex than the process that affects individual structures in other locations.

Although the initial events leading toward a process of abandonment may occur earlier—including rising maintenance costs, a decline in cash flow to landlords, deterioration of the neighborhood environment, decline in the quality of public services, and excessive capitalization of individual units by speculative buyers—it appears that the presence of assistance households is regarded as a highly visible signal confirming the probability of total deterioration of the housing stock in an entire neighborhood. It is not clear whether welfare tenantry represents the arrival of the most undesirable type of tenant or whether it may represent a deliberate choice at a particular point in the abandonment cycle to rent to families with a dependable source of regular income, and with some guarantee for the landlord against rent arrearages, in preference to other low income families with more erratic sources of income. In either case, it appears that the presence of an appreciable number of welfare households occurs in connection with a process of major disinvestment by property owners and "red lining" by banks and other lending resources. Welfare tenantry and abandonment appear to be highly related, especially in central cities of larger metropolitan areas, although it is not clear whether welfare tenantry is a direct cause of such abandonment or whether the decision to accept welfare households on an extensive scale is primarily an indicator of a longer term process largely created by other factors in the housing market situation.

Conclusion

This analysis of the experience with the shelter component in Federal-State public assistance programs has been concerned with three questions:

1. Does the experience with the shelter component in public assistance programs constitute an effective test of a housing allowance?

2. Could the shelter component provision in public assistance be used as an alternative to a housing allowance?

3. What has been learned from the experience with the shelter component that would be applicable to the design of a national housing allowance program?

The Shelter Component as a Test of a Housing Allowance

In principle, the traditional form of the shelter component in public assistance programs based on "rent as incurred" could have been a form of housing allowance for a particular group of low income households similar to what has been proposed as a "percent of rent paid" design. The examination of the experience since 1935, however, clearly indicates that the provision of financial assistance for shelter through Federal-State public assistance programs has not constituted a significant test of the probable effects of a carefully designed national housing allowance.

It is clear from the scattered and limited data that are available that the policies and procedures used for providing financial assistance for the payment of shelter costs through public assistance have not resulted in the housing of public assistance families in standard housing. Although households that live in public housing—a situation that has not been dealt with in this paper—may be an exception, such households receive, in effect, double subsidies and constitute a distinctly different situation from families in private housing. These outcomes, however, are the result of characteristics of the shelter component and of the public assistance program as a whole, which are not consistent with any of the proposed designs for a national housing allowance.

There are a number of specific aspects of the shelter component that distinguish it from a housing allowance. First, specific housing objectives are not used as the criteria for the determination of the actual level and form of the shelter component. The actual operational objectives of the public assistance program are not concerned with housing recipient families in standard housing, promoting mobility away from deteriorating neighborhoods, reducing overcrowding, or reducing the level of "rent burden." Second, there are no effective programs to insure that assistance recipients in fact occupy standard housing even where references are made to such an objective in enabling legislation.

Third, current market costs for standard housing have not been a significant factor in most States in determining the actual level of as-

sistance provided for shelter consumption. Although variations in housing market costs may be reflected in regional differences in the rent maximums, the actual maximums do not provide for access to most segments of the local housing market. For example, the conversion of the Connecticut "rent as incurred" shelter component policy to a flat grant policy was based upon a determination of the median level of rent paid by welfare recipients rather than upon data about costs for standard housing.

Fourth, specific housing outcomes for assistance recipients have been a result of a combination of the basic provision for shelter and the provision of special allowance payments for such items as moving costs, storage fees, brokers' fees, and rent arrearages. In part, these special allowances have supplemented inadequate basic allowances, but only on a very erratic basis, depending largely on the discretionary decisions by administrative staff and with wide variations among local administrative units. Such a system is not equivalent to a housing allowance program that is limited only to basic support based on a single design that is applicable to all households.

Fifth, the restricted level of payments in variable income provision programs, where there is a "rent as incurred" provision and the lack of earmarking provisions under flat grant policies, has meant that there are no effective financial incentives in the public assistance program to encourage families to seek better housing at a higher rental or to increase the proportion of household income spent on housing. In New York City, where the public assistance policies have provided an incentive to increase expenditures on rent, rent control has limited the extent to which assistance households have been able to use these provisions to improve their housing conditions.

Not only are the characteristics of the shelter component significantly different from an explicit housing allowance, but the basic characteristics of the public assistance program further limit the degree to which it can be regarded as equivalent to a housing allowance. First, the basic objective underlying the political and, to a large degree, the administrative approach to public assistance programs at Federal and State levels has been to insure a minimum level of maintenance for recipient households above the level of destitution, but below the standard of living of households with regularly employed workers. This has meant a general acceptance of the principle that welfare recipients' households should be largely concentrated in the poorest quality housing in a specific area. As stated by one public assistance worker in Kansas City, "If recipients choose to live in an automobile or in a cave, that is their business and not our concern."

Second, the policy priority in the AFDC program, particularly since the beginning of the 1960's, has been to maximize the work incentive features both through negative sanctions and through positive incentives which skew the pattern of benefits in favor of the small proportion of households with an employed adult. Such policies result in a low level of basic benefits for households with several children but no employed adult, without regard to the effect on housing quality.

Third, the categorical criteria for eligibility in the AFDC program have had the effect of creating a recipient population with highly unusual characteristics, a population which under any but the most favorable housing market conditions faces special difficulties in gaining access to standard housing. A housing allowance would not be limited to such a restricted population.

Fourth, the actual levels of public assistance benefits have been adjusted to fit available funds, the amount of which is almost entirely determined by budgetary and political considerations at State levels regardless of the effect on individual households or on program objectives. Such an approach to national housing allowance would be likely to result in similar failure to achieve program objectives.

Finally, the high degree of variation in coverage, benefits levels, and administrative policies among the State public assistance programs, and the lack of any significant outcome information on the consequences of these variations in programs, either in regard to housing, or in regard to any other aspect of household experience, makes it impossible to cite the experience of public assistance programs as a "test" of any set of policy alternatives, except to the extent that an alternative program, such as housing allowance, were to incorporate similar provisions for decentralizing control over benefit levels and over administrative policies to State and local levels.

The differences in program objectives, in the characteristics of the population to be served, and in the level of financial benefits between the existing public assistance program with its provisions for shelter costs and the current proposals

for a housing allowance, are so significant as to rule out any possibility that the public assistance experience since 1935 constitutes a test of a national housing allowance.

The Shelter Component as an Alternative to a Housing Allowance

It is evident that the public assistance system as it now exists in the United States could not serve as an alternative to a separate housing allowance program, unless major changes were introduced in that system that would be at least equal in costs and in political difficulties to those involved in establishing a housing allowance. First, the historical definition of public assistance, particularly AFDC, as a form of "poor relief" by State administrators and legislators, makes it highly unlikely that it can be modified to provide the level of income needed to meet the costs of standard housing, particularly in urban areas. Moreover, the present public assistance system is based upon a fundamental principle of State control over the level of benefits, and this control has been used particularly to restrict benefit levels in areas with the most poverty.

Second, the categorical restrictions on the present AFDC program—particularly the exclusion of low income households with a regularly employed worker—make this an unsuitable program for meeting the needs of families who suffer primarily from overcrowding or from an unusually high rent burden rather than from being housed in substandard housing. Moreover, the restrictive categorical characteristics of AFDC are directly related to negative public attitudes that affect the level of benefits and the level of funding.

Third, the shift to a flat grant payment policy—particularly in States with large urban populations—will further restrict the extent to which public assistance programs could function as an alternative to a specialized housing allowance program. Although an adequate level of payments under a flat grant program could constitute an alternative to any form of housing allowance, it would not provide any form of earmarking or incentive to encourage higher household expenditures for housing, nor could it be interpreted politically as being the equivalent of an earmarked housing allowance.

Finally, the use of the present public assistance system, even with a substantial increase in the level of shelter benefits, would involve the use of many of the same personnel who have been identified as hostile and punitive towards applicants and recipients over many years, and the use of administrative structures that are currently overburdened and at the point of breakdown in many States.

The actual consideration of the use of a modified public assistance program as an alternative to a housing allowance program would be directly affected by present and future differences among the several types of categorical programs. Three different types of alternatives exist:

1. A general income provision program for the elderly and other adults covered under the federally administered, State-supplemented programs provided for under H.R. 1 could serve as an alternative to a housing allowance. The provision of an adequate, nationwide base level of income support by the Federal government, together with State, or State-Federal supplements, primarily based on differential housing costs among the States, could accomplish most of the purposes of a housing allowance program and of an income maintenance program within a new administrative structure that could eliminate many of the negative aspects of present programs.

2. In the instance of low income households with fully employed workers, and other households now covered, if at all, by State and local general assistance programs, a national housing allowance could be an alternative to incorporating such households in an expanded public assistance program. Many general assistance households require only temporary financial assistance, and then primarily to meet fixed housing costs. The establishment of a national housing allowance could be a simpler change than any effort to include such households within the present structure of Federal-State public assistance programs, as already indicated by the unwillingness of many States to establish the AFDC-Unemployed Parent program, which is authorized by Federal legislation.

3. It appears unlikely, based on the material set forth above, that the present State-Federal AFDC program could be modified to meet the objectives of a housing allowance program. It is also evident that the households covered by AFDC will continue to require basic income support for household needs other than shelter. In this instance it appears most likely that the immediate situation would call for continuation of

the existing AFDC program and the establishment of a separate housing allowance program. This would require, however, systematic and detailed planning to deal with a wide variety of program interface issues.

Implications of the Shelter Component for a Separate Housing Allowance

While the shelter component in public assistance as presently administered is markedly different from a housing allowance, and is not a logical alternative to a housing allowance, there are a number of implications to be drawn from the public assistance experience for the design of a national housing allowance.

These implications apply to: 1) Federal-State relationships under a State-controlled system; 2) design of the payment policy; 3) level of benefits; and 4) relation of benefit levels to housing market conditions.

Federal-State Relationships

There are two major dimensions to the design of any income maintenance program. The more obvious dimension deals with the design of the policies dealing with the payments to individual households. The other dimension involves the relation of such a program to the complex Federal-State governmental system of the United States. To the extent that program control, particularly control of benefit levels, in a housing allowance program were decentralized to States (and/or localities), the experience of the public assistance system would be relevant.

The experience since 1935 in public assistance is that:

1. State control of benefit levels has led to wide variations among the States in both the level of payments and in the procedures and rules used to determine the payments to a particular household. Under one basic Federal law, 50 distinctly different State programs have been created. The characteristics of the State programs have been almost entirely determined by political and fiscal factors within each State, with only limited relation to the explicit objectives of the programs themselves, or to systematic differences in costs of living.

2. Prejudicial and discriminatory attitudes on the part of State officials, both legislative and administrative, and on the part of Federal officials towards particular categories of recipients, are at least as important in determining the outcomes of recipients in local areas as is discriminatory behavior on the part of landlords, neighbors, local merchants, etc. Local behavior is directly influenced by the statements of public officials, and, moreover, the actual level of benefits available to recipients to buy goods and services in the local community is directly affected by the impact of official attitudes on State legislation and budgetary appropriations. Hostile attitudes by public officials also limit the ability of the State (or local) administrative agency to carry out its responsibilities.

3. In a program involving Federal reimbursement (or matching grants), efforts to maximize the proportion of Federal funds may be a major determinant of State policies, rather than the implementation of a program to achieve specific objectives for individual households. Under the existing public assistance provisions, higher Federal reimbursement is associated with lower benefit levels for households. (Georgia, Louisiana, and Mississippi had over 70 percent Federal reimbursement for assistance payments in the period of 1960–1970; Connecticut, New Jersey, Pennsylvania, and Illinois had less than 50 percent Federal reimbursement.) These reimbursement formulas, which are designed to redistribute the costs of a nationwide program among the States, with higher Federal rates of reimbursement to States with low per capita incomes, are associated with a regressive pattern of benefits to individual households—benefits in Louisiana and Georgia are lower in proportion to State median income than those in Connecticut and New Jersey.

Administrative Design

A major implication of the administrative experience of public assistance programs with the design of payment policies is that a lack of systematic information on the actual effects of particular policies on individual households contributes to a pattern of ignoring these effects in the actual determination of policies.

There are also three other important implications for the design of a housing allowance:

1. A variable income provision policy, including "rent as incurred," without a maximum or with a relatively high maximum, which is similar to the proposed design of a housing allowance based on "percent of rent paid," has distinct advantages in the extent to which it can be responsive to differences in housing market conditions and to the differential cost situations that

families with different characteristics may face in the housing market. Such a policy is more difficult to administer, however, particularly for a large number of households in a densely populated urban area, more difficult to audit for accuracy and for detection of fraud, and more difficult to control financially than a "flat grant" policy, similar to a "shelter gap" housing allowance.

2. The establishment of narrowly restricted categorical definitions for recipient populations, even in an effort to concentrate subsidy funds on families with the greatest need, adds substantially to administrative complexity, creates serious problems of horizontal inequity among households with similar needs, and is likely to contribute to the stigmatizing of the recipient population in ways that result in a lower level of effective benefits, rather than a higher level.

3. The establishment of income disregard policies applying to earned income may contribute to some degree to encouraging employment of adults in recipient households, but it also results in a dual system of benefits, and two standards of household consumption, among families with similar needs based on family characteristics. One consequence of such policies may be a further concentration of families without earnings in the lowest cost, poorest quality housing available in a given area.

Benefit Levels

The experience of the public assistance programs, in most, if not all of the States illustrates the effects of an inadequate level of cash benefits under a nationwide program. While the existence of a given program of financial assistance reduces political pressures for action on particular social problems, a grossly inadequate level of benefits can result in severe negative social outcomes, equal to or greater than the financial benefits provided. This is particularly the case if the characteristics of a program are such that, once enrolled in a program, households are faced with negative financial consequences when they withdraw from the program—for example, the loss of in-kind benefits—regardless of how low the level of cash benefits is. The program may, in effect, establish an income ceiling affecting a substantial number of households as a consequence of low-level—but regular and dependable—benefits. Moreover, as in AFDC the combination of categorical requirements and low benefits may have a destructive effect over time on family and neighborhood social structures.

The experience in AFDC with the shelter component also illustrates the necessity of taking into account, in setting the level of benefits, both ongoing shelter costs—primarily rent—and irregular and unanticipated costs such as moving and storage costs, security deposits, payment of rent arrearages, etc. Without provision for such "special needs," either through a relatively high level of regular benefits or through special allowances, the mobility of low income households may be severely limited, and housing emergencies may be a frequent occurrence. This problem varies directly with the vacancy rates in particular housing markets, with housing shortages resulting not only in higher rents, but in a larger number of additional or "side" costs, particularly for welfare households—security deposits, brokers fees (as in New York City), guarantees against rent arrearages, etc.

There has been some limited use of specialized housing services programs in areas with marked shortages of rentals available to welfare households, including tenant education, housing recruitment, and special provisions for dealing with housing emergencies. Although these programs have not been extensive, it appears that such service programs do not result in any significant improvement in recipient housing conditions, particularly where basic levels of assistance payments are low.

Assistance Benefits and Housing Market Conditions

In many areas of the country where rental housing is in good supply and the number of assistance recipients is low, there would appear to be very little relation between assistance benefit policies and general conditions in the housing market. In areas with housing shortages, however, particularly in rental units for moderate and large size family units, or in areas with a high concentration of assistance recipients, it appears that there may be a complex relationship between the characteristics of the assistance program and housing market conditions. Assistance policies, primarily the level of benefits provided, and categorical definitions may contribute to the geographic clustering of households with particular characteristics, while an inadequate level of benefits may have a depressing effect on certain segments of the housing market, particularly to the extent that the benefit levels establish a de facto income ceiling affecting substantial numbers of households.

Urban areas with both a high concentration of welfare recipients and a shortage of available rental units are now frequently marked by conditions of housing abandonment. Here the relationship between the characteristics of the assistance program and housing market conditions is even more complex. In many of these cities, benefit levels are comparatively high.

It is clear that while the characteristics of the assistance program, including categorical definitions and benefit levels, may contribute to the process of abandonment, an increase in benefit levels, by itself, unless combined with other measures, may have only a limited effect on the abandonment cycle. Where an increase in benefits is available on a different basis, for example, only to families with an employed adult but not to other families, the resulting effect on the clustering of households without an employed adult could accelerate the abandonment phenomenon rather than diminish it.

Housing Allowances and National Objectives

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Specifying Objectives for Federal Housing Subsidies

The inadequacy of efforts to date to specify national housing objectives, and to assess programs in relation to those objectives, has been a continuing source of difficulty and confusion in the design, implementation, and evaluation of Federal subsidy programs. National housing policy has been discussed in vague undefined terms, such as a decent home and a suitable living environment. Individual programs have been designed, and later revised, in the absence of any real effort to anticipate results (as in the physical and social consequences of the payment subsidies for public housing operations). Despite numerical targets to build or substantially rehabilitate 26 million units over a 10-year period an explicit statement of objectives is still unavailable.

This is not a theoretical issue. The lack of such a statement is a partial explanation for the overly ambitious efforts in the past to solve too many problems through "housing programs," and the complementary failure to support housing programs with appropriate social services and community development efforts.

A clearer concept of national housing objectives will greatly assist in the correct choice of program strategies, design, and administration, as well as substantiate the need for increased congressional support. In light of the absence of such objectives, there are certain assumptions that must be directly considered. In turning to an examination of housing allowances, then, it is necessary to make explicit the assumptions that underlie the analysis:

- Ideally, all housing subsidy programs should be measured by a single, uniform set of objectives. Because there is no consensus about such objectives, it is necessary to provide a working set of performance goals as part of this assessment of the housing allowance alternative.
- Analysis of program alternatives in relation to a set of consistent objectives should not be misunderstood as a methodology for selecting a single best program. No single program is likely to satisfy such a broad range of goals, especially since some goals may be in conflict. The real task is to select the most effective combination of subsidy programs that advance the full range of objectives to the maximum extent possible. Thus the analysis of housing allowances can be understood as a means to assess this alternative's contribution toward various policy objectives.
- Similarly, it must be recognized that just as no single housing subsidy program can achieve all objectives, the total housing program mix cannot solve all the problems of which "housing problems" are often a part or a highly visible symptom. For example, in relation to central city deterioration, it is by now generally accepted that housing programs are useful and necessary but do not by themselves offer a sufficient solution. Decent shelter must be provided as a component of a more inclusive neighborhood or community development plan. If housing programs are provided in isolation, as in spot rehabilitation, there will be an almost inevitable lack of success as singular efforts to upgrade individual structures may be overwhelmed by market forces.
- In addition to careful consideration of the objectives that can and should be served through housing programs, it is important to note that choices made in relation to a statement of objectives will depend to a great extent on the relative weight placed upon each objective by the decisionmaker. General objectives such as "maximize freedom of locational opportunity," "maintain physically and socially 'viable' central city neighborhoods," and "support the housing construction industry," will be assigned different values by different decisionmakers and such potentially competing objectives as "economic efficiency" and "vertical and horizontal equity" have no intrinsic valuations. This is an inescapably subjective and political weighting process.
- It may be helpful to clarify the frequent confusion between program objectives and methods for attaining objectives. For example, increasing the supply of new standard units is sometimes discussed as if it were a policy objective, but it is more useful to recognize that this is a means for achieving a range of possible

housing policy objectives, not an objective itself. Here the real objectives may include increased household mobility; renewal of blighted or decaying neighborhoods; relief of inflationary pressures resulting from a shortage of dwelling units; or the growth and economic well-being of the housing construction industry.

• The specification of objectives should be as complete as possible. To this end, we have started with known objectives set out in existing housing legislation, added other objectives implicit in existing programs, and included additional goals implied by the Nation's contemporary "housing problems." In particular, there has been an effort to go as far as possible beyond older narrow definitions of housing objectives that have been confined to the physical and financial aspects of the individual household/structure relationship (e.g., substandard housing, excessive rent burden). Although indices of housing standards in terms of physical condition, size, and cost/income ratio are important, it is now widely accepted that the consumption of housing must include the municipal services and surrounding physical and social environment which come with the location as well. This implies a richer statement of the basic housing policy goal set out in the National Housing and Urban Development Act of 1949 and reaffirmed specifically in section 1601 of the Housing and Urban Development Act of 1968 ("a decent home and suitable living environment"). Thus, a more comprehensive statement of housing consumption goals should include the physical and social attributes of the neighborhood, quality of local schools, level of municipal services, and similar characteristics. Also, the objective should be expanded by the recognition that the location of a housing unit involves accessibility to employment, shopping, and recreational opportunities. Implicit in this view is a concept of housing as part of a broader community system, rather than an individual isolated structure.

• Finally, it should be noted that there is considerable flexibility in the design and use of the housing allowance itself, thus affecting the extent to which it achieves different objectives. For example, housing allowances may be tied to the production of new or rehabilitated units (as in the Rent Supplement program) or be used to reduce the rent burden of elderly households in their existing units. Some of these design issues are discussed in other sections of the paper.

With the foregoing considerations in mind, we can turn to the task of answering our two major questions:

• What are the objectives of national housing policy?

• How does the housing allowance alternative measure up in achieving those objectives?

National Housing Objectives: How Do Housing Allowances Measure Up?

Primarily for purposes of organization, the objectives have been aggregated into four categories: Shelter services, dealing with the occupied dwelling unit; residential services, dealing with the surrounding environment; administrative and procedural issues; and other related policy objectives, e.g., economic growth. This division provides a potentially useful analytic perspective. But it should be noted that the objectives, as presented, overlap to some extent, and could be rearranged in other categories. Thus the list in its current form is essentially an attempt to provide a convenient framework for a concise, reasonably comprehensive statement of objectives, not an effort at attaining immutable conceptual separation among categories.

Impact on Shelter Services

Occupancy of Standard Housing: Housing allowances will have little or no impact on the establishment of housing standards, primarily set by local building and housing codes, unless this becomes an explicit requirement for participation; however, the use of an earmarking requirement such that allowance recipients must occupy housing that meets minimum structural standards should increase the supply of such units in participating communities.

Provision of Standard Housing in a Cost-Effective Manner: This objective poses a very basic question: At what cost can housing allowances result in the occupancy of units meeting minimum structural standards, and how does the cost compare with other program alternatives?

This is a complex issue for which a full assessment must await the receipt of data from the housing allowance experiments now underway. The cost of the program, over time, will depend upon how landlords respond to a large infusion of new housing expenditures. This is the basic issue under study in the Supply Experiment.

In the absence of data from the experiments, some preliminary evidence can be offered

on a tentative basis. First, experience with other demand-oriented housing subsidies (e.g., the public housing leasing program) indicates that housing allowance should benefit a greater number of recipients per Federal dollar than new construction or major rehabilitation alternatives.[1] The standard proposed here is the number of households whose present housing conditions can be changed from "inadequate" (in terms of the physical condition of the unit) to "adequate." Housing allowances avoid the costliness of new construction programs, which have to meet minimum construction standards, thereby providing dwellings that considerably exceed minimum standards of "adequacy," and which are inextricably locked into the rapid escalation of housing development costs, e.g., land and capital. New public housing in New York City, for example, is impossible to develop for much less than $60,000 per unit. Housing allowances, on the other hand, rely on the existing housing stock and involve much lower subsidy costs as a result. For example, either contractual cost (direct expenditure and forgone tax revenue) or real economic cost (total value of resource inputs—land, labor, and capital), indicate that under certain market conditions nearly twice as many households can move from substandard to standard housing through the public housing leasing program than through either Government sponsorship of new construction (e.g., public housing) or FHA mortgage-insured private construction (e.g., section 236).[2]

Second, the efficacy of housing allowances depends on the extent to which suitable decent housing is or becomes available within any given housing market. A still unresolved question is the degree to which increased rent expenditures will result in the upgrading and improved maintenance of existing housing units currently below standard, as opposed to the degree to which it will be siphoned off through price inflation. Individual landlord peculiarities aside, owner response should correlate with a number of variables. Perhaps the most important of these is the competitiveness of the local housing market—the fragmentation of residential ownership, ease of household mobility, availability of information, etc. A second consideration involves the future expectations of property owners and investors. In severely blighted areas, where prospects for improvement are dim, landlords may be more likely to continue to follow a minimum maintenance strategy. Even in these areas, however, some modest improvements may be expected as landlords compete for higher rent payments. And in less deteriorated areas—where there is a mix of standard and substandard housing, a reasonably cohesive community, and a sufficient municipal response to local conditions (code enforcement, a modicum of public safety and efforts to upgrade public services and facilities)—housing allowances may provide the essential stimulus to prevent, or even reverse, further decline.

The availability of a more stable and effective demand in older ethnic areas and elderly enclaves may cause landlords to undertake modest upgrading and to increase building services. The response of those who own and manage low and moderate priced housing will depend upon a number of factors, both market and institutional. Clearly, variations in the conversion costs of different structures, the existence of segmented housing markets (for the poor, minorities, and welfare recipients), lack of conventional financing for improvements, and inadequate municipal services (e.g., schools, public safety) will inhibit the response of individual landlords to an infusion of housing allowances in the short run. Over the long run, underlying market forces are likely to determine the response of investors, landlords, and other housing suppliers.

At least in the short run, the extent to which the price and quality of the existing housing stock adjusts will depend upon a number of administrative decisions as well. Obviously, a program of partial coverage will create less pressure on prices than one of universal or near-universal coverage. Beside the scale of the program, the degree to which allowances are earmarked for housing and the gradualness with which the program is introduced will affect price and quality changes as well. And, as we learned from the public housing leasing program, the Government's guarantee of full payments over the term of a lease reduces the risk of rent arrearages, collection losses, and payment defaults, thereby encouraging landlords to upgrade their properties. The risk to landlords can be lowered through voucher payments (as in some State welfare programs), direct payments to the landlord (as in rent supplements), or through Government guarantees against the loss of rent (as in the public housing leasing program). It should be noted, however, that these efforts to reduce the amount of pressure on prices, by re-

[1] For an assessment of the cost of housing subsidy programs see, for example, Arthur P. Solomon, *Housing the Urban Poor* (Cambridge, Mass.: MIT Press, 1974) and Frank de Leeuw, "The Cost of Leased Public Housing," (Washington, D.C.: The Urban Institute, December 1970).

[2] Arthur P. Solomon, op. cit., Chapter 7.

ducing landlord risks, can be attained only at the expense of constraining tenant mobility.

Definitive conclusions about price and stock adjustments will have to await the results of current research. Available information is not adequate to allow anything more than some cautious comments. From research underway at the Urban Institute, for example, it was tentatively judged that most of the increase in demand—say two-thirds or three-quarters—would in the long run lead to better housing while the rest would lead to higher prices.[3] Several recent studies of low rent urban housing markets have found that these submarkets are quite competitive.[4] Rather than several large slum landlords owning the vast majority of properties in inner city neighborhoods (the pattern commonly thought to hold), these studies have revealed extensive fragmentation of ownership. And in a market with a large number of potential suppliers of housing services, and a premium placed on full occupancy, landlords are likely to compete for tenants able to pay higher rent. Over the long run, this competition indicates that housing allowances should lead to an upgrading of the housing stock through more maintenance, filtering, and conversions.

Tenure Choice: Housing allowances should be designed to include both renters and owners. Confining allowance recipients to the rental stock would be unfair to low income homeowners, seriously limit the program's flexibility in responding to different tenure arrangements in local markets, and create incentives for poor homeowners to become renters. Although the inclusion of homeowners raises difficult conceptual and definitional issues, the participation of both forms of tenure will increase the effectiveness and equity of the allowance program.

Horizontal and Vertical Equity: In the design of Federal housing policy, considerations of equity are as important as measures of program efficiency and cost effectiveness. Conceptually, there are two distributional considerations.

The first of these, the issue of vertical equity, refers to the incidence of program benefits. Federal housing assistance may be considered inequitable, for example, if a large share of program benefits are diverted to the nonpoor. The incidence of the benefits provides answers to questions such as: what proportion of the intended benefits actually reaches the poor, and how much is siphoned off by individuals outside the target population?

Generally, the diversion of funds to the nonpoor results from the use of public and private intermediaries. In the case of housing allowances, whether universal, near-universal, or partial in coverage, a higher fraction of housing aid should reach the intended beneficiaries. First of all, there is no diversion of funds to high income investors in order to raise development capital (e.g., the sale of tax-exempt bonds in public housing or the availability of favorable IRS provisions for accelerated depreciation). Secondly, there is the possibility of keeping expenditures on administrative support and program monitoring to a minimum (e.g., in the case of Social Security, the most efficient national transfer program, only 10 percent of the costs are allocated to program administration). Other than the need to certify eligibility, determine benefit levels, and distribute the transfer payments, all other administrative tasks are optional. If, for example, a national housing allowance program includes extensive counseling, provides housing market information, and, most importantly, requires inspections to assure the occupancy of standard housing, then the amount of subsidy dollars diverted to public intermediaries would be larger. Also, if a separate administrative structure is created for the allowance program, without relying on the Social Security Administration, Welfare Administration, or other existing agencies responsible for various forms of income assistance, implementation will be more complex and more expensive, leaving less money to subsidize the poor. For comparative purposes, some measure of the incidence of housing benefits for other Federal housing subsidy programs is presented in Figure 1.

The second aspect of the equity issue centers on the problem of horizontal equity; the fact that persons in essentially the same circumstances receive widely varying treatment. Under existing Federal subsidy programs only a small fraction of those eligible for assistance receive

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[3] Frank de Leeuw, "The Housing Allowance Approach," in papers submitted to Subcommittee on Housing Panels, Committee on Banking and Currency, House of Representatives, 92nd Congress, 1st session, June 1971.

[4] See, for example, George Sternlieb, *The Tenement Landlord* (New Brunswick, N.J.: Urban Studies Center, Rutgers University, 1966); Michael Stegman, *Housing Investment in the Inner City* (Cambridge, Mass.: MIT Press, 1972); and George Peterson, Arthur P. Solomon, Hadi Madjid and William Apgar, *Property Taxes, Housing and the Cities* (Lexington, Mass.: D.C. Heath and Co., 1973).

Figure 1. The Vertical Equity of Housing Subsidy Programs: The Allocations of Housing Benefits

	Tenant Benefit	Government Intermediaries [a]	Investors or Syndicators [b]
Conventional Public Housing	64%	24%	12%
Public Housing Leasing Without Rehabilitation	81%	19%	0%
Section 236 Rehabilitation With Rent Supplements	83%	10%	7%

Source: Arthur P. Solomon, *Housing The Urban Poor*, Chapter 4.

[a] The amount diverted to Federal and local intermediaries is based on the programs' respective administrative costs.

[b] The share of the total costs diverted to high income investors and financial syndicators is based on estimates of forgone Federal revenue from accelerated depreciation and tax-exempt bonds.

any Government aid at all.[5] Obviously, a universal or near-universal housing allowance would meet the needs of many more low and moderate income households. So would a universal or near-universal public housing program. But the difference, in terms of the limited resources available in the foreseeable future, is that a housing allowance is capable of reaching more eligible households for any given national appropriation. It is less costly to use the standing stock than to construct new stock; consequently a larger portion of those in need of assistance may be served. Moreover, even if housing allowances were restricted to the same number of families as served under existing programs (partial coverage), there would be less resentment among the nonpoor because those subsidized would occupy modest, older housing rather than newly constructed units. Thus, a housing allowance is a more horizontally equitable approach for housing the poor.

In the design of a national housing allowance program, there is an inevitable tradeoff that has to occur between horizontal and vertical equity. At the heart of this choice is a decision regarding the amount of supportive services and monitoring of housing conditions that the program should contain. Presumably, the greater the amount of resources committed to intermediaries for these services, the higher the level of housing consumption of participating households. But this raises the administrative costs of the allowance program which, with a fixed budgetary appropriation, means either fewer program participants (which lowers horizontal equity) or a lower share of subsidy dollars allocated to the intended beneficiaries (which lowers vertical equity).

Special Target Populations: These groups include, among others, the elderly, the handicapped, and Indian households.

Housing allowances are particularly well-suited for responding to the housing needs of some special low and moderate income families. The amount of subsidy can be established with considerable precision in relation to family needs: size, income, local market conditions, etc. And the problem of "over-income" recipients does not arise, as it does in the case of subsidies tied to specific dwelling units.

Housing allowances have obvious drawbacks in meeting the special requirements of other target groups, however, such as the handicapped and the elderly. To the extent that elderly households require physical facilities or social services that can only be provided in specially designed structures, housing allowances may not meet these needs. On the other hand, housing allowances will provide elderly households with more flexibility to choose a location near shopping, health facilities, or other desirable activities. An additional benefit is the potential for reduced overconsumption, where elderly households are presently locked into existing large units as the result of subsidies tied to particular dwellings (e.g., rent control).

Impact on Residential Services

Municipal Services and Neighborhood Conditions: Today the housing problem of low and moderate income families is, to an increasing extent, a problem of bad neighborhoods and inadequate municipal services rather than deficiencies in dwelling size or condition. This is particularly true for poor urban families. Housing allowances can be expected to have a strong positive impact on these conditions for several reasons. First, because allowances flow through the private market, a portion of the funds will constitute an intergovernmental transfer to local units of government, primarily through increases in property taxes on rental property (the housing allowance will be capitalized into higher property values). In many metropolitan areas, property taxes

[5] For some statistical documentation of participation in housing subsidy programs, see Henry Aaron, *Shelter and Subsidies* (Washington, D.C.: The Brookings Institution, 1972) and Eugene Smolensky and J. Douglas Gomery, "Efficiency and Equity Effects in the Benefits from Federal Housing Programs," Working Paper No. 2 (Madison, Wisc.: Institute of Poverty, 1971).

on rental property are the equivalent of a tax of 20 percent or more on rents. These transfers will improve the overall fiscal capacity of local governments to deliver required services. This is in contrast to present patterns, in which both public housing developments and privately owned subsidized projects (e.g., section 236) receive substantial abatement from local taxes. The ability of local housing authorities to make more than nominal payments-in-lieu-of-taxes is severely constrained by rising operating costs. And property tax exemptions, a standard feature of subsidized new construction programs, aggravates the regressive effect of the local real property tax by narrowing the tax base and eliminating revenue sources from the tax rolls.

Second, housing allowances provide the revenue necessary to improve maintenance of the existing rental housing stock. Abandonment by private owners of properties whose rent receipts cannot cover fixed costs is only the most acute form of undermaintenance of the existing housing stock; this is a widespread problem in areas with older, basically sound stock. The extent to which increased revenues will be utilized by landlords for maintenance and improvements is at present uncertain, and will depend on local market conditions, such as the fragmentation of ownership, vacancy rate, and the rate and type of demographic change. But housing allowances will undoubtedly improve the potential for such maintenance, and, in concert with other neighborhood improvement efforts, offer the possibility of reversing the disinvestment currently taking place in many of our older cities. In this regard, it should be noted that the recent major revision of rent control in New York City (still a matter of controversy) was in large part spurred by the city's recognition that existing controls unduly restricted income flows to rental property owners, making necessary maintenance less probable and often impossible. Housing allowances would make increases in rent levels possible by supporting consumer demand.

Third, housing allowances will allow the provision of assistance to low income families without the negative environmental effects of concentrated public housing developments. Large-scale housing projects, in some instances, not only have failed to serve adequately their own residents, but have deleterious spillover effects on surrounding properties. Objection to new construction projects is axiomatic in middle income neighborhoods and suburbs, based not only on the frequent sterility and institutional quality of their design, but on community resistance to class and racial integration. Housing allowances are one of the few available means for avoiding these problems. Housing allowances can serve these populations without the "apparent" threat of neighborhood deterioration through the concentration of poor families in so-called projects.

Locational Choice/Dispersal: Housing allowances have perhaps the greatest potential of all available housing subsidy alternatives for maximizing freedom of locational choice for recipients. This has far broader implications than a simple choice to live in the central city or the suburbs. Individual households in varying circumstances have different priorities among the package of services associated with any given dwelling unit, and housing allowances permit such choices to be made by recipients. Thus each recipient household can have more choice about such factors as unit size, local school quality, access to public transportation, proximity to relatives and friends, proximity to employment opportunities, etc. Moreover, use of housing allowances removes the government from the location selection process, eliminating the possibility of lengthy, acrimonious, and often permanently obstructive controversy surrounding site selection for newly constructed low- and moderate-income developments.

An additional aspect of increased locational freedom that deserves emphasis is the continued mobility afforded to housing allowance recipients. Job changes and family growth can rapidly change the housing needs and housing priorities of individual households. Housing allowances allow recipients to respond appropriately to these changes, instead of being "locked in" to a particular housing unit because of subsidies tied to the dwelling that must be forsaken when moving. In addition to the advantages for recipients, this can be expected to avoid or reduce the underutilization of the existing housing stock that is such a widely observed phenomenon in urban areas. Moreover, an adequate level of housing allowance should facilitate the dispersal of participating families. Although deep-rooted prejudice obviously will continue, it is still much easier for an individual household to negotiate for a single unit in a middle-income central city neighborhood or suburb than it is to locate a large-scale federally subsidized development in the same area. This has been the experience with the public housing leasing program but not

with the welfare program where shelter allowances are extremely low and highly visible.[6]

The experience with the housing allowance program sponsored by the Kansas City Model Cities Agency (although not designed as a research experiment) provides some preliminary information on the locational patterns of allowance recipients. These data have to be interpreted with caution for cities with different market conditions, segregation patterns, program scale, etc. But in Kansas City, locational choices were clear. The vast majority of families chose housing in older areas on the periphery of the central city or away from the central city, but not in the suburbs. And the moves of families appear to be strongly conditioned by race, with the majority of white families moving to white ethnic areas, and black families along the historic corridor for upward mobility. In almost all cases, for whites and blacks alike, the new neighborhoods were less crowded and offered higher quality services.[7]

Some Caveats: Locational choice will remain an advantage in areas where modest, standard units in appropriate price ranges are available, or will become available. In such areas, subsidies for new construction would appear to be a less appropriate approach. And the "trickle-down" effects of market-level new construction programs offer a very lengthy and inadequate alternative.

Existing obstacles to minority and impoverished families obviously will continue to be a problem. Housing allowances by themselves do not overcome the barriers of deep-rooted residential segregation. But they may well build on and support ongoing related efforts, such as antidiscrimination legislation, legal efforts to overcome exclusive zoning policies, open-housing programs, and the like.

It may be necessary to deal directly with three related issues as part of the housing allowance effort: the need for improved housing market information for allowance recipients; the need for counseling; and the need to prevent blockbusting and similar racially exploitative real estate practices. In addition, the administrative design should attempt to minimize the possible deleterious stigmatization of recipients; there is some evidence, for example, that welfare households have special difficulties in their housing search because they are easily identified.[8]

Administrative and Procedural Concerns

Administration: There is an irreducible minimum level of administrative activity with housing allowances, involving the determination of eligibility, income certification, the establishment of housing cost and payment formulas, allocations for local market areas, and distribution of benefits. At this level of effort, the program would involve a low level of administrative activity and expense, probably approaching that of the Social Security program. Four difficult tradeoffs involving administrative issues beyond this must be considered, however:

- First, cooordination with other Federal housing and income transfer programs. The strategy of reliance on individual categorical programs rather than a basic "negative income tax" causes complex problems of financial and administrative interaction. Housing allowances will have to be coordinated with other income-conditioned transfer programs (e.g., welfare, Social Security, food stamps, etc.) to minimize and avoid unintentional loss of benefits, work disincentives, unnecessary costs, and administrative duplication. This is a critical problem in the design of a housing allowance program and is considered in detail in other papers in this volume.
- Second, the interface with other programs that support or are supported by housing allowances. Local efforts at code enforcement, rent control, urban renewal, homeownership, and open-housing will have important effects on the degree of success of a housing allowance program. In a complementary fashion, housing allowances may provide the necessary market demand to make neighborhood stabilization and code-enforcement efforts effective. In particular situations, it may be necessary to require such local efforts as a prerequisite for housing allowances, and this will require the establishment of a local plan requirement for participating communities. Where local efforts to coordinate housing allowances with other housing and community development activities are minimal or nonexistent, the opportunity of meeting larger residential service objectives may be thwarted.

[6] See Arthur P. Solomon, op. cit., Chapter 8 and Lawrence Friedman and James Krier, "A New Lease on Life: Section 23, Housing and the Poor," *University of Pennsylvania Law Review*, Vol. 116 (1968).

[7] Arthur P. Solomon and Chester Fenton, "The Nation's First Experience with Housing Allowances: The Kansas City Demonstration," *Land Economics* (August 1974).

[8] See, for example, Ira S. Lowry, et al., *Welfare Housing in New York City* (New York: The New York City Rand Institute, 1972) Chapter 5 and George Sternlieb, *The Urban Housing Dilemma* New York, Housing and Development Administration, May 1970, Chapter 10.

• Third, resolving conflicting issues in program design. For example, there is considerable evidence that identification of the source of income (the opposite of anonymity) is an important factor in freedom of locational choice. Providing benefits directly to recipients would thus reduce the type of stigmatization that results from local welfare or housing agencies contracting directly for rental payments. There are alternative benefits to be gained from landlord participation in the program, however, including improved monitoring and control over underconsumption and the diversion of funds to other consumption items. Moreover, there is a chance to minimize landlord uncertainty and risk through greater participation.

• Fourth, the mode of verification of program earmarking and other requirements. Self-certification by recipients of such factors as eligibility and income levels and housing unit condition would involve the lowest direct administrative effort, but raises the possibility of considerable leakage of program funds. Full independent verification—unit inspection, income and family characteristic verification, etc.—may impose an unacceptably high administrative cost. Resolution of this issue will be facilitated by receipt of the results from the Administrative Experiment now underway and a closer study of the existing welfare program.

Private Sector Participation: The housing allowance alternative relies directly on the participation of key actors in the private sector, most importantly rental property owners, housing managers, and real estate brokers. In certain situations—for example, where blockbusting tactics emerge, or in deteriorating urban areas undergoing rapid change—monitoring and intervention by government agencies may be essential to the program's success.

Aside from achieving private sector participation as an end in itself—an objective frequently stated in Federal housing legislation—several other benefits may follow. First, recipients of housing assistance and owners and managers can be freed from the concentration of households with multiple problems that may accompany new construction programs. Second, it opens the operation to the more active participation of existing groups operating in the private market, including open-housing and nonprofit groups.

Flexibility of Commitment: Housing allowance commitments, whatever their form, are essentially commitments to households, rather than to housing units. This provides considerably more flexibility than unit-tied subsidies. First, as a particular household's income increases, assistance can be gradually decreased; if income rises above levels requiring subsidy, the household can leave the program. In both cases, the allowance funds can be adjusted as circumstances require. In unit-tied subsidies, the recipient must be evicted from his housing if the subsidy is to be made available to others. Eviction of overincome tenants in conventional public housing in practice has been an extremely troublesome issue. Where such recipients are allowed to remain in residence and pay "market rents," the potential use of the subsidy for poorer families is lost. In addition, such maximum rents are frequently below actual market rents and effectively continue to subsidize the overincome tenant. Housing allowances do not involve these problems. Second, housing allowances provide a means for rapidly adjusting to unfavorable changes in recipient situations; reductions in household income levels, for example, can be offset by increases in the level of subsidy. Third, housing allowances are not tied to fixed mortgage or bond-amortization periods. Thus, they are capable of early termination if the occasion warrants such action. For example, a decision 5 or more years from now to institute a full and comprehensive negative income tax, or other income redistributive measure as the primary means to overcome problems of poverty could be accompanied by rapid termination of the housing allowance program, if desired.

Some caveats: The flexibility of the program commitment may be illusory. Housing programs specifically, and Federal social welfare programs in general, demonstrate that it is much more difficult to end modes of assistance than to start them. But the potential for rapid termination does exist in the form of the subsidy and the length of commitment to any individual household.

Extent of Federal Risk: Housing allowances essentially involve no direct Federal financial risk beyond actual program expenditures. This is in sharp contrast with new construction and rehabilitation programs. Public housing failures, the most monumental and famous of which is the Pruitt-Igoe debacle in St. Louis, are graphic reminders of the potential loss of capital tied up in brick-and-mortar. Foreclosure losses in the mortgage insurance and interest subsidy programs, particularly those aimed at homeownership for the poor, have been of significant public concern

in recent years. Although they are associated with specific incidences of corruption and poor administration, and by no means discredit overall program design, the extent of these losses—presently estimated in the hundreds of millions of dollars—reflects risks that are not involved in housing allowances.

Scope and Cost of Alternative Plans: This section is going to be abbreviated because of the efforts already underway at HUD, the Urban Institute, and the Brookings Institution to estimate national costs, under different policy assumptions, with a computer-simulation model. Our effort to date has been to review and provide some assumptions for this analysis. Thus, this section will be limited to an enumeration of the factors (in some instances, administrative options) that will determine the cost of a national housing allowance program:

- Definition of eligibility for participation;
- Participation rates;
- The allowance formula, including determinations of income and assets, and the proportion of income contributed toward rent by the recipient;
- Administrative costs;
- The treatment of income and marginal tax rates by other income-supplement programs (e.g., welfare assistance) and vice versa;
- The prevailing market cost of modest, standard existing housing, and the changes over time; and
- The inflationary effect of the housing allowance program, itself, on the cost of adequate shelter.

The maximum cost to the Federal Government will arise in a program involving universal coverage, maximum enrollment efforts (80–90 percent), a percent of rent-incurred formula, government-sponsored supportive services and inspection of recipient dwellings, partial disregard of other transfer payments in definition of income, low marginal tax rates on other sources of income, use of a liberal definition of "modest" standard housing, rapid implementation of the allowance program, and a 100 percent Federal contribution rate. Any deviations from the foregoing administrative design would lower the annual cost of a national housing allowance.

Related National Policy Objectives

Economic Stimulation (Aggregate): The major Federal housing programs enacted into law in the period 1933-37 explicitly stated that stimulation of the national economy was among their prime objectives. The public housing program was supported at least as much for its employment potential as for its impact on housing conditions. Programs of rehabilitation and new construction have an obvious and immediate impact on the national economy, especially on the participants in housing production. The former 221 (d)(3) program and, even more importantly, the sections 235 and 236 programs were responsible for a significant amount of new construction in recent years.

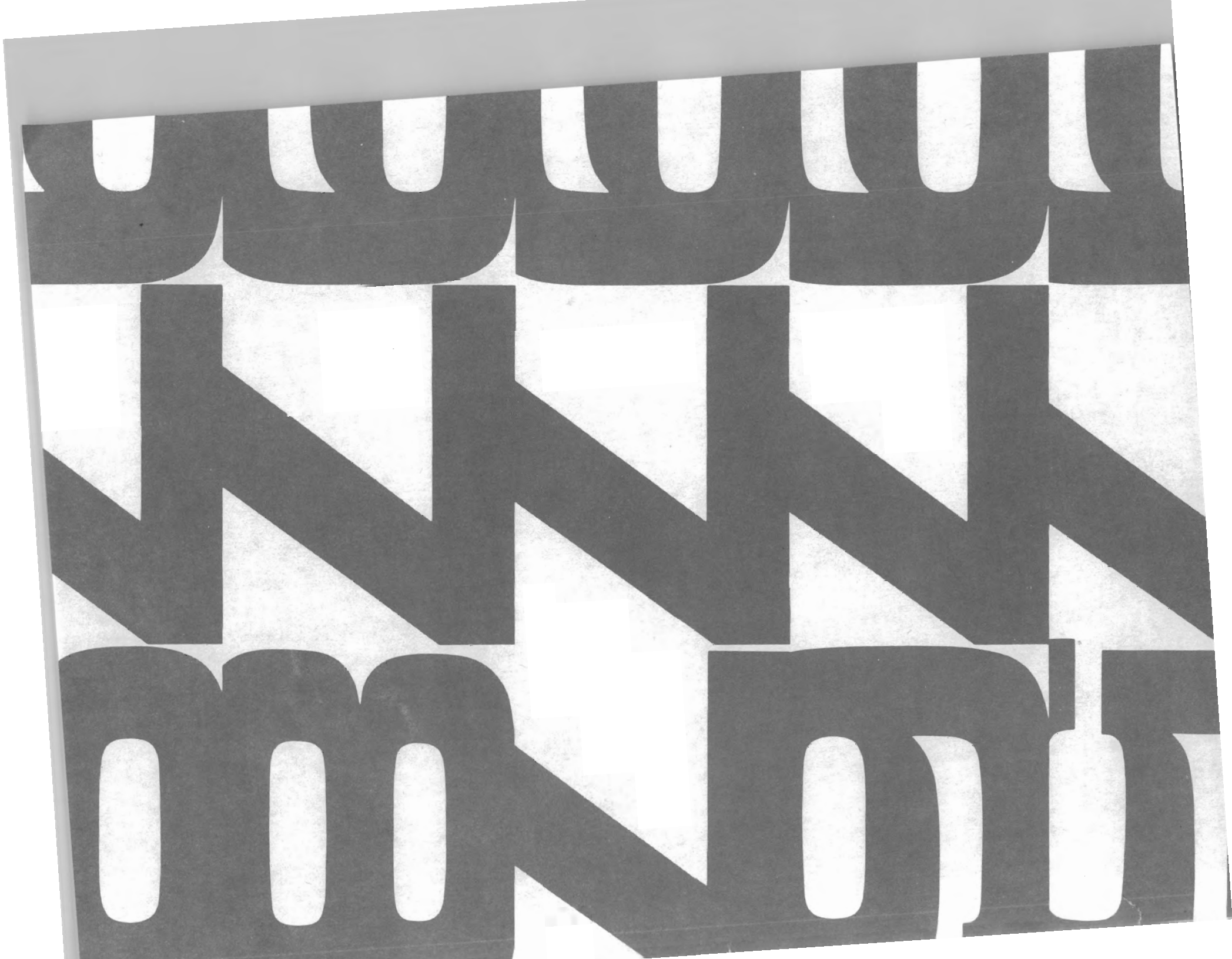
Housing allowances are at a disadvantage in this respect. Their impact on the housing industry are less direct, less extensive, and less certain. In particular areas, where the housing market demonstrates sufficient supply elasticity, subsidies to consumers will in part be translated into housing investment activities by private landlords and investors. Elsewhere, the supply effect will be more diffuse. Increased levels of maintenance and rehabilitation will include small, local suppliers of housing services. In older urban areas, this type of direct consumer subsidy may be of greater importance to inner city development than new construction, which is more concentrated, but narrower in geographic impact.

Again, it should be emphasized that the policy implications of this characteristic of housing allowances should be considered within the context of the Nation's total housing policy and of the target populations of subsidy programs. It may well be that housing programs in this context cannot properly serve both macroeconomic and social welfare objectives, and that to meet the housing needs of low and moderate income families, macro production and stabilization objectives have to be secondary. There already exist a wide range of fiscal and monetary tools to stimulate housing construction and moderate fluctuations.

Minority Economic Opportunity: Housing allowances, to the extent that they are utilized by owners for increased maintenance, will probably support minority employment and entrepreneurship to some degree. Increased maintenance provides economic opportunities with relatively low thresholds of entry, in terms of capital, professional training, and experience. There will also be the possible development of information and counseling agencies to support program recipients. But the most important and potentially most significant impact of the program will be the increase in mobility and locational choice of program recipients and the consequent improve-

ment in their access to existing and new employment opportunities. In most metropolitan areas, employment growth has occurred primarily within the suburban portions of the region, beyond the effective reach of many inner city residents. To the extent that housing allowances permit central city minority residents to overcome existing limitations on residential opportunity in those areas where employment is growing, and allow them to move from the central city, the program may have overall benefits far exceeding its direct effects. In contrast to the situation regarding the housing industry, these employment benefits would impact on the target populations of the housing programs, rather than on other participants in the economy (homebuilders, construction union members, etc.). It is not a paradox, but an essential feature of the program, that housing allowances may operate to place initial recipients in a position of job access that can remove them from the segment of the population requiring subsidy. Ths positive potential of the program—its ability to draw on a considerably vaster pool of resources to solve the income insufficiency that underlies much of the housing problem—could prove to be one of its most important features.

Urban Growth Patterns: Housing allowances will make four important contributions to the continued and heightened viability of urban areas. First, to the extent that recipients utilize allowances within the central city, they may support and increase the inner city property tax base and accompanying revenues. Second, increased levels of maintenance and rehabilitation may contribute to the continued utility of the existing housing stock, and increased rental payments may renew the involvement of responsible landlords. This is important for older suburbs in the inner rings as well as for central cities. Third, higher rent rolls in the existing housing stock may enhance the local government's ability to impose and enforce reasonable standards of physical condition. At present, there is a considerable reluctance in city housing agencies and in local housing courts to regulate owners of substandard housing where the marginal economics of operations, which are in large part a function of inadequate present and potential revenues, make sufficient maintenance activities an unrealistic course. In these cases, abandonment is a real and present threat. Increased rental revenues made available through housing allowances will reinforce local agency confidence in demanding improvements to standard levels. Fourth, housing allowances may provide the opportunity for a reversal in the mobility patterns that increasingly have made central cities into concentrations of the poor and minorities. Each recipient family or household must make its own locational decision, and there will be a considerable number who prefer to remain in the central city. But a substantial dispersal effect is highly probable, with the mutually reinforcing benefits for the central cities of reducing the concentrasion of poor families and reducing the role of the suburbs as insulated havens.



12 Equal Opportunity

Issues in Equal Access to Housing Under Revenue Sharing Programs, Housing Allowance Programs, Production-Oriented Programs, and Housing Preservation Programs

By *National Urban League Development Foundation*
Betty Adams, Richard H. Mapp, Thomas C. Gale, John E. Gaynus, and Daniel D. Morse

Foreword

Two general categories of issues must be addressed regarding equal access to housing: (1) civil rights and (2) affirmative action to achieve equitable results. The U.S. Department of Housing and Urban Development (HUD) is charged and legally obliged to pursue activities to maximize and improve compliance pursuant to applicable statutes and Executive orders dealing with discrimination on the basis of race, creed, color, sex, or national origin. These directives include Titles VI and VII of the Civil Rights Act of 1964, Title VIII of the Civil Rights Act of 1968, Section 3 of the Housing and Urban Development Act of 1968, Executive Orders 11246 and 11375, and related policies and procedures.

The four housing program areas (revenue sharing, housing allowances, production-oriented programs, and housing preservation programs) that are being reviewed by the HUD Housing Policy Task Force have two general forms with respect to equal access. They are either oriented toward a broad segment of the total housing stock on the market, or they are targeted toward specific segments of the housing market. Preservation programs may take either or both forms.

Problems and questions regarding civil rights and affirmative action issues are quite different for each of the alternative housing program areas being considered by the task force. For this reason, and because administrative procedures will differ with regard to matters affecting equal access issues for each alternative program area, we have prepared four issue papers that include recommendations for each alternative program area:

I. Issues and Recommendations: Equal Access to Housing Under Revenue Sharing Programs

II. Issues and Recommendations: Equal Access to Housing Under Housing Allowance Programs

III. Issues and Recommendations: Equal Access to Housing Under Production–Oriented Programs

IV. Issues and Recommendations: Equal Access to Housing Under Housing Preservation Programs

In each of the issue papers, equal access issues are presented as they apply to the respective alternative program area and as they apply operationally to the principal current proposals relevant to each alternative.

Issue Paper I, "Issues and Recommendations: Equal Access to Housing Under Revenue Sharing Programs," focuses on issues regarding housing programs generally, and provides specific recommendations regarding the implications thereof with respect to: (a) the point in time at which equal access to housing must be considered in the administration of a revenue sharing program by State and local governments; (b) tools of intervention available to the Federal Government that can be utilized to ensure equal access to housing; (c) Federal legislative and regulatory changes that will promote equal access to housing; and (d) the implications that arise when equal access to housing is related to State or local housing subsidy programs.

The second paper, "Issues and Recommendations: Equal Access to Housing Under Housing Allowance Programs," discusses the administrative measures that can be taken to effect equal access through allowance programs, and the effectiveness of such measures with respect to several of HUD's present approaches to equal access through fair housing law enforcement. Major attention is given to the delivery of effective fair housing law enforcement in the Experimental Housing Allowance Program, the potential impact of allowances on housing market practices generally as well as in new communities and in redevelopment areas, the potential impact of allowances on housing quality and market demand, neighborhood improvement and citizen

participation as a means of achieving equal access, and the delivery of housing allowances as one element of a positive intervention strategy to control housing quality. The last section of the paper, "Earmarked Allowances and Individual Freedom," reduces the current revival of this 19th century debate to the essential question of whether or not the Federal Government deems housing benefits necessary.

The third paper, "Issues and Recommendations: Equal Access to Housing Under Production-Oriented Programs," contains recommendations to ensure that the progress made thus far in achieving equal access under production-oriented programs will not be lost. Discussion is included regarding key aspects of production-oriented programs that are essential if minorities, as consumers or as developers, are to be assured opportunities for equal access.

The need to recognize the issue of equal access to housing under housing preservation programs as directly related to existing open housing market operations is the underlying theme of discussions contained in the fourth paper. A detailed discussion is provided regarding the relation of market trends to racial transition and investment strategies. Recommendations for "A Model Neighborhood Preservation Program" are presented in Attachment A.

On January 5, 1973, the President announced the cancellation of certain community development programs and the curtailment of funding of the production-oriented low and moderate income subsidy programs. At that time, HUD stated its belief that there was a sufficient number of housing applications already being processed to maintain a suitable level of production and to support the home building industry. In the President's Second Annual Report on National Housing Goals to the Second Session of the 91st Congress, he observed that:

> . . . the goals established by Congress in the Housing Act of 1968 still seem to be a reasonable expression of the magnitude of overall needs. Although the call for 26 million units in ten years, including 6 million subsidized units for families of low and moderate income, should not be regarded as a specific and prescriptive statement of requirements in exact numbers, it does serve as a useful guideline for measuring progress.

Current indicators, however, do not support that premise and show a serious decline in housing starts since the announced moratorium. Even with an increase in the annual volume of housing starts, blacks with only two-thirds of the income of whites will be hard-pressed to compete in the housing market. An analysis of the reduction in the gap between the median incomes of minorities and the median income of whites between 1960 and 1970 indicates that if the present rate of reduction of the gap is maintained, closure will not occur until after the year 2000.

The Federal system of the United States is ideally suited to promoting vital and diverse urban areas with a choice of living environments for all residents. The functions of the Federal Government are guidance, coordination, and insurance of standards of the rights of citizens. The Federal system is stabilized by Federal guarantees of standards regarded as the rights of citizens. It should be a matter of policy for the Federal Government to assume any function of the housing and urban development system that is not adequately performed by the appropriate elements. The Federal Government must continue its role in housing policy development and enforcement, giving special consideration and attention to equal access concerns.

Issues and Recommendations: Equal Access to Housing Under Revenue Sharing Programs

A major concern of the National Urban League relates to the effect that general and community development special revenue sharing programs will have on present Federal civil rights enforcement efforts by HUD and other departments with housing programs. Without question, proposed "New Federalism" programs like the Better Communities Act will significantly shift civil rights enforcement responsibilities from Federal to State and local governmental units. However, preliminary indications show that a sizable percentage of these units will likely have an immediate reduction in their commitment to and enforcement of civil rights sanctions once revenue sharing program benefits enter their respective jurisdictions. For example, the present Federal general revenue sharing program (the State and Local Fiscal Assistance Act of 1972) has a statutory nondiscrimination provision that applies to race, color, national origin, and sex. However, the Federal Government must realistically concede a greatly reduced Federal enforcement capacity under this program, since the Treasury Department's Office of Revenue Sharing has the primary responsibility to supervise, monitor, and enforce the civil rights provisions of the general revenue sharing program for more than 38,000 State and local governmental units. Local super-

vision of a national legal commitment to civil rights will not likely have the necessary coordination and support of the Department of Justice or other relevant Federal departments like HUD to assist nondiscrimination efforts made by State and local governments under a New Federalism approach to Federal community development programs.

An analysis and comparison of the general revenue sharing program with equal housing opportunity shows that general revenue sharing recipients are authorized to expend funds for housing and community development activities. A chronic national housing shortage indicated that the issue of equal access to housing relates directly to the availability and to the condition of the housing stock in a given market area. Under the general revenue sharing program, the use of general revenue sharing funds for the creation of a municipal loan guarantee program, for new construction, for counseling and other fair housing programs, or for the financing of a municipal homeowner rehabilitation program would appear to increase the housing supply and, presumably, enhance housing opportunities. However, surveys completed by the Senate Subcommittee on Intergovernmental Relations and the Office of Revenue Sharing show an apparent ignorance or lack of concern for the marriage of increased housing opportunities to the general revenue sharing program by State and local governments. Similarly, pending congressional bills on community development special revenue sharing offer little hope for improving housing accessibility for blacks, other minorities, or the poor. For example, units of government applying for community development financial assistance under S. 1744 (the Community Development Assistance Act of 1973) are not even specifically required to enforce any Federal civil rights laws, regulations, or policies as a condition precedent to receipt of grants or loans under the proposed act. The administration's S. 1743 (the Better Communities Act) does not contain this glaring and puzzling omission. However, there are draft legislative proposals that could accomplish the same result by reclassifying all Federal funds received under special revenue sharing programs as non-Federal monies upon receipt by State and local governments. If these proposals are accepted, they will certainly make a Federal civil rights enforcement effort and HUD's Equal Opportunity Office program goals a moot exercise in enforcement futility. However, even the ultimate congressional passage of legislation identical to S. 1743 will offer little equal housing opportunity enforcement relief because it will not require HUD to compel State or local officials to enforce its nondiscrimination provisions with uniformity throughout the country. If HUD's self-analysis of its enforcement of the "area of minority concentration" criteria is a guide for future HUD performance in this area *(Implementation of HUD Project Selection Criteria for Subsidized Housing: An Evaluation,* December 1972), uniform enforcement of laws and regulations relating to equal opportunities in housing (with or without community development special revenue sharing) is apparently impossible without strong HUD top-level guidance and a more independent HUD Office of Equal Opportunity.

A second HUD study also indicates that the Federal Government has the sole capacity to enforce civil rights laws adequately.[1] HUD's Planned Variations Demonstration served as a revenue sharing preview to measure program management accomplishments. The program experience in seven out of 20 participating cities has revealed that the priorities of the Model Cities program have changed in these cities so that a greater proportion of Model Cities funds is now devoted to physical development rather than to social services programs (which may include equal housing opportunity programs). These HUD conclusions indicate to the National Urban League that the present Federal general revenue sharing program and pending Federal community development special revenue sharing legislative proposals do not appear to offer increased access for citizens historically discriminated against due to race, color, national origin, or sex. The remainder of this issue paper analyzes several equal access problems as they relate to revenue sharing and offers remedial recommendations for them.

Issue #1

At what point in time must equal access to housing be considered in the administration of a revenue sharing program by State and local governmental units?

Consideration has to begin at the time Federal regulations are initially drafted for the program. When the State and Local Fiscal Assistance Act of 1972 passed the Congress, the Treasury Department's initial draft regulations for implementing the nondiscriminatory and publication provisions of the act were little more than

[1] *Community Development Evaluation Series No. 7 Planned Variations: First Year Survey,* Oct. 1972.

verbatim recitals of the basic statutory provisions. However, objections raised by the National Urban League influenced the Treasury Department to strengthen its publication requirements in the final regulations. Because of this regulatory modification, recipients of general revenue sharing funds are now required to advise all minority and bilingual newspapers in the area about municipal plans for the expenditure of general revenue sharing funds.

The nondiscrimination and public notice statutory provisions of the proposed Better Communities Act appear to recognize the regulatory experience of the Office of Revenue Sharing. However, the act's public notice requirements relative to State and local statements of community development activities appear much too weak for effective enforcement of applicable fair housing legislation. In order to promote equal access to housing throughout the country, the Better Communities Act must require publication as a realistic opportunity to inform our minority and bilingual citizens. In addition, the act should require chief executive officer certification of compliance with applicable Federal civil rights laws and regulations as a condition for receipt of special revenue sharing funds. A recommendation for increased public participation was made by the National Urban League in testimony before the Housing Subcommittee of the House Banking and Currency Committee in 1971 on proposed legislation that related to the authorization and creation of metropolitan housing agencies.[2]

Issue #2

Can the Federal Government ensure equal access to housing at any point?

The evidence suggests that the Federal Government can ensure equal access only if it has the support of the entire executive branch to enforce and monitor Federal civil rights laws and regulations that will cut off financial assistance for noncompliance. Both the general revenue sharing legislation and the proposed Better Communities Act provide for fund cutoffs when fund recipients are administratively determined to be in noncompliance with nondiscrimination provisions. Similarly, HUD's affirmative fair housing marketing regulations expressly provide for financial cutoff and inability to take part in HUD programs for noncompliance (Section 200.635). However, these civil rights enforcement tools plus Section 602 of the Civil Rights Act of 1964 (financial assistance termination for discriminatory activities) are only as strong as the Federal Government's will to vigorously administer them. In most cases, the Federal Government has taken a timid and defensive stance with regard to enforcement of regulations designed to promote equal housing access. This passive policy is exemplified by certain regulations promulgated in the past 2 years to enhance equal housing opportunities by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, the Federal Reserve Board, and HUD (advertising regulations). Without exception, the above-cited regulations were only policy statements that lacked sanctions for noncompliance with the enabling fair housing law (Civil Rights Act of 1968).

Federal executive departments can ensure fair and equal access to housing only if they firmly commit themselves to this policy. The National Urban League believes that a more active use of the Federal Government's authority to cut off financial assistance to State and local jurisdictions that refuse or fail to provide equal housing opportunities would display a good-faith Federal effort to honor this commitment.

Issue #3

Are there any suggested Federal legislative or regulatory changes that will promote equal access to housing?

During 1966, Congress considered the creation of a Fair Housing Board with powers similar to the National Labor Relations Board. These powers would include the authority to issue cease and desist orders and to compel the attendance of witnesses at an administrative hearing by way of subpenas. This board would have special relevance today with the advent of general revenue sharing and other New Federalism programs. The evidence to date indicates that State and local governments tend to ignore the Federal Government's equal housing opportunity responsibility. A good example is the small number of State and local governmental units that have passed fair housing laws substantially equivalent to the Federal Civil Rights Act of 1968 (Title VIII). Thus, it would appear that an agency like the Fair Housing Board definitely enhances equal housing opportunity. A board of this type would also have the unique Government-wide su-

[2] "Hearings, Housing and Urban Development Legislation—1971, Part 2," Committee on Banking and Currency, Subcommittee on Housing, 1971, pp. 689, 701.

pervisory capacity to monitor progress, impose sanctions, and enforce all equal housing opportunity laws and regulations. Finally, this recommendation relates directly to the administration's emphasis on Federal centralized reorganization because the proposed board would tend to eliminate Federal duplication of effort in the equal housing opportunity field.

Issue #4

What implications arise when equal access to housing is related to State or local housing subsidy programs?

The proposed special revenue sharing housing programs will tend to exacerbate State and local governments' historic lack of relative concern for equal housing opportunities. For example, these programs will cause an unfortunate division of responsibility between the Federal Government's power to collect taxes and State and local governments' power to spend these collected revenues. This diffusion of accountability will likely cause increased State and local attention to program management efficiency and other financial administration concerns. At the same time, there will likely occur deemphasized official attention for citizen participation requirements. We have already witnessed the demise of these requirements. The valuable experiences of citizen involvement acquired under the Model Cities, Community Action, and HUD's Urban Renewal Project Advisory Committee Programs are now shelved for nonrelevance under the New Federalism.

It does not appear that State or local housing subsidy programs will assist equal access to housing efforts. Instead, these programs will tend to subsidize the weaknesses of many local governmental units that already have weak civil rights enforcement policies. Ironically, these proposed housing subsidy programs may also increase HUD's administrative workload for enforcement of its relevant equal access regulations (project selection, fair housing advertising, real estate advertising, or affirmative marketing) because many localities may initially seek to shift these official responsibilities to private social organizations (e.g., the National Urban League affiliates that handled equal opportunity complaints originating from HUD's toll-free telephone complaint program). This failure to promote equal housing opportunities at the State and local level is inexcusable today. However, this failure is a reality that can best find remedial attention from strong Federal enforcement.

Issues and Recommendations: Equal Access to Housing Under Housing Allowance Programs

There is widespread agreement that fair housing law enforcement has not been as significant or effective as desired by the Department of Housing and Urban Development and the constituents of the National Urban League or as required by law. The discussion set forth in this paper focuses on the administrative measures that can be taken to effect equal access through allowance programs. It also examines the effectiveness of various administrative measures with respect to several of HUD's present approaches to equal access through fair housing law enforcement.

Fair Housing Law Enforcement and the Experimental Housing Allowance Program

HUD has determined that, rather than bear the costs of adding law enforcement levels to the list of tested variables in the Experimental Housing Allowance Program (EHAP), cost efficiency can be attained through a simple declaration of a policy of perfect law enforcement for housing allowances. Payment for special law enforcement for EHAP participants should occur where the existing enforcement machinery is found to be imperfect. This policy is now in effect at the two current sites (Pittsburgh, Pa., and Phoenix, Ariz.) of EHAP's Demand Experiment. Thus, policy decisions based on the findings of EHAP will necessarily assume perfect fair housing law enforcement at the two sites, which may not always be the case.

The level of fair housing law enforcement found at each of the sites of the Experimental Housing Allowance Program is an important potential cause of variation in EHAP results with respect to equal access. Likewise, in instances where enforcement is deficient, desired results of the use of allowances may not materialize.

Nonetheless, the initiation of an equal opportunities policy in EHAP is viewed by the National Urban League as the most positive step yet undertaken by HUD in the area of equal opportunities. While the EHAP equal opportunity policy may be interpreted merely as establishing a required HUD standard for affirmative action, it can also be viewed as a commitment by HUD to obtain equal access results in any contemplated national housing allowance program. Effective fair housing law enforcement with respect to

housing allowances is critical in that large stocks of existing housing are subject to use in an allowance program and are therefore subject to HUD affirmative action policies mandated under Title VIII of the Civil Rights Act of 1968. Success in the delivery of effective enforcement is, of course, the key to equal access through housing allowances.

The Impact of Law Enforcement: In preparing material for the evaluation of fair housing law enforcement at EHAP's Pittsburgh site, the National Urban League submitted a memorandum to Abt Associates, prime contractor to HUD for execution of the EHAP Demand Experiment. The following excerpts from the memorandum will help in an assessment of the impact of the EHAP law enforcement policy on future forms of housing allowances:

From 1968 through 1970, the Pittsburgh Urban League was funded by the Ford Foundation to provide antidiscrimination services to minority homeseekers in the Pittsburgh area. The service was evaluated by NUL in 1969. Pertinent findings of the evaluation are that although 44% of the homeseekers believed they had encountered discrimination while looking for housing, only 2% followed through with legal complaints and only 8% requested the 'checking' services that were available to them. The conclusion of the NUL evaluation was that although discrimination played a large role in limiting the housing choices of black households in Pittsburgh, the role that antidiscrimination law enforcement could play in increasing housing choice was not significant. Similar services were evaluated in six other cities (Cleveland, Miami, Philadelphia, Rochester, St. Louis and Seattle) at about the same time and with like conclusions.

Only one of the cities (Cleveland) showed much greater use of antidiscrimination laws than Pittsburgh. With similar state and local laws to enforce, 30% of the Cleveland homeseekers made use of checking services and 20% followed through with legal complaints. In Cleveland, as in Pittsburgh and all the other cities, about half of the homeseekers believed they had encountered discrimination. Why did the Cleveland families seek legal redress more often than the Pittsburgh families with no discernible differences in the redresses available?

The Cleveland service was different from that in Pittsburgh in one major respect. The Cleveland program sought and received widely publicized support from the bar associations and the real estate associations. The Cleveland staff believes the acknowledgement and recognition given their service to the cause of law enforcement was the encouragement needed in its use by many homeseekers. Both Pittsburgh and Cleveland organized and conducted tours of nontraditional living areas for black families. They both provided checkers, escorts, and legal services. The difference is that Cleveland's legal and real estate establishment actively supported the program, while the Pittsburgh establishment resisted the program. In Cleveland, the staff enthusiastically held out the hope of quick and just resolution of any case pursued. In Pittsburgh, however, the staff could offer no more than the pursuit of principle, even though the statutes and the enforcement machinery were and are very similar in Pittsburgh and Cleveland.

Using the Urban League experience in Pittsburgh and Cleveland, the following may be expected to occur with 300 black EHAP families in the Pittsburgh area:

	Minimum Enforcement	Advocacy Enforcement
Families encountering discrimination	150	150
Legal cases to be filed	6	60
Cases to be checked	24	90

This projected expectation compares most positively with the actual 1972 discrimination caseload in Pittsburgh which follows:

> City Human Relations Commission—34 cases (4 referred by HUD)
>
> State Human Relations Commission in Allegheny County—42 cases (7 referred by HUD)
>
> In addition, the Commonwealth of Pennsylvania filed 20 cases which it originated through probes of the market.

An advocacy program will not show maximum effectiveness during the first moves of participants or during the first year of the program. The effects of advocacy will only be known by moves during the second and following years of the program.

Cost comparisons between a minimum enforcement program and an advocacy program can be expected as follows:

	Minimum Enforcement	Advocacy Enforcement
Staff: Director @ $15,000	$7,500	$15,000
Legal @ $20,000	4,000	20,000
Clerical @ $ 8,000	4,000	8,000
Checkers @ $5.00 Per Hour	500	2,000
Total	$16,000	$45,000

Due to consistency of Urban League data from city to city, the preceding tables provide a reasonable basis for estimating the load on fair housing law enforcement agencies and for estimating the costs of implementing equal access housing allowance programs. This assumes nominal changes in housing market procedures and practices in the full-scale implementation of housing allowances. Thus, it can be assumed that in the Pittsburgh area enforcement needs to fight racial discrimination against blacks exclusively (sex, age, and family size are other common forms of housing discrimination) will cost $500,000 a year for the smallest possible operational program. Nationally, an effective law enforcement program in conjunction with a national housing allowance program may be expected to cost in excess of $200 million per annum.

With respect to existing equal opportunity legislation, the cost of following up the policy initiated in the Experimental Housing Allowance Program or in any national program of allowances appears to be prohibitive. However, if one assumes that, once eradicated, discrimination is a nonrecurring disease, a cost of $1 billion for removing housing discrimination from the Na-

tion's list of social ills within 5 years may be considered a bargain.

The Federal Obligation: As cited previously, the legal obligation of the Federal Government to provide equal access flows from fair housing laws (primarily Title VIII). However, HUD may also be motivated to effect equal access out of moral commitment. Underlying the discussion of equal access issues that follows is the realization that equal opportunity program motivation by HUD will vary significantly and will relate directly to whether or not, and to what extent, HUD views its responsibility as originating solely from legal sanctions or from a moral commitment as well.

The Impact of Allowances on Housing Market Practices

HUD intends to measure the impact of housing allowances on urban housing markets through the Supply Experiment of the Experimental Housing Allowance Program. However, since the results of this project will not be available for several years, we must discuss market practices in terms of a theory of market behavior. The National Urban League has developed a theory that relates urban housing markets to equal opportunities, i.e., equal access to housing. The theory is based on research into housing market behavior [3] combined with intuitive judgments based on Urban League experiences.

The theory hypothesizes that equal access to housing through housing allowances relates to the shifts between market areas as described below. Based on this model, allowances can be expected to decrease demand in uninvested areas and to increase demand in full investment and disinvestment areas.

It is important to recognize that the fate of urban neighborhoods is determined by the consensus of investment opinion concerning each neighborhood. Investment decisions are made by three general types of investors: (1) residential mortgage investors, (2) commercial investors, and (3) public sector investors. Allowances can be used as a tool to implement investment decisions.

New Communities: New communities on suburban open land and on HUD-assisted redevelopment land areas exemplify the impact made on urban development by commercial investors. Typically these investors seek to aggregate land parcels on a scale sufficient to create interactive commercial and residential developments that will attract middle and upper income residents. HUD's New Communities Program experience indicates that incentives to market actively and plan for lower income residents in new developments are presently lacking because lower income families do not contribute to the market power that developers desire in order to attract "top drawer" commercial tenants and investors.

Housing allowances provide unique opportunities for developers of new communities to expand the market for new communities to lower income families and individuals. Rent or housing purchase money alone, however, will not mutually benefit developers and lower income families. A higher level of social services is necessary. Unless developers are induced or legally compelled to plan for appropriate social serv-

Housing Market Area	Racial Characteristics	Investor Strategies	Equal Opportunity Strategies
Full Investment Area	Predominantly white	Exclusion of minorities	Open access, economic and racial integration
Disinvestment Area	Transition or projected transition white to minority	Rapid transition	Package services mutually beneficial to residents and investors
Uninvested Area	Predominantly minority	Exploitation of tenants and abandonment	Maintain social services and plan for development
Reinvestment Area	Reestablishment of whites	Relocation of minorities	Obtain participation for residents of redevelopment

[3] *The National Survey of Housing Abandonment*, Third Edition, Center for Community Change and National Urban League, New York, Mar. 1972; *Analysis of Changes in the Black Submarket for Housing 1950–70*, National Urban League, New York, May 1972; *Where the Lender Looks First: A Case Study of Mortgage Disinvestment in Bronx County, 1960–1970*, National Urban League, New York, Apr. 1973.

ices, they are not likely to rise to accept the "carrot" offered in the form of housing allowances. Furthermore, housing allowances alone will not promote equal opportunities in new communities. It is therefore necessary to include the costs of social planning and affirmative marketing for lower income families in new communities development financing.

To the extent that the Federal Government is instrumental in financing new communities, it can regulate equal opportunities practices in new communities development. However, present Federal regulations that induce equal opportunities objectives will quite likely make the use of Federal guarantees less desirable and even noncompetitive with private financing unless the Federal financing program includes the cost of the needed social planning. Effective coordination of new communities development and equal opportunities policies (using housing allowances and other available tools to make equal opportunities financially feasible in new communities) could be accomplished if these policies were implemented at the level of government that is responsible for providing social services. This level of government should require social planning for all new developments. The Federal Government, by appropriate legislation, should insure that local governments—whether State, county, or municipal—will assume this responsibility.

Alternatively, the Federal Government can ensure local government action by withholding funds that affect a geographic area larger than the particular development in question. This larger area should be at the scale of a total housing market area or an urban investment area. Smaller area jurisdictions that may desire to exclude new development for reasons not consistent with national housing policy goals could use the threat of sanctions to withhold cooperation with developers. A multijurisdictional approach, on the other hand, is more likely to lead to realistic anticipation of the benefits to be reaped from new developments. Therefore, the Federal Government should be diligent in holding State governments responsible for the supervision of social service programs developed by local governments.

State governments should have discretionary authority to implement their own sanctions and to design methods for meeting these additional responsibilities. In order to assure that State sanctions are used to counter rather than to support improper actions, the Federal Government must have ultimate monitoring and sanctioning powers over State governments stipulating clearly that States, in turn, cannot levy sanctions selectively. The consequences of improper practices must be felt in all the jurisdictions within the impacted area.

Similar authority and responsibility should apply to redevelopment activities. Developers involved with clearing land suitable for redevelopment may utilize housing allowances to assist area residents. However, if relocation benefits and guaranteed housing subsidies are available to lower income families, developers may find it easier to acquire the cooperation of local governments in acquiring funds for land clearance and redevelopment only.

Redevelopment Areas: Redevelopers, like new communities developers, seek to provide development land for employers and entrepreneurs as well as coordinated residences for the employees and customers of those establishments. Even with allowances, many families residing in the target areas for redevelopment will not become employees and customers of the firms the developer must attract. Developers, therefore, have little incentive to plan for the use of housing allowances in a manner that tends to promote equal opportunities. The question that is raised here is whether or not housing allowances can be used in redevelopment planning processes to promote equal opportunities.

Housing Quality and Demand: Theoretically, housing allowances can cause the creation and distribution of more high quality housing than existed in a housing market area at the inception of a housing allowance program. When this occurs, redevelopment can be expected to create better quality housing and to eliminate lower quality housing, thus acting to increase the overall level of housing quality in the total market area. Redevelopment raises total quality more efficiently than does new development. Assuming this to be true, housing allowances may be a very powerful tool for the provision of equal opportunities for access in the redevelopment process.

Effective distribution of higher quality housing is possible only if the redevelopment process does not reduce housing quality elsewhere in the housing market. The common result of urban renewal, however, has been the general lowering of housing quality due to displacements, thus causing greater demand for low quality housing. Can allowances create a demand for higher quality housing coincident with rent schedules that are realistic in terms of the lower income housing market? If not, there will be greater lowering of housing quality than is presently the

case with urban renewal. The danger is that with a larger number of housing units subject to lower income demand resulting from the availability of housing allowances, low maintenance standards may, therefore, be instituted in a larger segment of the housing market.

The Demand Experiment of the Experimental Housing Allowance Program includes a Housing Information Program that attempts to develop demand for better housing. This individual demand, however, does not produce a general demand for better housing quality because housing quality is not demand-stimulated in a vacuum. Improved housing quality is the result of investment strategies that are pursued through property management practices that only coincidentally and superficially take demand into account.

The National Urban League research cited earlier concluded that investment strategies control housing demand (as reflected by the urban renewal experience) and can be almost immune to demand because urban housing market demand reacts illogically to minority-group housing demand. We acknowledge opinions that differ from this conclusion. A discussion of alternative theories is given in a companion to this paper entitled "Equal Access to Housing Under Housing Preservation Programs." (The device of many housing economists in describing and generally classifying minority demand under a term such as the "demand for slum housing" does not enhance their credibility or sensitivity.) The essential point is that housing quality can and has been demonstrated to be relatively unresponsive to degrees of demand in the minority submarket.

EHAP's Housing Information Program is a necessary but insufficient means for aggregating lower income demand for better housing quality. We contend that the consideration of community demand for better housing quality is as important as the consideration of individual demand. The empowerment of neighborhoods to provide housing management coincident with housing costs supported by a housing allowance program as a replacement for present investment strategies represents the most effective means for achieving equal opportunities.

Neighborhood Empowerment and Citizen Participation: Neighborhood power is a responsibility of local government. Monitoring the existence or nonexistence of neighborhood power by the Federal Government appears more difficult in this case than with respect to coordinating social and development planning.

Local governments traditionally seek the greatest amount of revenue from property taxes. They invest in economically stable communities to increase and protect their investment attractiveness. Therefore, local governments can be expected to view housing allowances as a tool to spur redevelopment and to replace low-rated tax properties with higher rated tax properties.

The only effective constraint on pure economic justification for local government decisions is citizen participation in the redevelopment planning process, especially effective citizen participation by residents of proposed redevelopment areas to make the key decisions concerning redevelopment versus rehabilitation.

The well-documented experience of urban renewal shows that equal opportunities are usually violated and equal access opportunities are severely limited in redevelopment projects that do not include appropriate resident input in redevelopment plans. With suitable technical assistance, such citizen groups may be able to wield their housing allowances as instruments to implement their plans. Citizen participation has been very weak because of the absence of such a tool.

It is unwise and unjust to disregard citizen participation in planning. On a demonstration basis, the Federal Government should assume a role for housing allowances as they relate to redevelopment as it has done with Project Area Committees under the Federal urban renewal program. In other words, citizen planning groups should be required as a condition for the distribution of funds. The citizen planning groups should be empowered with rights that include making decisions that favor redevelopment or rehabilitation.

We do not conceive of any viable alternative to the empowering of neighborhoods to organize and monitor the use of housing allowances. We therefore recommend that local governments be given responsibility for qualifying the desired market response from housing allowances and for empowering neighborhoods to achieve the desired response. The Federal Government should approve the plan and therefore the magnitude of allowances to be delivered in the jurisdiction. Since housing markets are generally larger than political jurisdictions, State governments should assume the planning and coordination function with local government participation. Without such protection, we believe that racially determined urban housing market systems will inevitably consume the allowances without promoting equal access. Without neighborhood decisionmaking power, a more appropriate housing subsidy for the promotion of equal opportunities

appears to be a subsidization of housing acquisition costs. This subsidy could be used by minority persons in existing housing markets to achieve homeownership without fears of subsequent inability to sell because the mortgage principal is too high for market conditions. This is usually the case with present Federal subsidy programs for older housing. In conclusion, we believe that allowances are an effective tool for increasing housing quality for lower income households if neighborhoods can collectively use allowances to break down racial distortions in urban housing markets. For a description of a proposed neighborhood program, see Issue Paper IV, Attachment A, "A Model Neighborhood Preservation Program."

The Delivery of Housing Allowances

The National Urban League believes housing allowances should not only be earmarked for the attainment of standard quality housing but also should be an effective tool for directly controlling housing quality. To accomplish this end, we believe allowances should be delivered on a neighborhood basis, according to plans for controlling housing quality, in magnitudes sufficient to accomplish the plans and in cooperation with other necessary actions such as code enforcement, packaged property management services, etc. (See Attachment A to Issue Paper IV, "A Model Neighborhood Preservation Program.") In redevelopment areas, allowances should be coordinated with redevelopment plans. In other areas, allowances should be coordinated with preservation and rehabilitation plans.

We strongly favor the use of housing allowances as the primary vehicle for delivering housing subsidies because allowances hold the hope of integrating subsidized families with households in the general housing market. Supply programs have demonstrated their inability to achieve this end. Our experience in providing housing services and our research into the racial impaction of housing markets convince us that direct intervention in housing markets is necessary for effective action against urban housing problems. Allowances are one element of positive intervention, if they are coordinated with other submarket (neighborhood) activities.

We do not have philosophical problems in intervening in housing markets either in respect to interfering in profitmaking supply activities or in building positive demand for better housing. Although hard data are lacking to relate social pathologies to causes in housing quality, there is a massive amount of data connecting social pathology with environments characterized by low quality housing.[4] We believe housing quality is determined by forces external to supply and demand considerations and that, therefore, the concept of "demand for slum housing" should be irrelevant to decisions in housing policy. Our argument in support of this belief and contrasted with the argument that housing quality is purely income-conditioned is made in Issue Paper IV, "Equal Access to Housing Under Housing Preservation Programs."

Earmarked Allowances and Individual Freedom

The argument that earmarked housing allowances may restrict the freedom of individuals to decide their fates has echoes of the conservative-liberal debate of the 19th century over State welfare policies. The raging question was whether or not the State had a right or obligation to provide more than subsistence assistance to indigents. Liberals said "no" on the grounds of interference in the individual's right to independence from the State, whatever the economic consequences. Conservatives said "yes" on the basis of the State's right to build its economy or society according to its design. The political labels for the sides in the debate may be reversed today. For much of the 20th century this form of welfare policy questioning has been allayed in recognition that modern societies are mixed economically and socially and that freedom is conditioned for all individuals by complex economic and social factors. The current revival of the debate in terms of whether to provide single income grants to indigents or multiple earmarked grants has the stigma of looking backward to simpler times with simpler issues. We must acknowledge the overwhelming evidence of externalities in housing costs and payments that mock any attempt to deliver benefits without intervening in the structure of forces acting against beneficial effect. The introduction of an income versus intervention question in housing policy issues thus is essentially the question of whether or not housing benefits are considered necessary. If they are not, the Federal Government may simplify its role by abandoning its responsibility for housing policy.

[4] A standard reference for this is Alvin K. Schorr, *Slums and Insecurity*, U. S. Department of Health, Education and Welfare, Social Security Administration, Research Report #1, Washington, 1966.

The National Urban League believes the evidence is available to conclude that intended beneficiaries believe that effective housing subsidies are necessary. We are not impressed with recent data showing that lower income families in North Carolina might as often create savings as purchase better housing if delivered an unearmarked allowance.[5] We are unimpressed for three reasons:

1. The data were not conditioned by supply constraints. Who knows what people will really do with money until they are tested in the marketplace? An attitude survey regarding housing has the problem of separating estimation of supply elasticity from behavior with elasticity induced. We believe the data show that people are well enough aware that money means less in housing than it does at the grocery store.

2. The Urban League's continuing attitude surveys in ghetto areas as well as other surveys consistently show that ghetto residents consider housing to be among the most important problems to attack—along with employment opportunities and better education.

3. The Urban League has polled 600 ghetto families in six different cities concerning their attitudes toward integrated housing.[6] The results are remarkably consistent from Miami to Seattle and all regions in between. A whopping 85 percent of ghetto residents favor racial integration. This attitude is not based on ideals, but on a belief that better housing can only be obtained and maintained outside the ghetto environment and that better housing is worth separation from the ghetto environment. This result does not imply the desire to abandon ghetto culture at all costs. It reveals that ghetto residents distinguish cultural from physical environments.

The distinction between cultural and physical environments is a necessary element of housing policy. All cultures are dynamic. They change partly in response to opportunities in the total environment. As stated by Levine, "We know from historical evidence that, however stable culturally distinctive dispositions appear in the individual lifespan, they can and do change in response to environmental conditions over longer periods of time."[7] Evidence shows that adaptation of ghetto personalities to enforced conditions of overcrowding, etc., are likely to produce cultural attributes due to causes from which many ghetto residents wish to seek relief. Only effective housing policies will give ghetto residents the opportunity to continue to develop a socially derived culture and one with physical cultural attributes planned into environmental and cultural development through physical planning participation of residents of environmental neighborhoods.

Lack of effective housing policies may condemn ghetto residents to warped cultural development. The risk of this is too great to be compensated by a less complex Federal role. We do not believe the Federal Government can with any conscience abandon its role in housing policy development and results. In particular, we do not believe the Federal Government can escape its obligations through the back door of the great welfare debate of the 19th century.

Summary

HUD has taken a positive step toward implementing equal opportunities policies in housing allowances through a policy decision in its Experimental Housing Allowance Program. The policy requires an adequate fair housing law enforcement environment as given in tests of other policies in housing allowances. Full-scale implementation of this policy may cost $200 million per year in a national program of housing allowances. However, even full law enforcement may only affect a segment of the available housing stock that must be considered an equal opportunities concern in housing allowances. Law enforcement primarily provides access to the stock that is characterized as being in low risk, or full investment, areas.

Coordinated social planning with new communities development and redevelopment activities with empowerment of neighborhoods to exert demand influences on housing quality by ensuring sound management practices are measures that must be undertaken in conjunction with any program of housing allowances in order to further equal opportunities objectives. These activities are properly the responsibilities of local governments with financial sanctions and monitoring imposed by the Federal Government on State governments that are in turn responsible

[5] *Evaluation of Housing Policies and Programs in Southern Rural Areas,* Low Income Housing Development Corporation, Chapel Hill, June 1973.

[6] *The Right to Live, The Freedom to Buy,* National Urban League, New York, Feb. 1972, p. 47.

[7] Robert A. Levine, *Culture, Behavior and Personality,* Aldine Publishing Company, Chicago, 1973, p. 21.

for regulating the activities of local governments. We further recommend that allowances be quantified and delivered on the basis of State and local government plans to stimulate positive market activity through housing allowances. We believe that allowances should be delivered on a neighborhood basis.

Above all, the Federal Government must continue its role in housing policy development and effectuation. Philosophical issues in housing allowances are side issues to the potential use of allowances in housing policy development. They must not be allowed to sidetrack efforts to deal with the Nation's critical housing problems.

Issues and Recommendations: Equal Access to Housing Under Housing Production-Oriented Programs

As the HUD-assisted production-oriented housing development programs have emerged in response to the economic ills and fluctuating employment needs conditioned by war, requirements for equal access to that housing have been promulgated. The Department of Housing and Urban Development is responsible for administering equal opportunity requirements under Title VI of the Civil Rights Act of 1964, Title VIII of the Civil Rights Act of 1968, Section 3 of the Housing and Urban Development Act of 1968, Executive Orders 11063, 11625, 11246, 11375, and 11478, as well as for enforcing appropriate regulations, procedures, and directives of HUD, the Department of Labor, the Civil Rights Commission, and the Civil Rights Administrative Activities of the Department of Justice. The Office of the Assistant Secretary for Equal Opportunity, which was established to ensure that all HUD programs are designed and implemented to promote equal opportunity for all persons intended to benefit from the program and which has the strong support of the Secretary, is responsible for assuring that the departmental responsibility for civil rights enforcement is implemented.

Equal Opportunities and Housing Development

Traditionally, the homebuilding industry and, to a lesser degree, commercial developers in the United States have been fragmented, relatively small, isolated operations. Therefore, the marketing of development products has depended on direct contact between developers and potential consumers. Equal opportunities laws, if suitably enforced, at least had the potential for governing the transactions between developers and consumers and therefore had the potential for influencing development plans.

We must recognize that these conditions are changing. Developers are planning and implementing designs for planned-unit developments, new towns, and large-scale redevelopment projects. Profits from the sale of homes are not always the motivation behind these efforts; rather, the scheme is to provide homes for residents who will become customers of nearby commercial developments. Thus, sales and lease charges are set so that the commercial properties return the major profit to developers. To succeed in such schemes, developers must be able to offer higher income consumers to their commercial tenants. A captive market of poor families is less attractive than one of big spenders.

The result of this particular means of developing and redeveloping property is an increased trend toward economic segregation in urban areas. The social consequences of this trend are obvious. Chief among them will be increased racial segregation due to the facts of income disparity among races in the United States.

We believe that the Federal Government is the only agent with the capacity to deal with the equal opportuniities issues that are raised by current development trends. Any future forms of Federal housing subsidy must be designed and delivered to promote economic integration of new developments. There must also be Federal monitoring and sanctions with respect to State and local exercise of police powers in the field of development planning with the aim of providing access for all income groups to new developments.

Minority Involvement in the Production Process

The housing production process centers upon one factor perhaps more important than any other—the control of land. Without it, other production functions cannot occur. Additionally, the assemblage of a competent development team with members who are experienced in those processes that relate to the specific project to be created is imperative.

Once the land is under control and the development team members are selected, the success or failure of the project depends, in large

part, on the maximum availability and use of leverage. This is true whether the project is to be a luxury development or housing for persons of low-to-moderate income. It is especially true when the sponsoring/developmental entity comprises minority representatives exclusively. Historically, the vast amounts of monies necessary to control land, to retain lawyers, architects, surveyors, engineers, etc., and to meet the equity investment requirements established by the American banking system have not been available to well-intentioned minority developers.

It is for these reasons that the Housing Act of 1968 and later legislation and guidelines sought to provide for the maximum use of leverage to make effective minority and community participation in the actual production of housing a reality. Additionally, attempts were made to bring to bear the vast equity resources available in the private sector in the form of limited investors. From 1968 on, as the Nation's developing housing programs specifically directed attention toward minority involvement, the problems of lack of capital and expertise were recognized.

A key development was utilization of the nonprofit sponsorship mechanism (which had been in existence since 1959) as a device to provide for the maximum use of leverage and maximum exposure of minorities to areas previously unavailable to them. The process allowed for 100 percent mortgage financing and provided that these monies necessary for initial "seed" expenses were completely recoverable from mortgage proceeds. This eliminated the need for any money whatever on the part of the sponsoring entity and facilitated "minority control" of the development process. As in any learning process, the uninitiated must have a beginning point and as such, the nonprofit mechanism served this purpose. Although there has not been to date a thorough evaluation of the overall long term experiences of the nonprofit sponsor, its role as a catalyst for the involvement of minorities in the housing process is well documented.

Additional minority participation and community involvement came about through the urban renewal process, which allowed for "project area committees" composed of disadvantaged area residents who maintained signoff approval or veto power over redevelopment plans for their respective areas. This power coupled with the nonprofit mechanism forced the inclusion of minorities in the developmental process by Federal, State, and municipal powers as well as private sector builders and developers. In short, the Federal programs for financing and land control (urban renewal) became virtually inaccessible to majority concerns without minority participation. Thus, the entire climate surrounding urban redevelopment was forced into change. Although developmental expertise remained in large part the domain of the majority, the minority learning and "control of turf" concepts were born.

Once minority input became a reality, the call for minority involvement in jobs and professional tasks associated with the production of housing began to surface. While there were capable minority professionals available (i.e., attorneys, accountants, architects, etc.), minority involvement in the construction trades was severely limited due to the inaccessibility of the craftsmen's unions, lack of capital, and the inability to meet the extensive prior experience criteria imposed (often in a discriminatory manner) by government insuring offices. To combat these conditions, the affirmative action and equal opportunity programs were vigorously promoted downward from the Federal level.

The affirmative action program initiated pursuant to Executive Order 11246 provided that contractors on federally assisted construction projects of $50,000 or more were required to maintain an affirmative action program designed (1) to promote extensive outreach efforts to hire and train minority personnel, and (2) to eliminate discrimination on the basis of race, creed, color, or national origin. Additionally, Section 3 of the 1968 Housing Act required that HUD provide for "the usage of low income residents in all phases of the development of HUD-assisted housing production including citizen participation in the decisionmaking processes as well as utilization of minority area businesses in the production process." Section 204 of the same act (1968 Housing Act) speaks to the utilization of tenants in public housing management activities.

HUD was further mandated by Executive Order 11625 to provide for additional arrangements for developing and coordinating a national program for minority business enterprises in October 1971. This order prompted the expansion of equal access and opportunity activities of the Department and further caused the creation of the "Minority Goals" program. This program provided that each insuring office of the Department establish a target for minority business participation in HUD production programs. In essence, the local insuring offices were required to allocate portions of their contract authority available to minority sponsorship of housing projects, minority participation in construction activity on the

general and subcontractor levels, and the involvement of minority consultants, architects, attorneys, accountants, etc.

In the housing finance area, an integral portion of the production process, the Federal National Mortgage Association (FNMA) created a minority opportunities program designed to facilitate the entry of select minority individuals into the mortgage banking field. The program waived the general FHA-approved loan correspondent requirements regarding net worth (the $100,000 requirement was reduced to $5,000) and provided a vehicle for the injection of cash into a minority operation when cash flows became depleted due to unusually lengthy delays in mortgage processing for delivery to investors or for other such unusual cases. Funds could be injected into the minority enterprises via the purchase of up to $50,000 of the enterprises' preference stock, with a repurchase clause. Later, as the minority operation prospered, with FNMA guaranteeing purchase of its mortgage "paper," it could repurchase its stock.

There are fewer than 25 approved minority loan correspondents in the country, all of whom are alumni of the Minority Opportunities, Inc. Program. The program is presently one of those under the January 5, 1973, suspension.

Under the Minority Goals Program, the Affirmative Action Program, and others herein referenced, the numbers of minority general contractors and subcontractors involved in the construction of HUD-assisted projects increased markedly.[8] Some of the techniques designed to facilitate his involvement were intended to remedy the historic noninvolvement of minority businesses. Of the techniques employed, perhaps one of the most significant was the provision of HUD Circular 4200.2 that presented alternatives to be utilized in lieu of otherwise unavailable bonding to minorities. The circular specified the use of cash deposits or letters of credit where bonding by surety companies was unavailable. Additionally, FHA bonding requirements were removed altogether on construction projects of $600,000 or less. Other methods encouraged on the Federal level were the use of joint venture arrangements between minority and majority concerns. The arrangements encompassed the experience and financial strength of "big brother" majority construction enterprises with the struggling minority firm.

[8] *Minority Business Participation in Housing Production—Fiscal Year 1972*, U.S. Department of Housing and Urban Development.

The Minority Contractors Assistance Program was designed further to eliminate discrimination by the surety industry by providing backup guarantees to secure letters of credit from banking institutions for use in lieu of bonds, which were unavailable in the open marketplace.

Thus, the Federal Government has, since 1968, been a major force as well as a catalyst in efforts to provide equal access for minority involvement in the housing production process. The successes achieved to date, though marginal in many instances, could not have occurred without the active promotion and support of the Federal Government. Even the phrase "minority business enterprise" was virtually nonexistent prior to 1968.

Of primary importance in the shifting of responsibility for housing production-oriented programs in whatever form to the States and municipalities is the issue of ensuring to the greatest degree possible that progress toward assuring equal access that has already been made, primarily at the instigation of the Federal Government, will not be lost. It is therefore recommended that:

- The Federal Government continue to require the maintenance of affirmative action programs designed to ensure minority group participation in State housing production programs.
- Tax incentives of the types heretofore available under the Tax Reform Act of 1969 and relating to private sector investment in housing resources be continued. These provisions are especially important to minority involvement in housing production in that now, as well as traditionally, minorities do not have available the vast equity requirements necessary to act as sponsors and developers of residential housing. Without tax incentives to the private sector, housing production activities will revert into the hands of the majority sector and an important incentive to the redevelopment of our Nation's urban areas in a manner which assures equal access to developers as well as consumers will be lost.
- Programs be designed and executed to facilitate the transfer of ownership of low income housing projects from limited-dividend sponsors to groups organized for the benefit of tenants. Otherwise, it is unlikely that the initial benefits resulting from tax incentives will be continued very far beyond the point when adequate shelters are no longer provided.
- The mandates inherent in Executive Orders 11246 and 11625 be continued and ex-

panded. The States should be required, as a condition of the use of revenue sharing funds for housing production, to maintain a minority goals program that allows for the allocation of specific redevelopment sites for minority participation and involvement.

- "Seed" capital funds, similar to the provisions of Section 106 of the National Housing Act, be made available to minority development concerns. Such funds should be repayable from the profit proceeds generated from successfully completed projects.
- The land write-down procedures of the urban renewal process be maintained and the Project Area Committee or like community participation vehicles be maintained to provide for community control of development and their destinies.
- The equal opportunity procedures and attitudes be extended to the State programs to allow for redress of discriminatory grievances in the housing production process.
- The minority contractor assistance program and like programs be maintained and expanded.
- Training programs designed to upgrade the skills of minority construction-trade workers be maintained and expanded by the Federal Government and provisions be made to ensure that workers completing training programs are guaranteed access to State-controlled housing programs and construction projects.
- Federal efforts to upgrade the skills of housing delivery team members be maintained and expanded; i.e., project management training programs, project development training programs, etc.
- Intensive studies be undertaken by Federal and State governments to ensure efficiency of construction, adequacy of management and maintenance budgets, etc. Theoretically, the costs of creating standard housing units for the markets created under the housing allowance program should substantially decrease due in large part to the elimination of excessive fees and the "loading" of contractor bids to reflect the immense time factor inherent in the former FHA processing procedures. These savings should be passed on to the ultimate tenants in the form of reduced rental charges.
- Comprehensive studies be conducted at the Federal and State levels on the feasibility of the creation of a real estate development-oriented "MESBIC"-type investment corporation as a mechanism to facilitate the continuing availability of equity resources for housing and land development. As MESBICs were created principally for the uplift of minority business enterprise, this source should serve to satisfy several of the "equity" requirements mandated by the banking establishment in the financing of housing development.

In conclusion, the discussion and recommendations contained herein are not intended to serve as an exhaustive evaluation of past and present policies and programs, but rather to provide a review of those key elements of housing production-oriented programs that are necessary if minorities as consumers or developers are to achieve equal access to housing under government-assisted production programs.

Issues and Recommendations: Equal Access to Housing Under Housing Preservation Programs

According to the 1970 Census of Housing, only 16 percent of black households reside in housing built between 1960 and 1970, compared with 25 percent of all households in the U.S. The disparity is even more evident when one compares the percent of black households with the percent of all households residing in owner-occupied and renter-occupied housing units in relation to the age of the structures.

Table 1. Owner-Occupied Housing Units, 1970[1]

Occupants	Year Built				
	Prior to 1940	1940–1949	1950–1959	1960–1964	1965–1970
Percent of Total Households	35	12	25	13	13
Percent of Black Households	42	18	20	9	8

Table 2. Renter-Occupied Housing Units, 1970[2]

Occupants	Year Built				
	Prior to 1940	1940–1949	1950–1959	1960–1964	1965–1970
Percent of Total Households	48	13	15	10	11
Percent of Black Households	52	17	15	7	6

[1] Percentages based on figures provided in *Detailed Housing Characteristics, 1970 Census of Housing*, U.S. Department of Commerce, Bureau of the Census, July 1972.
[2] Ibid.

Thus, as the housing stock of the Nation ages, it is more likely to be occupied by a racial minority household, and it is likely to become renter- rather than owner-occupied housing. Of black households, 41.6 percent own their residences compared with 62.9 percent for all households.

Relation of Equal Opportunities to Housing Preservation

Issues in housing preservation are issues in equal opportunity in the sense that qualitative changes result from the transfer of housing resources from white to minority occupancy in aging neighborhoods. Black Americans occupy older housing, much of it inherited from whites. Such changes in ownership and management strategies result in housing of lower quality for blacks than was the case during the period of white ownership, even though the cost of housing is more often raised than lowered as quality declines.

Racial Price Discrimination: The phenomenon of price discrimination by race has been observed by several housing experts. Kain and Quigley report a consensus of a 5 to 10 percent surcharge in the black housing submarket.[9] Vaughn has analyzed 1960 census data and obtained verification of the existence of "price discrimination" in housing for nonwhite versus white Americans.[10] Likewise, the National Urban League has examined census data for 1950 through 1970 as well as business data for this period and obtained similar verification of racial impact on housing market behavior.[11]

Several housing experts acknowledge the existence of evidence of racial price discrimination in housing but deny that the evidence arises from differential strategies in managing and owning white and nonwhite lower income housing. That is to say they assign the cause of price discrimination to differential incomes for whites and minorities. Preservation of housing as it passes from white to black occupancy or as it is threatened with racial transition according to the incomes thesis is a function of eliminating income disparity.

Income Disparity: The income-disparity description of housing problems has an intellectual history of 100 years, reaching back to Frederick Engels' publication of *The Housing Question.* In more recent times, however, the concept is underpinned by the work of Richard Muth in the early 1960's. In *Cities and Housing,* Muth states that theories about housing quality based on premises other than that income is the sole effective determinant of housing demand "all imply that the increase in the relative quantity of slum housing which the theory attempts to explain, results from an increase in the supply of slums relative to that of good-quality housing in the city as a whole.[12] Muth states three points of evidence he believes refute all other theories.[13] The chief of these is that an oversupply of slum housing would result in relatively lower prices for slum housing rather than the converse, which he and others have observed.

The Muth theory depends on measurements that he believes are demand and supply responses. In its service contacts with lower income black families, the Urban League has been made aware that housing quality is induced by factors outside the demand-supply equilibrium. Whether vacancy rates are high or low in ghetto areas, we are aware from the experience of our service clients that housing quality declines during occupancy according to the perceptions of the occupants. One of Muth's three points in refutation of theories that are not income-based is that housing quality in center cities rose between 1950 and 1960, according to census data. These data are currently unacceptable, however. We have measured and reported the perceptions of Urban League service clients,[14] and believe they are indicative of trends in urban ghettos during the latter 1960's and early 1970's.

Mortgage Investment Decisions: In our view, there is no space in the demand and supply theory to account for the numerous instances of abandonment of ghetto housing properties reported by George Sternlieb, Frank Kristoff, et al. during the late 1960's. To evolve an improved theory, we conducted research into the phenomenon of housing abandonment.[15] From this re-

[9] John F. Kain and John M. Quigley, "Housing Market Discrimination, Homeownership, and Savings Behavior," *The American Economic Review,* June 1972.

[10] Garrett A. Vaughn, "The Role of Residential Racial Segregation in Causing and Perpetuating Inferior Housing for Lower Income Non-whites," *Journal of Economics and Business,* Vol. 25, Temple University School of Business Administration, Fall 1972.

[11] *Analysis of Changes in the Black Submarket for Housing, 1950–1970,* National Urban League, New York, May 1972.

[12] Richard F. Muth, *Cities and Housing,* Third edition, The University of Chicago Press, Chicago, 1971, p. 122.

[13] Ibid., p. 121 et seq.

[14] *The Right to Live, The Freedom to Buy,* National Urban League, New York, Feb. 1972.

[15] *The National Survey of Housing Abandonment,* Third edition. Center for Community Change and National Urban League, New York, Mar. 1972.

search, we have been able to construct a descriptive process of building management and ownership changes in aging, racial-transition neighborhoods. The critical plateau in the process is reached when investment capital is made unavailable or difficult to acquire long before demand changes might possibly induce supply response. Our description of the process leading to building abandonment conceives of quality decline as stimulated by changes in mortgage availability. In further research, we believe we have verified that mortgage investment decisions are made in advance of racial transition, but with racial transition as the projected decision frame.[16]

Thus, we believe that a fundamental issue in equal opportunities is the quality of mortgage financing. Table 3 indicates the status of mortgage finance inequalities between white and nonwhite Americans using available information. The data show that homeowners' mortgages are severely unequal in regard to interest rates and terms of mortgage. These inequalities show more than any other available statistics why minorities pay more for less housing than whites.

Table 3. Comparative Quality of Homeowners' Mortgage Financing, Nonwhite and Total Households, 1960

	Term of Mortgage Median (In years)	Size of Down-payment Median (In %)	Interest Rate Median (In %)
Total Households	20	20	5.1
Nonwhite Households	14	15	6.0

Racial Characteristics and Investment Strategies: The Urban League has developed a useful display of racial characteristics of urban neighborhoods as determined by investment strategies. It illustrates the Urban League's theory of inequalities in housing distribution as derived from inequalities in housing financing. We believe the display is also intuitive from our general experience of urban areas.

[16] *Where the Lender Looks First: A Case Study of Mortgage Disinvestment in Bronx County, 1960–1970*, National Urban League New York, Apr. 1973.

Table 4. Neighborhood Characteristics and Investment Strategies

Housing Market Area	Racial Characteristics	Investor Strategies	Equal Opportunity Strategies
Full Investment Area	Predominantly white	Exclusion of minorities	Open access, economic and racial integration
Disinvestment Area	Transition or projected transition white to minority	Rapid transition	Package services mutually beneficial to residents and investors
Uninvested Area	Predominantly minority	Exploitation of tenants and abandonment	Maintain social services and plan for development
Reinvestment Area	Reestablishment of whites	Relocation of minorities	Obtain participation for residents in redevelopment

The conclusion to be reached from Table 4 is that equal access to housing depends on effective measures for preserving the Nation's neighborhoods as they become categorized by urban investors as disinvestment areas. This categorization usually follows the identification of the area as subject to racial transition from predominantly white to substantially and predominantly minority.

Housing investments in urban areas are not the only ones affected by racial transition. Commercial and public investors also reevaluate their strategies according to trends in racial change in neighborhoods. In its survey of housing abandonment,[17] the National Urban League observed that the withdrawal of major commercial investors often precedes housing disinvestment.

Measures to Combat Disinvestment

With the exception of State and local anti-blockbusting legislation, present statutory authority and caselaw are a futile means of combating inequalities due to changing financing and management strategies in areas of racial transition. Statutes might be drafted to compel urban investors to maintain their investments in racial transition areas. However, the conceivable provisions of such laws would likely have high enforcement

[17] *The National Survey*, op. cit.

costs and severe enforcement problems, and therefore would result in foreseeable political difficulties in ultimate passage. On the other hand, laws that relate to the dynamics of neighborhoods that are aging and experiencing racial transition are more likely to succeed with regard to equal opportunity and housing preservation. It is clear that programs directed solely at single housing units (or even blocks of housing units) without relating to urban investment processes cannot succeed. Consider, for instance, the following Urban League experience with Federal housing rehabilitation programs:

The Seattle Experience: In the late 1960's, the Seattle Urban League identified the rehabilitation provisions of the new Section 235(j) homeownership subsidy program and of the Section 221(h) program as appropriate tools for a major strategy for its housing program. The goal was racial integration of urban neighborhoods; the program was called Seattle Operation Equality; the strategy was to buy and rehabilitate one or two houses on predominantly white blocks of moderate cost housing that appeared to be in poorer condition than the other homes in the area. A sign was placed in the yards of selected houses announcing that they were undergoing improvement as a benefit to the block or neighborhood. During the rehabilitation process the neighbors usually found ways to show their appreciation; some neighbors even assisted in the work. When the houses were completed and sold to black families, the good will usually carried over and racial integration was smoothly accomplished.

The availability of subsidies under the Federal Section 235 homeownership program greatly expanded the number of black families who could be served by Operation Equality. One significant problem was detected during initial attempts to utilize the subsidy program: The FHA processing time was so lengthy that neighborhood interest in the project declined over time. Since maintenance of the keen interest of neighbors was critical to the Operation Equality strategy, the Seattle Urban League proposed a change to the Seattle FHA office regarding the procedure wherein a detailed rehabilitation proposal must be followed by an FHA appraisal of the property. The proposed change suggested that FHA staff accompany Operation Equality staff and rehabilitation contractors in an inspection of proposed rehabilitation properties and that the contractor's work writeup and the FHA appraisal be made simultaneously. The change in procedure was subsequently adopted and FHA processing time was reduced significantly. The new procedure provided the genesis of HUD's major housing rehabilitation effort, Project Rehab.

Operation Equality was successful for about two years. During that time, the scale of Operation Equality's operations expanded enough to influence positively the acquired housing market. Houses that once could be acquired for $5,000 to $7,000 and rehabilitated for an additional $2,000 or $3,000 were found 2 years later to cost $10,000 to $12,000 to acquire and $4,000 to $6,000 to repair. The market had adjusted to accommodate the allowable FHA rehabilitation costs. However, these costs were unrealistic in terms of the total housing market.

Owners of rehabilitated properties only sold them under the FHA rehabilitation programs at costs specified as FHA-allowable, rather than at costs that could be accommodated in the new FHA market. This did not affect the buyers, many of whom received interest subsidies, until they wished to resell their houses and found they had virtually no buyers because they could not sell for less than the liability of their mortgage and could not resell under a subsidy program. The mortgages were unrealistically high in terms of the incomes of housing consumers eligible for the FHA subsidy programs, but not all properties, including those previously rehabilitated, were eligible for subsidies.

Operation Equality suspected that its use of the FHA rehabilitation programs had actually caused neighborhoods to deteriorate rather than improve as they changed racially. The results were all the more poignant because Operation Equality's neighborhoods changed from predominantly owner-occupied to substantially absentee ownership. With the change of tenure, costs did not decline, but quality declined severely. The moral that has been taken by the Urban League from Seattle Operation Equality's experience is that housing rehabilitation efforts must be related to housing market processes. There is no existing Federal housing program that is an appropriate tool for Urban League housing rehabilitation programs, with one limited but, we believe, very important exception that has been demonstrated by the Urban League of Phoenix.

The Phoenix Experience: The Phoenix program uses FHA-repossessed properties and sets the acquisition cost so that the combined costs of acquisition and rehabilitation bring the rehabilitated house on the market at market rates.

Mortgagees will finance the Phoenix Urban League's sale of housing and will also finance the Phoenix Urban League clients' resale of their houses. In general, mortgagees rarely provide this incentive with respect to Project Rehab properties. In effect, the Phoenix effort provides a capital subsidy that enables the rehabilitated product to pass on its subsidy through regular housing market processes. The Seattle program, on the other hand, utilized an interest subsidy in a manner that produced artificial mortgage principals that could not be renegotiated in the regular market.

The Phoenix Urban League program demonstrates a necessary, but not a sufficient, condition for successful rehabilitation efforts. Measures for ensuring standards of housing quality are also necessary. To understand the full range of needs for successful rehabilitation, it is necessary to consider the aging of urban neighborhoods from an equal housing opportunity perspective.

The Aging Neighborhood

At a given point in the life of a neighborhood, age generally becomes a relevant factor in the marketability of real properties unless there is significant intervention or influence to counter the effects of age on the properties. Usually the effect of aging is a decline in market price.

Such a decline in price attracts both lower income residents and real estate speculators. Speculators will create a market for mortgages with a high ratio of interest payment to equity reduction. This may be the result of a strategy designed to take advantage of the benefits of Federal tax laws. It may also result from a policy of refinancing and withdrawing equity capital regularly as a bit of equity develops. Equity withdrawn in this manner is not taxed as a gain to the landlord. Selling according to tax depreciation schedules, regularly withdrawing equity, or a combination of the two insures that mortgages will always be in a period of high interest charges with respect to principal reduction.

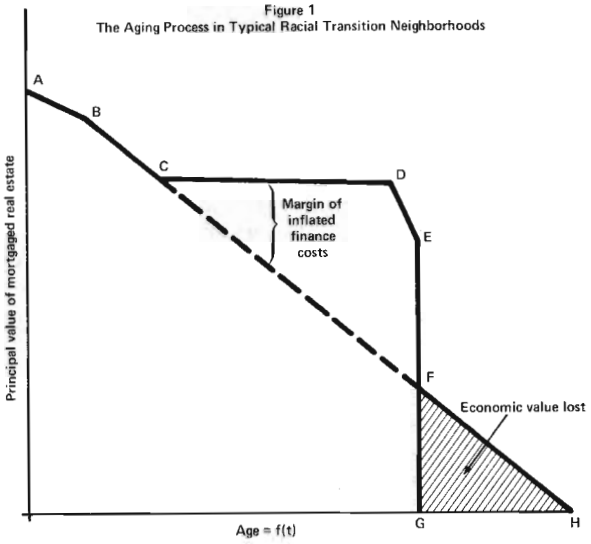
Tenants of such housing carry the burden of the inflated finance costs in their rent payments. The margin of inflated costs amounts to the difference between (a) the finance costs of a building depreciating with age according to the curve of value in the prespeculation period and (b) the excess costs due to the speculator's finance strategies. Expenditures for building maintenance are held low to compensate for high finance costs.

The next stage in the life of an aging neighborhood occurs when the lack of building maintenance causes building deterioration to a point that cannot be ignored by a mortgagee when presented with a refinancing proposal. Expenditures for maintenance during the speculation period are increasingly deferred and substituted for finance payments as the need for maintenance increases. Mortgagees become increasingly nervous when they suspect that deferred maintenance practices are evident in a building. When refinancing becomes impossible, the building is effectively abandoned, the neighborhood becomes an area void of investment potential, and the area is isolated from the real estate market. Only public investments are possible, but they cannot relate to the total investment market except through redevelopment processes.

Age and the Precipitation of Neighborhood Decline: Age is not the precipitating factor in neighborhood decline. Age is merely a vehicle for change. Change itself is a framework for the "prisoner's dilemma" in real estate, whereby the tendency is for low quality housing to infect, rather than be influenced by, higher quality housing (and therefore such measures as housing rehabilitation). As expressed by one observer, "The existence of spots of low quality occupancy in an otherwise higher quality neighborhood is more likely to depress occupancy levels downward than is the existence of high quality occupancy spots in an otherwise low quality area to raise levels." [18] Because housing quality is a relative matter and investment risk is determined by judgment, it is accepted as good real estate practice to try to offer relatively less housing quality than is available in the neighborhood. Higher housing quality protects investment in lesser housing quality and, conversely, lower housing quality creates risks for higher quality investments. Because risk is the dominant factor in center city real estate operations, creative real estate investors seek to use every changing market influence to minimize risk and not necessarily to provide better housing. Racial patterns have become among the most predictable changes in urban areas and are therefore used as warnings of real estate investment risks by major real estate investors, including institutional housing mortgagees.

[18] Jerome Rothenberg, *Economic Evaluation of Urban Renewal*, The Brookings Institution, Washington, D.C., 1967, p. 47.

Figure 1
The Aging Process in Typical Racial Transition Neighborhoods



Key

Note: (a) The negative relationship between the value of mortgaged real estate and age (depicted by a smooth downward sloping line) implicitly assumes, ceteris paribus, that all other relevant factors remain constant. Locality, for instance, can have a distorting effect on this relationship. In the aggregate, the downward sloping curve is not an unrealistic assumption.

Note: (b) The area CDEF can be looked upon as economic value gained to mortgaged real estate. Since it may be larger (as shown) than the area depicting economic value lost, there appears to be a net gain in economic value over the period. However, we are talking about a disinvestment area—i.e. leakages exist whereby generated funds are not plowed back into the area. In essence, CDEF represents not a real but an artificial economic gain.

A The principle value of mortgaged real estate for typical properties in an aging neighborhood before speculation is apparent. The value is a natural function of aging.

B Assume B to be the hypothetical point at which influx of minority and low income residents (invasion-succession process) has reached the "piling up" stage.

B-C Accelerated decline brought about by the process of "invasion-succession." Assumed to be compatible with market forces.

C-G Hypothesized path of decline of real estate value given no further distortion of market forces.

C Assume this to be the point at which the effects of speculative activities begin to manifest themselves.

C-D Level at which speculative activities succeed in maintaining artificial equity as monies are shifted from maintenance expenditure to inflated finance costs.

D Assumed to be the point at which lack of maintenance and natural force of time reach such a level as to affect the availability of new and refinancing mortgage monies.

D-E Effect of the "nervousness of mortgagees." May be drawn out a bit as speculator-owner seeks to "milk the rent roll," or sells to "slumlord" who functions in the same way.

E Assumed to be point at which refinancing is now impossible—building is effectively abandoned.

E-F Structure drops rapidly into complete decay to a point (F) much earlier in time than the natural aging process would have done (assumed to be point G). This creates a loss of economic value to the building (shaded area).

The Aging Process and Racial Transition: Figure 1 is a graphic portrait of the neighborhood aging process as it occurs in neighborhoods that undergo transition from predominantly white to predominantly minority populations.

Race and Neighborhood Preservation Efforts

Abandonment of ownership responsibilities is the end result of urban aging processes in neighborhoods impacted by transition from predominantly white to predominantly minority populations. This is a finding of the National Urban League's research in housing abandonment as well as the understanding of most participants in neighborhood preservation efforts. The avoidance of neighborhood doom as symbolized by housing abandonment is the goal of neighborhood preservation efforts. There are two general strategies employed in seeking this goal. Both are racial strategies.

The most successful neighborhood preservation programs are those that achieve rapid displacement of black populations, rehabilitation of properties, and reinstitution of the neighborhood as predominantly white. It is argued that this strategy may be an income or social class strategy rather than one of race. However, it must be recognized that Georgetown (Washington, D.C.), Society Hill (Philadelphia, Pa.) etc. were once black neighborhoods and are now predominantly white. It must also be recognized that this strategy is tentative until there is widespread recognition that whites will repopulate the area. Removal of minority persons is necessary to this condition. Removal of lower income whites is not likely to be as urgent in pursuing this preservation strategy as removal of blacks.

A less successful strategy is exemplified in the actions initiated by community groups gradually to stabilize their neighborhoods racially. Racial integration is sometimes considered to be the goal of this strategy, but for purposes of this analysis, it is appropriate to consider integration as a strategy for halting the decline of neighborhoods. This concept is validated by the fact that integration is invariably pursued through tactics directed at housing industry operations in the neighborhood in a manner that recognizes that the housing market can produce cataclysmic decline in areas of racial transition. It is strategized that gradual racial change will forestall precipitous market responses and may even induce some whites to remain in the neighborhood indefinitely. Racial stabilization is a byproduct of

the strategy. The goal is housing market stabilization.

A third activity that is sometimes regarded as a strategy for preservation is government-sponsored rehabilitation programs. Among these programs are Project Rehab, Neighborhood Conservation, and many variations in Model Cities housing programs. We do not consider these actions to be in fact preservation programs because in most instances they are grossly insensitive to the actions of the housing market. Their net effect has been to raise the quality of the housing that they treat, while lowering the quality of housing in their impact area. The example cited previously of the rehabilitation program of the Seattle Urban League is typical of the best-intended programs of this sort. The most successful project rehabilitation programs from the perspective of social gain are considered to be the low volume, multiagency programs that have been particularly sensitive to small-neighborhood dynamics.[19]

In summary, the experience of neighborhood preservation programs is that they can be successful when they are operated in tandem with prevailing housing market forces or in specific challenge to market forces. They are not likely to succeed if they attempt to operate without regard for trends in the housing markets that they impact. Since prevailing forces in the impacted housing markets are racially determined, it is necessary to pursue equal opportunity policies through intervention in the housing markets in racial transition areas.

Intervention in Transition-Area Housing Markets

According to the process described above, the intuitive point for effective intervention in transition-area housing market processes comes as early as disinvestment is detected. During the period between market response to aging and very early in the speculation period before deferred maintenance expenditures become significant, there may be sufficient evidence of transition to identify the phenomenon.

The shortening of mortgage terms by mortgagees is a prime indicator. The intuitive intervention at this stage is to provide alternate ownership opportunities for the buildings subject to speculation. Intervention of this type is necessary in most urban neighborhoods at some point to prevent their untimely decay.

[19] Arthur D. Little, Inc., *Project Rehab Monitoring Report Overview*, U.S. Department of Housing and Urban Development, Washington, 1971.

Intervention in the disinvestment process at more advanced stages of speculation is also needed if much sound housing is to be preserved. Our surveys in several cities convince us that vast numbers of urban neighborhoods are currently in the phase of speculation prior to quick abandonment. Millions of families and individuals with no alternative choices in housing will be trapped in the accelerated abandonment process if effective intervention in neighborhoods undergoing speculation is not carried out. Feasible and timely intervention in many neighborhoods requires the provision of alternative refinancing opportunities.

The alternative refinancing opportunity should be made available when the mortgagee refuses a refinancing proposal. At that point, an alternative resource should guarantee the kind of refinancing that will solve the mortgagor's financing problems (including second mortgages) and provide the mortgagor with a fixed profit for managing and maintaining a building for a predetermined number of years. In return the mortgagor should agree to a phased relinquishing of management rights to a responsible ownership agency, such as a cooperative association of the tenants, and eventual yielding of title to the agency and withdrawal of a fixed amount of capital at a predetermined time. The withdrawal must be accomplished with the transfer price appropriately scaled to a viable housing market. The steps we consider appropriate are described below. A description of proposed program operations is attached.

Urban League Program Proposal Outline

The stages in planning and organizing a preservation program for disinvestment areas can be listed as follows:

- Determine disinvestment areas.
- Organize a neighborhood association.
- Organize an owner's and tenant's counseling service.
- Monitor investments.
- Provide technical assistance to the neighborhood association in negotiations with mortgagees.
- Provide technical assistance to the neighborhood association in negotiations with local governments.
- Provide technical assistance to the neighborhood association in negotiations with commercial investors.
- Monitor property conditions and management.

• Provide property management assistance to owners.

• Coordinate physical and social improvement programs in the neighborhoods.

Summary

Underlying each of the previous discussions is the need to recognize the issue of equal access to housing under housing preservation programs as directly related to existing open housing market operations. These trends in turn relate to racial transition in the inner city areas and subsequent investor strategies. Most of the existing Federal programs have been directed toward impacting areas that have already gone through the disinvestment process and have been effectively or almost effectively abandoned. With this emphasis, such programs are biased towards redevelopment and reinvestment strategies that forcefully reverse the national population trends in inner cities. Moreover, this strategy appears to contradict the fact that most of our cities are at the moment caught up in the process, i.e., they are in transition. Equal access should, by necessity, be pursued through intervention in the housing markets of racial transition areas, bearing in mind the need to maintain viable economic entities.

1. It is clear that equal access to housing cannot be looked upon as a supplement for reasons of conscience to any potential program, but as an overriding consideration that is an intrinsic part of the programs themselves. In this light, the point in the operation of each alternative program that equal access to housing should be considered ceases to be a question. Guidelines and mechanisms for ensuring equal access should be built in at the initial planning stages of the program. A problem surfaces in determining at what point in the general process of deterioration the programs themselves should intervene. Urban League research suggests that intervention in housing market operations should be as early as the tendency to disinvestment is detected.

2. Given this built-in aspect of equal access to housing, the point in the operation of programs at which government should act to ensure equal access would be contingent upon points at which infractions of the guidelines and mechanisms promulgated surface. This, of course, necessitates ongoing and close monitoring of local program operations.

3. Monitoring, therefore, assumes a position of unprecedented importance in ensuring equal access. To be effective (a) it should be done exclusively at the local level; (b) the most appropriate mechanism should be an independent specialized organization that has a history of local community-oriented operations; and (c) the organization selected should have direct access to legal and other governmental authorities that can be called in to deal with or implement sanctions against infractions that may arise at any point in time. The monitoring body should be employed with the task of delivering the necessary counseling to the recipient or beneficiaries of any of the programs through community-based groups.

4. Within the framework of the New Federalism, the shift in responsibility for provision of housing assistance from Federal to State and local government belabors the fact that the Federal Government can ensure equal access only if it enforces antidiscriminatory laws and regulations. (See Issue Paper I, "Equal Access to Housing Under Revenue Sharing Programs.") Sanctions and other tools of enforcement must seek to cut off financial assistance and/or participation in Federal programs in instances of "noncompliance with nondiscrimination provisions." "Issue No. 3" of the discussion of revenue sharing programs points out the relevance of a Fair Housing Board or some such organizational specialty with the capacity to impose sanctions and enforce equal access laws and regulations.

Successful urban preservation is necessary to implementation of equal opportunity policies. As such, preservation programs necessarily reach into the causes of inequalities in urban development. We consider these causes to be based in racially impacted urban investment decisions. We believe the most serious inequality to be that of inequality of housing financing. Therefore our recommendations concerning equal opportunities in urban preservation are devoted to reconciling the posture of investors and minority tenants and homebuyers, aggregated as minority groups in processes of obtaining access to real estate in racial transition areas. We believe preservation is chiefly a matter of intervention in housing market processes, including intervention in real estate financing.

We believe the most feasible form of intervention to be the empowerment of neighborhoods to organize and exercise responsibilities to secure appropriate municipal services, coordinate the use of housing subsidies, and provide

for responsible management of real properties in transition neighborhoods. We have provided, as an attachment, a model for a neighborhood preservation program that incorporates the principles discussed in the body of this paper. In addition to the neighborhood empowerment, government or pooled risk financing should be available to enable ownership transfer to responsible public and private ownership agencies at appropriate stages in the life of buildings.

Concluding Statement

Transition areas in the development of urban minority communities are important. It has been estimated [20] that although black homeownership occurs 60 percent as frequently as white homeownership, black wealth from homeownership is 40 percent of all black wealth while homeownership accounts for only 30 percent of all white wealth. For the income range (1967 figures) $5,000 to $7,500, the median range for black incomes, homeownership is 67 percent of black wealth and 40 percent of white wealth. By value for the $5,000 to $7,500 income range, black homeownership equity was worth 16 percent that of white homeownership equity.

These figures point to the dramatic economic loss suffered by blacks in moving into housing vacated by whites with the consequent high frequency of change in the properties from resident to absentee ownership and the inevitable decline of the housing market in black areas. This action begins in transition areas. Correcting the inequalities in transition areas, therefore, can have significant impact on the economic development of minority communities.

Attachment A: A Model Neighborhood Preservation Program

Determining Neighborhoods by Investment Type

Data sources for understanding the investment posture of a neighborhood include public records of real estate title transfers and mortgages and interviews with mortgagees, real estate brokers, commercial market analysts, and public officials. Information collected from these sources should be coordinated with census or local survey data (including building inspection records) providing structural age and condition data and income and racial data pertaining to residents of the neighborhood.

Neighborhood Association

Real estate speculation and its consequences are the ad hoc and often ruinous policies of investor individualism. For protection against speculation, owners must join in common to promote mutually beneficial policies. The goal of organizing is to secure financial backing for ownership policies beneficial to the neighborhood. It is expected that the lure of financial backing will attract more participation in beneficial ownership policies and that the evidence of such policies will attract more financing. A neighborhood association is needed to provide confidence for owners and investors that the neighborhood will retain a dynamic property market. Neither local governments nor private agencies can be relied upon to adhere strictly to the interests of a neighborhood as forces imperiling its preservation impinge upon it. Only an association of neighborhood interests is likely to prove sensitive to the needs of the neighborhood as conditions change.

The role of local governments or private agencies in organizing neighborhood associations is to ensure that the goals of the association are clearly and widely understood by neighborhood residents and by investors. For this purpose, it will probably be best to prepare a program for the association and to seek participation in the program as the result of joining the association. In fact, it may sometimes be the case that the program of the association will of necessity be placed in operation by a government or private agency or a small community group prior to full organization of the association. It should be understood that a broadly based association will eventually oversee the operations of the program, however, because the policies of the program will affect the total environment of the neighborhood. The program must be responsible to trends in the community and must coordinate effective strategies.

It is necessary that owners have strong voices in the policy structure of the association because the program promotes the marketability of properties in transition areas and seeks to impose policies on the market. The goal of the program is to offer good housing on the housing market and to maintain a market for good housing through strategies of ownership. Tenant strategies are meaningful primarily in the context of a market for good housing. Therefore, tenant

[20] Andrew Brimmer and Henry S. Terrell, unpublished paper.

organizations must responsibly exert influence and be wary of seeking to impose tenant concerns directly into matters affecting confidence between owners and investors.

In case of the collape of housing markets, as in uninvested areas, tenants must organize to supplant the housing market. Therefore, in uninvested areas the program of a neighborhood association should be based on tenant organization. That is not the case for disinvestment areas, however.

Program of the Association

The basic services of the association should be its counseling and information and management functions. The association should establish a housing information center in the neighborhood. At this center, owners and prospective owners may be qualified for mortgages and for mortgage refinancing. Qualification may include an understanding and pledge of cooperation with the policies of the association. Qualification may be secured through a counselor assigned to process an individual's loan application. The counselor can provide individual counseling as needed and can assign applicants to appropriate sessions of an information program operated by the center.

The counseling service should be operated according to standards set by cooperating lending institutions and by private mortgage insurance companies and/or FHA. Securing a guarantee of mortgage insurance is considered preliminary to ensuring mortgage availability.

The association will want not only to guarantee that property management and management advice will be available to member owners, but also to guarantee to investors that all properties in the area will be maintained. To accomplish both aims, the association's program should include access to management advice and service to members, backup management services for landlords who do not have long range management incentives (banks that have foreclosed, etc.), and a monitoring function that relates to city code enforcement activities. Properties that are not well-managed should be forced by city code enforcement actions to provide better management. The association's program will both ensure code enforcement and offer a means for property management.

In addition to monitoring property conditions and city code and ordinance enforcement practices, the association's program should include monitoring the investment activities of mortgagees, commercial investors, and public agencies. It should also initiate negotiations with investors operating counter to the policies of the association. To successfully negotiate with speculators, it is necessary that the association have sufficient investment resources to become interim or last-resort owner and manager of real estate. Tools for enabling negotiations with speculators to prevent harm to properties must include backup investment resources to liquidate second mortgages and other encumbrances. The association must also be able to either induce or perform ownership management functions while arranging for tenant or other responsible ownership. Organizing and using these resources is a part of the program of the association. A calculation of a typical refinancing arrangement that should be provided by the association has been detailed in *Where the Landlord Looks First: A Case Study of Mortgage Disinvestment in Bronx County, 1960–1970.*

Not the least of the elements of the association's program is the function of applying, recruiting, and coordinating programs that will support the policies of the association. Housing allowances present an example of a potential tool of the neighborhood association. The housing information center and program and policies of the property owners association as proposed here provide the best available opportunity, we believe, for constructive use of housing allowances. (See Issue Paper II, "Issues and Recommendations: Equal Access to Housing Under Housing Allowance Programs.")

Organization of the Program

A staff or other personnel resources capable of collecting, processing, and analyzing the data necessary to identifying investment areas is the essential first element of the program.

The initial research person is the logical agent of continuity for using the research findings to solicit cooperation among owners and investors in the neighborhood.

It is also desirable, in the first stages after identification of a target area, to establish the housing information center and provide a tenant/homebuyer counseling service. Evidence of service and acceptance in the resident community is a necessary condition for acceptance by the investing community.

Following the establishment of the counseling service, the full drive to organize the neighborhood association can begin. With the association substantially organized, negotiations can begin with the investors.

Management services should come after there has been some success in organizing and negotiating and operating the counseling and information service—perhaps after one year.

Until the management services are organized, it is proposed that the program be operated entirely under the aegis of a government or private agency with the neighborhood association functioning as an advisory group. In time, it is contemplated that the association can assume management of the program with certain services and technical assistance provided by a local government or private agency under contract to a government.

Funding the Program

The program is designed to provide opportunities to collect fees for services rendered to investors in the area. The program must be able to perform services that are considered ordinary expenses of owning and managing real estate and to perform them in such a manner as to provide the owners and managers with additional benefits from the cooperative venture.

Initially, financial support must come, at least partially, in the form of grants from investors who can see advantages to themselves in the future, if the program operates successfully.

The program as proposed here is not as yet operating fully in any part of the country. However, the Neighborhood Services Program of the Federal Home Loan Bank Board, several Model Cities housing programs, and several Urban League and other community agency programs have demonstrated important elements of the program.

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13 General

Direct Federal Housing Loans Versus Interest Rate Subsidies

By Jack M. Guttentag
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This paper is directed to the question of whether replacement of the existing interest rate subsidy program by a direct loan program could reduce costs to the Government, or improve the efficiency with which housing services are delivered to low income households.

Budgetary Impacts

It is well understood that a given level of subsidy benefit will have a much larger shortrun effect on the Federal budget under a direct loan program than under an interest rate subsidy program. Under a direct loan program the entire amount of the loan is recorded as a budget expenditure in the current year, whereas under an interest rate subsidy program only the interest payment is a current expenditure. This probably accounts for some of the early appeal of the interest rate subsidy approach.

It can be shown, however, that the difference in budgetary impact does not imply a difference in macroeconomic effect. Assuming a given volume of subsidized loans to households, the larger budget outlay under a direct loan program (and correspondingly larger deficit) does not mean that the budget has a more expansionary effect on the economy. Hence, the choice between the direct loan and interest rate subsidy approaches should not be influenced by their different budgetary impacts. That this has been a consideration in the past may reflect some degree of misunderstanding, combined with the fact that appraisals of the budget by Congress and the public tend to focus on the "bottom line," which is affected equally by loan outlays and by expenditures on goods and services. This problem could be avoided by showing Government loans in a separate account, as recommended by Senator Proxmire's Subcommittee on Priorities and Economy in Government of the Joint Economic Committee in its report of March 5, 1973.

The difference in budgeted outlays under the two approaches is, of course, temporary. Net outlays under an interest rate subsidy program will rise over time relative to those under a direct loan program, and at some point the paths will cross. Assuming a 7 percent direct loan rate, a 7 percent interest rate subsidy, 30-year mortgages amortized monthly, and a "conservative" schedule of prepayments in full, my calculations show that this would occur after about 6⅓ years. After that, budgetary outlays would be higher under the interest rate subsidy program.

Financial Cost to Government

Much more relevant in evaluating the merits of direct loan versus interest rate subsidies is the total financial cost to Government of the two approaches. There is a prima facie case that costs could be lower under a direct loan program because the Treasury's required rate of return is lower than that of private lenders. This is the core of the case for direct loans advanced by the General Accounting Office.[1]

> If the subsidized loans made under the section 235 program were financed with borrowings by the Treasury rather than by private lenders, the Government could take advantage of its ability to borrow funds at lower interest rates than those charged by private lenders. Data compiled by the Federal National Mortgage Association show that the interest yield on home mortgage loans insured by HUD was 7.62 percent in August 1972. The interest yield on a recent issuance of long-term Treasury bonds ($2.3 billion, August 15, 1972) was 6.5 percent.

The prima facie case is, indeed, stronger than indicated in the quotation above. The yield differential of 112 basis points is quite low by historical standards. In an earlier study I estimated the "normal" yield differential between FHA mortgages and long term Government bonds at 200 basis points.[2] Subsequent revisions and updating have not resulted in any change. The average "nominal" differential, based on FHA mortgage

[1] See "Detailed Description of GAO's Estimate of Savings to be Realized Through an Alternative Method of Financing—Section 235," in *Housing Subsidies and Housing Policies*, Hearings before the Subcommittee on Priorities and Economy in Government of the Joint Economic Committee, Dec. 4, 5 and 7, 1972, Government Printing Office, 1973, p. 23.

[2] See my "Changes in the Structure of the Residential Mortgage Market: Analysis and Proposals," in *Study of the Savings and Loan Industry*, directed by Irwin Friend, for the Federal Home Loan Bank Board, July 1969, p. 1513.

yields as they are calculated by FHA,[3] was 180 basis points during 1960–72, 208 basis points during 1968–72, and 190 basis points in 1972. The differential using a new and improved method of calculating mortgage yield,[4] which generates a considerably higher yield than that computed by FHA or private investors, averaged 209 basis points during 1969–72, 248 basis points during 1968–72, and 222 basis points in 1972.

The argument that the yield differential represents a potential source of real cost savings to the Government implies, however, that the additional return required on mortgages (over that required on Government bonds) is functionless, in the sense that there is no cost or obligation that goes with it that Government would be forced to assume if it became the mortgage lender. To determine the extent to which this is true, we must examine each of the possible causes of the yield differential, and in each case we must ask whether it represents a possible source of real cost savings to the Government under a direct loan program.

Servicing, Administrative, and Origination Costs

It is clear that part of the yield differential between FHA mortgages and Government bonds is due to servicing, administrative, and origination costs on mortgages. For example, GAO recognizes that the Government's costs under a direct loan program would have to include servicing fees paid to the agents that service its direct loan portfolio.

> We believe that most private lenders who are currently involved in the Section 235 program would be willing to continue to perform mortgage servicing even though loan funds were provided by HUD. Our review indicates that when the original lender sells the mortgage to FNMA, but continues to perform the servicing functions, FNMA is required to pay an annual fee of .375% of the unpaid principal balance for these services. Thus we believe HUD would have to pay .375% for mortgage servicing. (Detailed Description, p. 24.)

I would think this figure is fair enough.[5]

In addition, the mortgage investor must maintain his own supervisory staff to monitor the investment operation and the activities of the servicing agent. Records must be maintained for control purposes, even though they substantially duplicate the records of the agent. Loan administrative services are sometimes purchased by pension funds, at costs that run about 10 basis points. While not all of this would be an added cost of a direct loan program—HUD also has administrative costs under the interest rate subsidy program—there would be some net cost.

Lenders also incur costs in originating mortgage loans which may not be fully covered by the fees paid by borrowers. A recent HUD study covering origination costs of 98 mortgage companies in 1971–72 shows that, ignoring gains and losses on sales, most originators had a net loss on their origination operations.[6] Adding net gains on sales, which happened to be substantial in the period covered (following several years of losses), 23 of 98 originators still had net losses. While it cannot be demonstrated, I would guess that net losses would be the norm over a period of time long enough for net gains and losses on sales to balance out. If so, some part of the gross yield on mortgages reflects net origination costs, although I cannot believe that it is more than 5–10 basis points.

Whatever the actual magnitude of servicing, administrative, and origination costs as a component of mortgage yields, it is clear that Government can effect savings in the performance of these functions only if it can arrange to have these functions performed more efficiently than they are now. With Government the contractor, these basic functions might indeed be performed more efficiently, but there is also the possibility that they will be performed less efficiently. This raises a question regarding the precise nature of the relationship between Government and the private sector under a direct loan program, a subject which will be discussed later. To anticipate my later argument, I believe it would be possible to so structure these relationships that servicing, origination, and administrative costs would decline, but this would require some breaks from conventional practice.

Liquidity

A large part of the yield differential between FHA mortgages and Government bonds is due to

[3] The "nominal" yields are taken from the *Prepayment Mortgage Yield Table for Monthly Payment Mortgages* (Financial Publishing Company), assuming prepayment in 15 years.

[4] The new method of yield calculation is based on work I have been doing with Anthony Curley for the National Bureau of Economic Research, soon to be published.

[5] On Section 203 loans the prevailing service fee today in the private market is .25 percent but 235 loans are substantially more expensive to service. Mortgage servicers to whom I have spoken indicate that the added expense is not compensated by the $3.50 per loan payment made by FHA. A recent GAO survey disputes this. In any case, a .375 fee should be more than adequate for 235 loans.

[6] See *Review and Analyses of Mortgagees' Costs of Origination Services*, HUD Office of Inspector General (05–2–3—1–0000), Mar. 23, 1973.

the greater liquidity of bonds. If an investor needs cash in a hurry, the bonds can be readily sold, whereas mortgages take some time to dispose of. Because liquidity is valued by investors, they require a "liquidity premium" to be induced to hold mortgages.

There is reason to believe that the premium is quite substantial—on average, perhaps about 100 basis points. For one thing, when we add up plausible estimates of all the other components of the yield differential between FHA mortgages and Government bonds, the unexplained residual is quite large. Furthermore, the yield differential changes appreciably over time—between 1960, 1965, and 1970, the annual differential swung from 2.06 to 1.23 to 2.46 percent; the most plausible explanation of these swings is that they reflect fluctuations in the liquidity premium. The swings in the yield differential correlate perfectly with changes in the level of mortgage yields, which is consistent with the view that yield differentials rise (fall) when liquidity positions of investors generally become tight (easy).[7] There is no plausible hypothesis that could explain these swings in terms of the cost and risk components of the yield differential.

Can this desire of investors for liquidity be exploited by Government to its profit? Because of the magnitude of liquidity premiums, this is a very important question. Unfortunately it is also a very difficult question that I have been able to examine only on a theoretical level.

Let us suppose Government issues a new 6 percent bond which it swaps with a private investor for a mortgage that is identical to the bond in all respects except that it is illiquid and carries a 7 percent yield. We will assume that the private investor is as well off as before, i.e., the 1 percent decline in yield is exactly compensated by the greater liquidity of the bond. Is the Government better off? It would appear so because the Government is making a 1 percent "profit" on the swap, but we must look further.

The first question to ask is whether Government would be forced to assume any additional costs by virtue of having made the swap. If the liquidity of the bond was dependent upon the willingness of the Government to redeem it on demand, the Government would be required to hold additional cash balances which would carry an opportunity cost (the Government could otherwise invest these balances). This is not the case, however. The greater liquidity of the bond is due to its greater marketability, which imposes no burden on Government. We must look elsewhere for any additional burden on Government arising from the swap.

The burden arises from the macroeconomic effect of the swap. Let us inquire exactly why the private investor would be willing to swap an illiquid 7 percent mortgage for a liquid 6 percent bond. The reason is that with the bond the investor could reorganize the balance of his portfolio in such manner that he could increase his earnings by enough at least to offset the lower rate on the bond. The most obvious case and the most convenient to analyze would be one in which the investor reduces his cash balance. If, in the example given, the shift from the mortgage to the bond allowed the lender to reduce cash holdings by an amount equal to 16⅔ percent or more of the swap, and if this cash was invested in more 6 percent bonds, the investor's income would be as high or higher than it was before. But this reduction in cash balances has an expansionary macroeconomic effect, comparable to a rise in the money supply of the same amount. If this effect is to be avoided, Government must see that these balances are not offered on the loanable funds market to others who would spend them for goods and services. Government therefore would be obliged to sell more securities to the investor, in an amount equal to the reduction in the latter's cash balance. This raises interest costs to the Government, offsetting the profit derived from the swap.

With assistance from my colleague, Anthony Santomero, I have done some abstract model-building to determine whether the additional interest cost to the Government from neutralizing the macroeconomic effect of the swap would be greater or smaller than the profit from the swap. Unfortunately, the results to date are inconclusive, suggesting that the chances are as good that Government will be a loser as that it will be a winner. In the absence of better information we must conclude that any benefit to Government from swapping a liquid security for an illiquid one will be offset by the costs of neutralizing the macroeconomic effect of the swap.

Risks: Nonfinancial Cost of Foreclosure

Investors in FHA mortgages that go to foreclosure lose some interest and have to absorb part of the legal expense involved in fore-

[7] We have independent evidence that liquidity premiums vary with market conditions. See Phillip Cagan, "A Study of Liquidity Premiums on Federal and Municipal Government Securities," in *Essays on Interest Rates*, Vol. I, edited by Jack M. Guttentag and Phillip Cagan, National Bureau of Economic Research, 1969.

closure proceedings. It is doubtful, however, that the prospect of such loss contributes significantly to the yield spread between mortgages and Government bonds.[8] Even if it did, Government would stand the same losses under a direct loan program, so that this factor does not constitute a source of real savings.

Risks: Nonfinancial Cost of Foreclosure

Nonfinancial costs of foreclosure are more important than financial ones. I described this problem in my earlier study as follows:

> The great majority of lenders wish to avoid foreclosure for reasons other than the direct financial cost. Life insurance companies are sensitive to the possible impact of foreclosures on insurance sales, while banks and savings institutions are sensitive to the impact on their deposit influx. With a few exceptions, this public relations burden of foreclosure has been quite small in the past but there is always a danger of a steep rise in foreclosures in the future. Although lenders are guarded against serious direct financial loss from such development, they are not protected against a serious public relations burden. To some degree this possibility contributes to the existing yield spread. ("Changes in the Structure of the Residential Mortgage Market," pp. 1415–1516).

Whether Government would assume a comparable burden under a direct loan program is a debatable issue, but my own view is that it would. Indeed, one could make a persuasive case that the nonfinancial burden of foreclosure would be greater for Government than it is for the private sector, because the foreclosure process—particularly the extent to which Government will extend forbearance—could easily become a political issue. I thus place this factor on the liability side of the direct loan ledger.

Risk: The Possibility of Disaster

Part of the yield differential between FHA mortgages and Government bonds may be due to the view of investors that in the event of a "disaster" in which the FHA was swamped with foreclosures, the agency would break down and payments would be delayed or not made—and that nothing comparable would happen to bondholders. It is easy to dismiss this view on the grounds that the probability of such an event is very low, but there is good reason to believe that the market attaches considerable weight to the difference between a very small probability of loss and zero probability of loss. Obligations of Federal agencies carry significant yield premiums over direct Treasury issues of the same maturity, ranging generally between .25 percent and .5 percent and part of it is evidently due to the market's perception of a difference in risk. It is plausible that the market would attach a similar perception to FHA mortgages.

If this view is valid, does it provide scope for a real saving to Government under the direct loan program? It does if one accepts the proposition that the Government's guarantee under the FHA program is in fact meant to be, or should be, absolute regardless of the market's perception of it. If the Government's guarantee is absolute in fact, then it will profit the Government to put the guarantee in such a form that the market perceives it to be absolute.

Because the point is a rather subtle, one, some elaboration may be useful. Governments, like individuals, make promises of varying degrees of force. A "weak promise," carrying some reasonable probability that the promisor may not deliver under exigent circumstances, may be useful under certain conditions. While it may not elicit as satisfactory a response from the promisee as a strong promise, this may be more than counterbalanced by the greater flexibility derived from the fact that the promisor is not irrevocably committed. If the promisor intends his promise to be absolute, however, it rarely would be to his advantage to offer a promise that is less than absolute, and in the case of financial promises, this is always so. Thus, if Government would stand behind the obligations of its agencies under any circumstances whatever, it should express its promise in such form that this is clearly understood, so that it can gain the advantage of a lower rate for the agencies. Probably the only way to do this is to convert the agency obligations into direct Treasury obligations.[9] The argument, of course, applies to all agency obligations and not just the contingent obligations of the FHA.

In summary, only one of the various causes of the yield differential between insured mortgages and Government bonds represents a

[8] See my "Changes in the Structure of the Residential Mortgage Market," pp. 1514–1515.

[9] It is not at all clear that the proposed Federal Financing Bank Act (Senate Bill S. 3001) would accomplish this since what it does is to set up still another agency whose obligations presumably would be substituted for those of existing agencies. While the new agency's credit would be supported by the right to borrow up to $5 billion from the Treasury, it may be doubted that the market would consider the agency's obligations to be the equivalent of Treasury issues, any more, indeed, than any other agency's issues are so considered. The mechanism established by S. 3001 thus may be useful for purposes of coordinating the financing operations of the agencies, but I do not think that it would lower agency financing costs.

source of real savings to the Government realizable under a direct loan program. This is the yield reduction that would result from substituting the absolute promise of the Treasury for the less than absolute promise of FHA. We do not know how much this cost saving might be, but the yield differential between Treasury and agency issues, on the order of .25 percent to .5 percent, sets the outside limit. The saving would be smaller than this to the degree that the Treasury-agency yield differential is accounted for by differences in liquidity or anything else.[10]

On the other side of the ledger, there is the additional burden on Government because of its responsibility for foreclosures. This burden is not quantifiable, and, indeed, some might argue that it does not exist at all, but I consider it a negative factor because it creates a new and delicate issue (foreclosure policy) and uncertainty regarding how the issue will be resolved. On balance, there is a case for a direct loan program on grounds of cost reduction to the Government, but because of the uncertainties on both sides of the ledger, I do not feel that it is persuasive.[11]

Delivery of Housing Services to Low Income Households

We turn next to the question of whether a direct loan program could increase the efficiency with which housing services are delivered to low-income households. I believe that it can, provided that the direct loan program is properly structured. My proposed structure is as follows: The eligibility of household-borrowers would be determined by HUD (FHA), which would reserve loan funds on their account at the time they issued a certificate of eligibility. No commitments or fund allocations would be granted to lenders, builders, or anyone other than households. Private lenders would be authorized to originate loans for the Government to eligible borrowers. For this service the Government would pay a fixed dollar amount per month, to cover the costs of origination that are not reimbursed by the borrower. HUD (FHA) would contract separately for loan servicing, which would not necessarily go to the loan originator. The rationale of this proposal will now be considered.

The Commitment Function

Commitments and Market Power: A major problem under the Section 235 program has been that a large part of the benefit that Congress intended for low-income households has been preempted by builders, brokers, and other real estate intermediaries. Investigations have focused on the administrative failure of Government to protect the borrower—particularly on the breakdown of property inspection procedures and on the corruption of the appraisal process.[12]

This emphasis is misplaced. The basic source of the difficulty is that under the administrative procedures employed by FHA, subsidy commitments were placed in the hands of intermediaries rather than in the hands of home buyers. A subsidy commitment is a type of market power in the hands of whoever holds it, and most holders can be depended upon to use this power to benefit themselves rather than the intended beneficiaries of the program.

A brief digression into theory may help to clarify the point. Assume that a standard service offered on a competitive market sells for $100 a month, while a substandard version of the same service sells for $50 a month. Assume further that the Government decides that eligible families now using the substandard service should have the right to purchase the standard service and offers to pay the difference in price. If a subsidy commitment is given to a well-informed household, that household would be able to buy the standard service for $100 a month—that is, at the same price that everyone else pays, or only slightly more. Suppose, however, that one of the sellers of the standard service, but not the others, is authorized to sell under the subsidy program; buyers must deal with him. That seller can reduce the quality of the service so that it is

[10] Unfortunately, there is very little research on the relative importance of the various determinants of the Treasury-agency yield differential. An unpublished study by Thomas F. Coakley and Arthur DiMartino, Jr. (graduate students at the Wharton School) indicates that in the minds of market participants, only a small part of the differential is due to differences in risk. Most of the differential is attributable to differences in liquidity and in value as collateral-securing loans. The problem is that there are very complicated interactions between these various factors.

[11] I might add that if a direct loan program is considered better than an interest rate subsidy program on grounds of relative cost, it is also better, for the same reason, than the Section 203 program. It is true that the higher cost under 203 is borne by the borrower, whereas under 235 it is borne by the Government, but what of that? The objective of reducing the Government's cost under 235 should be no more compelling than the objective of reducing the borrower's cost under 203. Indeed, the lower the cost of 203 to the borrower, the smaller will be the demand for subsidies under 235.

[12] See *Interim Report on HUD Investigation of Low-and-Moderate-Income Housing Programs*, Hearings Before the Committee on Banking and Currency, House of Representatives, Mar. 31, 1971, GPO 1971; and HUD Office of Audit, *Audit Review of Section 235 Single Family Housing*, Dec. 10, 1971.

only slightly better than the substandard service, and he can charge $100 because buyers have no other option. The eligible buyer will deal with that seller because the buyer's situation will improve relative to what it was, but the seller would absorb the lion's share of the benefit.

In effect, this is how the interest rate subsidy program has been structured.

It is, of course, the function of regulation to force the seller to give the buyer a better deal than he would otherwise be obliged to give, but this places an intolerable burden on the regulatory process. It is hardly surprising that it broke down in so many places—especially in the case of transactions in existing houses. While the inherent logic of a subsidy program suggests that beneficiaries should satisfy their demand largely from the standing stock, the great difficulty in effectively policing such transactions has been one factor causing heavy emphasis to be placed on new construction.

I fear that if a switch were made to a direct loan program, the tendency would be to set it up in such a way that the basic problem I have just described would be carried over substantially unchanged. This would be the case if fund allocations under the program were made to lenders or builders. If a lender were told, for example, that "during the first quarter he could disburse $X on the Government's account," the power to direct these funds would be a valuable asset—much more valuable, I would guess, than any origination fee the Government would pay him. Can anyone doubt that the funds would be directed to the lender's customers and associates who are in position to provide reciprocal benefits?

The way to avoid this is to have HUD (FHA) issue a certificate of eligibility directly to households. "This certifies that John Doe is eligible to receive a Title X loan in an amount up to $_____. Any loan originator authorized under Section _____ of HUD Regulation _____ is entitled to advance funds to John Doe up to the above amount for the purpose of acquiring a dwelling unit approved by the FHA, and to be reimbursed under the procedures set down in Section _____."

Value of Commitments to Households: Granting commitments to households does not in any sense mean that households automatically will retain their full value. The extent to which they benefit depends on such factors as (a) the structure of the local mortgage market, (b) the household's knowledge and sophistication, and (c) its access to counseling services. If the household has access to many potential lenders, plus the requisite knowledge and the will to shop, it will retain the benefit for itself. But (to take the opposite extreme), if there is only a single source of loans, or if the household is a completely dependent personality without access to counseling who is unable to do more than place himself wholly in the hands of the first lender he encounters, the chances are good that he will lose much of the value of the commitment.

There are those who argue that the typical house buyer under 235 was too ignorant to be given freedom to operate in the private market on his own. There is considerable evidence that many buyers under Section 235 were unprepared for homeownership and in many cases did not even understand the responsibilities that ownership involved. Yet the solution to the problem of consumer ignorance is not to place market power in the hands of those who have an incentive to exploit the consumer and then try to prevent the exploitation through administrative controls. That is the hard way. The easy way is to place the market power in the hands of the intended beneficiaries of the program and use the administrative resources of the Government to help them make intelligent decisions in the market place. The shift in administrative procedures from regulation to counseling could improve the efficiency of the bureaucracy for many reasons, not the least of which is that it would eliminate "payoffs" and more subtle forms of corruption that tend to undermine the regulatory process whenever there are large profits to be made.

Implications of Greater Coinsurance: In a reaction to the first draft of this paper, officials in HUD raised the question of whether additional coinsurance imposed on lenders would in any way prejudice the objective of enabling households to obtain the value of loan commitments.[13] The answer to this is that a significant degree of coinsurance would shift the balance of forces against the household, although it is hard to know how important the shift would be. Greater coinsurance means greater risk, which would tend to reduce the number of lenders in any market. Perhaps of more importance, lenders would face higher origination costs because of the greater need to protect themselves, and this would make it more difficult for households to

[13] The rationale underlying proposals to increase coinsurance is to allow FHA safely to delegate to lenders greater responsibility for loan processing (see the appendix note).

obtain information by shopping. This point has no applicability, however, to direct loans, because these would carry no risk to originators. Potentially, therefore, households would be faced with a more favorable market structure under a direct loan program than under an interest rate subsidy program, provided that HUD took the necessary steps to maximize the number of willing loan originators (see B below). Some further aspects of the relationship between coinsurance and issuance of commitments to households will be discussed in an appendix note.

Allocation of Commitments: Since the demand for commitments under interest rate subsidy or direct loan programs exceeds HUD's commitment authority, commitments must be rationed in some way. When commitments are issued to builders or other intermediaries, the temptations offered to officials in local FHA offices are very large. The amounts involved in individual transactions are substantial, while the criteria they must apply in allocating funds are necessarily quite vague. Consider the following admonition given to FHA field offices regarding how allocations are to be given to builders under Section 235.

> This evaluation [of requests by builders for reservations of contract authority] requires the exercise of good judgment in applying the selection criteria to individual requests . . . . In evaluating requests, field offices shall make every effort to achieve an equitable geographic distribution, giving due regard to the communities with the greatest need for housing in the jurisdiction. Similarly, there should be a reasonably equitable distribution among builders whose proposals rate well under the selection criteria. Encouragement should be given to those proposals which are likely to provide a potential mix of subsidized and unsubsidized units. (From *Homeownership for Lower Income Families, Section 235(i) Handbook,* HUD Circular 4210.1, Jan. 29, 1973, pp. 4–11.)

It is hardly an exaggeration to say that with criteria such as these, field offices can get away with almost anything.

When commitments are issued to households, in contrast, the amounts involved in any one transaction are small, and very explicit rationing procedures can be used—such as first-come-first-served. Hence, the probabilities are much smaller that the administrative process will be corrupted.

Commitments to Households and the Volume of New Construction: It is implicit in a policy of giving commitments to households that builders obtain no special privilege and require no special authority to sell to subsidy recipients. If builders cannot meet the subsidy market, then subsidy recipients will have recourse to the existing house market. This raises a question, posed by HUD officials, as to whether the volume of new construction will be lower than if commitments were offered directly to builders.[14]

Let us assume that a subsidy program expands housing demand by a given amount, but in one case the demand is directed to new units and in another case to existing units. If all units were homogeneous the results would necessarily be identical; in the second case additional demand for existing units would immediately spill over to the new house market. Lack of complete homogeneity creates a possibility that in the short run the spillover effect will be less than complete and that new construction will not be expanded by as much. In the long run, however, I would not expect the effect to be significant. Any such effect, furthermore, would tend to be offset by the higher effective price of housing services, and, therefore, lower demand of subsidy recipients, when market power is placed in the hands of builders.

It is helpful to remember other costs of channeling subsidies to new construction. First, in many areas the per household subsidy is larger because it is more costly to meet minimum housing standards by constructing new units than by providing housing from the standing stock. Second, household satisfaction is likely to be lower if buyers are restricted to a narrow range of options.

Dividing the Loan Origination and Loan Servicing Functions

The purpose of dividing the loan origination and loan servicing functions is to reduce the costs to Government of a direct loan program to the lowest possible level, and to extend the network of loan origination facilities as widely as possible.

The loan origination function is largely a "handicraft" operation, in which there are no scale economies. The cost of producing 1,000 loans is very close to ten times the cost of producing 100 loans. Much of the servicing function, in contrast, is computerized and subject to marked economies of scale. The cost of servicing 1,000 loans is very much less than ten times

[14] This question is quite general and can be posed regarding any type of housing assistance, including preferential tax treatment, secondary market support, preferential credit terms, or whatever. It is rather surprising that on a question applicable to so many aspects of housing policy there is no literature, but that appears to be the case.

the cost of 100 loans. By negotiating for these functions separately, the Government would be in a much stronger bargaining position. By offering large servicing portfolios, it could obtain the best competitive rate, calculated by bidders on the assumption of a large volume operation. At the same time, the per loan origination fee would be as attractive to a small lender as to a large one, and the network of loan origination outlets would be maximized.

If the Government negotiated for a combined origination-servicing function, it would be obliged to pay a combination origination-servicing fee attractive enough to appeal to low-volume producers whose servicing costs would be high. Large-volume producers would then make surplus profits. If the combination origination-servicing fee were cut to the level appropriate to the large-volume producers, the low-volume producers would not be attracted to the program.

An optimum division of functions might be obtained without the Government's contracting separately for origination and servicing if the Government paid an attractive origination fee and a servicing fee that was attractive only to large-volume producers. In this case, small-volume producers might originate loans and give away the servicing. I believe, however, that this approach would be more difficult to implement, would generate more resistance, and would not be as effective. Potential large-volume servicers would be uncertain regarding the size of the servicing portfolio they could amass, and they would not be willing to accept as low a fee as they would if the Government gave them a commitment on servicing volume.

Summary of Principal Conclusions

1. Federal budgetary outlays under direct loan and interest rate subsidy programs would exhibit different time patterns. Direct loan programs have a much larger immediate impact, but the difference shrinks over time and, after six years or so, outlays under interest rate subsidy programs become larger. This difference should not affect the policy choice between these approaches, since they have no bearing on cost effectiveness or macroeconomic impact.

2. There is a prima facie case that total financial cost to Government could be lower under a direct loan program because the Treasury's required rate of return is lower than that of private investors. On average, the Treasury can borrow at rates roughly two percentage points below the market yield on FHA mortgages. An examination of the causes of this yield difference indicates, however, that very little of it represents a potential source of real cost savings to the Government. The only source of cost savings is the yield reduction that would result from substituting the absolute promise of the Treasury for the less than absolute promise of FHA. This saving cannot be quantified, but it is not large. On the other side of the ledger is the additional burden on Government, also not quantifiable, from having to assume responsibility for foreclosures. On balance, the case for a direct loan program on grounds of cost effectiveness is not very persuasive.

3. Under either interest rate subsidy or direct loan programs, it is sound policy to issue subsidy or loan commitments directly to households rather than to builders, lenders or other intermediaries. It is very difficult to prevent intermediaries from using the market power conveyed by a commitment to benefit themselves at the expense of the intended beneficiaries of the program. The regulatory function tends to be corrupted in the process. It is far better to place the market power in the hands of the intended beneficiaries of the program and to use the administrative resources of the Government to help them make intelligent decisions in the market place. This should lead also to a more equitable system of allocation among households. Over the long run, the volume of new construction should not be significantly different if subsidized households direct their demand to the existing housing stock than if commitments are given to builders.

4. A direct loan program could be structured administratively more efficiently than an interest rate subsidy program. By contracting separately for loan origination and servicing services, the Government could maximize the number of loan originators; this would benefit borrowers in several ways. In addition, by contracting separately for the servicing of large portfolios, the price of servicing to Government could be reduced.

Appendix Note: Coinsurance and Issuance of Commitments to Households

It was noted earlier that greater coinsurance imposed on lenders under an interest rate subsidy program might prejudice to some degree the objectives involved in granting subsidy commitments to households. Here I will consider

whether issuing commitments to households would prejudice the objectives involved in increasing the degree of coinsurance. The question is considered separately for interest rate subsidy programs (235) and nonsubsidized insured loan programs (203).

The presumed objective of increasing coinsurance is to increase origination efficiency.

> A fairly high degree of coinsurance would induce private lenders to exercise normal lending prudence in screening borrowers. This would allow complete delegation of the loan origination function to the private sector. Hence, existing private facilities could be employed, and bureaucratic control by the insuring agency—with its attendant processing delays, reporting requirements, and the like—could be avoided. ("Changes in the Structure of the Residential Mortgage Market," p. 1511).

The origination function that is most germane to this argument is the evaluation of credit risk. The presumption is that lenders will do an effective job of assessing risk if they have something significant to lose when loans go into default.

Under an interest rate subsidy program, however, the additional function arises of determining subsidy eligibility, and this does not carry the same presumption of effective performance by originators. There is no reason based on self-interest why lenders should exercise great care in determining eligibility for subsidies. Hence HUD cannot completely delegate responsibility for this function. The best it can do is delegate partial responsibility. This suggests that the cost savings from increasing coinsurance on 235 might be smaller than anticipated, and certainly they would be smaller than on 203, regardless of whether commitments are issued to households or not.

If 235 commitments are issued to households, the function of determining subsidy eligibility cannot be delegated at all. If HUD issued commitments while originators determined subsidy eligibility, HUD would find itself making promises and setting aside funds for ineligibles. This probably would generate impossible problems. If HUD assumed responsibility for determining subsidy eligibility, it would force an inefficient separation between this function and the function of evaluating borrower credit. Thus, the issuance of commitments to households would indeed prejudice the objectives involved in increasing coinsurance under 235.

This is not the case for nonsubsidized insured loan programs such as 203. Any gains in origination efficiency associated with greater coinsurance would not be prejudiced by granting commitments to households. On the other hand, household commitments would not perform the same function under 203 as under 235 because 203 commitments ordinarily do not have scarcity value.

It turns out that household commitments under 203 would be useful only if combined with complete elimination of coinsurance. Thus, the benefits of greater processing efficiency associated with increasing coinsurance under 203 should be set against a broader set of benefits associated with zero coinsurance plus household commitments. I have argued elsewhere [15] that the latter benefits are substantial, including a large reduction in the 203 yield, elimination of the need for contract rate ceilings, and breakdown of restrictive local market structures that have curtailed the availability of insured loans in nonmetropolitan areas.

[15] See "Changes in the Structure of the Residential Mortgage Market," pp. 1510–30.

A Survey of the Attitudes and Experience of State and Local Government Officials with Federal Housing Programs

By *Louis Harris and Associates, Inc.*
Project Director: Carolyn E. Setlow

Introduction:

Purpose and Methodology

This is the final report of a national survey of State and local government officials submitted to the Department of Housing and Urban Development by Louis Harris and Associates, Inc. (pursuant to Contract # H-2089R). Between June 13 and 29, trained Harris executive interviewers conducted in-person interviews with representative samples of 126 State government officials and 257 local government officials.

On January 5, 1973, HUD announced a moratorium on subsidized housing programs in order to evaluate their effectiveness prior to developing recommendations on the Federal role for housing. The objective of this survey was to obtain data on the attitudes of government officials towards Federal Government housing policies and programs and possible revisions of these policies and programs. More specifically, the survey sought to measure the nature of any opposition to construction of subsidized housing. These attitudes are among the important factors to be taken into consideration as part of this evaluation. A report is due to Congress from the President on or about September 7, 1973.

In addition to the survey of State and local government officials, the Harris firm conducted two other studies under this contract. The remaining surveys include:

1. A survey of the attitudes of the American public towards Federal Government housing policies and programs, and

2. A survey of the attitudes of occupants of HUD-subsidized housing towards Federal Government housing policies and programs.

The methodology employed in conducting this survey of State and local government officials (the design of the samples, conduct of interviewing, data processing, and analysis) are shown below.

The Design of the Samples

The focus is on government officials who are not professional housing officials, but, rather, have more general responsibilities.

State Government Officials: The sample was drawn to approximate State government officials across the Nation. It includes the Governor or substitute for the Governor [1] in all fifty states. In addition, in each of a group of 15 States [2] (chosen to be representative of the Nation as a whole), the Lieutenant Governor and four key State legislators [3] were interviewed.

Local Government Officials: The sample was drawn to approximate local government officials in the largest metropolitan areas across the Nation. The sample includes officials of the central city government, other incorporated places outside central cities, and county governments, in the 25 largest standard metropolitan statistical areas (SMSAs).

There was some debate as to whether the selection of local governments (aside from the central cities) should be made proportional to population, or whether each governmental unit should have an equal chance of being chosen, regardless of size. Both approaches have value, and it was decided to represent both approaches by stratifying by size in the selection process, choosing a certain number of communities within three population strata—under 10,000, 10,000-49,999, and 50,000 and over. Interviews were conducted with the head of the executive branch

[1] If a Governor was not able to be interviewed in the time available, a substitute was interviewed. First preference for substitute was the Governor's executive assistant, second preference was Lieutenant Governor, third preference was a State cabinet official with responsibility for housing-related affairs, and fourth preference was the Governor's press secretary.

[2] The 15 states are Arizona, California, Florida, Georgia, Illinois, Louisiana, Massachusetts, Minnesota, Nebraska, New Hampshire, New Jersey, New York, Oregon, Texas, and Wisconsin.

[3] Key state legislators included the leaders of each of the two major parties in each chamber of the legislature. If these key state legislators were not able to be interviewed in the time available, substitutes were drawn from members of housing committees, in order of seniority.

and the head of the legislative body of each government in the sample.[4]

Conduct of Interviews

Before the questionnaires were fielded, letters were sent from Secretary James T. Lynn of Housing and Urban Development to all officials included in the sample. The content of the letters was the following: [5]

> As part of the Federal Government's review of housing policies and programs, HUD has commissioned a leading public opinion research firm to conduct an extensive survey (among a sample of key local officials in the larger metropolitan areas/among the Governors and other key officials of the 50 States).
>
> The purpose of this survey is to provide current information as to the thinking of (local/State) officials on housing needs and on the appropriateness of various governmental strategies for housing assistance.
>
> The answers you give will be kept entirely confidential and will not be revealed on an individual basis. The tabulation and analysis of the data will present only the combined answers of all respondents.
>
> You will be contacted shortly concerning this interview. The interview should not last more than an hour. Your cooperation in this important matter would be greatly appreciated, and I thank you for your help.

All field work was assigned by the New York office of the Harris firm. The interviews were conducted in person by specially trained executive interviewers, experienced in conducting interviews with government and business executives. Interview appointments were set up in advance by telephone.

Upon approval of the questionnaire, field kits were mailed, special delivery, directly to the interviewers or to area supervisors, who in turn assigned as many interviewers as were needed in their area. These kits contained, in addition to the questionnaires, a full written explanation of the substance and purpose of the survey with detailed instructions covering any complex or unusual requirements.

Before interviewing commenced, the written instructions were supplemented by a briefing (in person or by telephone) from either the New York office or area supervisor. As the work progressed, it was monitored to assure that schedules and quotas were being met and that all results conformed to the specified sampling design. Returns were sent back to the New York office as they were completed, and checked again for quality and completeness.

[4] If those heads were not able to be interviewed in the time available, substitutes were interviewed. The substitute chosen was the best available respondent to represent the intended head of government.

[5] Different letters were used for State officials and for local officials. The variations in the letter are indicated by parentheses.

Data Processing

Once editing checks were made, open ended (unstructured) questions were coded to permit computer processing. The full questionnaires were then keypunched, key-verified and put on magnetic tapes. The data were tabulated by basic cross-tabulation programs and presented in the form of annotated tables showing cross-tabulations (frequencies and percentages) of questions by independent variables agreed upon in advance by the Department of Housing and Urban Development and Louis Harris and Associates.

Analysis

With the exception of occasional questions asked only of one group of officials or the other, the substance of the questionnaires administered to local and to State government officials was identical. The main difference was the wording: Local officials were asked to think in terms of their "city/county," while State officials were asked to think in terms of their "State."

For the purposes of analysis, the responses of the two groups of officials were run in total (that is, responses of local and State officials combined) [6] and separately (that is, responses of local officials broken out separately from those of State officials). Within each group of officials, the results were run by key variables. A definition of these variables and their distribution in the sample are shown here.

	Percentage of Sample
Total of local and State officials	100
Total local officials	67
Position	
Mayors, deputy mayors	20
Other local executives (including city manager, assistant to the mayor, city housing or planning officials, other city officials, county executive or administrator, aide or assistant to county executive and other county executives)	26

[6] While the total provides a useful indication of the combined attitudes of State officials and local officials (in the 25 largest SMSAs), it must be recognized that this is a somewhat arbitrary combination. In general, it is the differences between State and local officials which are of the greatest interest and deserve the most attention.

Local legislators (including president or chairman of city council or commission, other councilmen or commissioners, assistants to city legislative officials, head of county board or commission and other county commissioners)	21
Housing experience (previous experience directly related to housing matters)	
Government (including legislators who have sponsored housing bills or served on housing committees, executives who have initiated housing legislation or policies, and executives and legislators with general government experience)	15
Housing experts (including advisors on housing policy and members of housing commissions, zoning board, officials and employees of HUD, FHA or other housing authorities)	18
Private professionals (including architects, contractors, lawyers or other professionals with experience in housing)	21
Time spent on housing (proportion of professional working time directly involved with housing matters)	
10 percent or less	38
More than 10 percent	29
Size of place	
Central cities	19
Outside central cities	34
Counties	14
Region	
East	22
Midwest	19
South	11
West	15
Outside central cities	
Less than 10,000 population	8
10,000 to 49,999 population	15
50,000 and over	11
Less than 20 percent growth rate (since 1960)	17
20 percent or more growth rate (since 1960)	17
Counties [7]	
Less than $420 direct per capita expenditures	7
More than $420 direct per capita expenditures	7
Total State officials	33
Position	
Governors, lieutenant governors, assistants to Governor	10
Other State executives (including aides to lieutenant governors, housing and planning officials, other State officials)	9
State legislators (majority leaders, minority leaders, other assemblymen or senators, and aides to State representatives)	14
Total executives in 15 States only (Governors, lieutenant governors, assistant to Governors and other State officials in same 15 States where legislators were interviewed. See design of samples above)	10
Housing experience	
Government	11
Housing experts	8
Private professionals	11
Time spent on housing	
10 percent or less	19
More than 10 percent	14
Percentage of State urban	
Less than 65 percent urban	9
65 percent to 80 percent urban	15
More than 80 percent urban	9
Region	
East	8
Midwest	8
South	10
West	7

[7] Counties were divided as indicated above (based on data from "Local Government Finances in Selected Metropolitan Areas and Large Counties: 1969–70" U.S. Dept. of Commerce GF70–6) in order to reflect the fact that county governments would vary significantly in responsibilities. Per capita expenditures was used as an overall indication of this variation.

The following report includes statistical tables drawn from the annotated tabulations. In addition, the report includes a description of the main findings and a discussion of the signification of the study results, including clearly identifiable "observation" sections discussing the policy implications of the findings.

The questionnaires administered in this survey were developed by Louis Harris and Associates in close consultation with HUD personnel. Copies of the two questionnaires (one for State officials, the other for local officials) are available from Louis Harris and Associates, Inc.,

1270 Avenue of the Americas, New York, N.Y. 10023.

Section I: Summary of Key Findings

The following conclusions can be reached about the views and experiences of State officials and local government officials in the largest metropolitan areas of the country on the subject of housing and the perceived role and performance of the Federal Government in housing in the past, present, and future:

1. Government officials attach a higher priority to housing as a pressing concern facing their level of government than they do to lack of money, taxes, environmental control, transportation, unemployment, and crime. In sharp contrast to the general public, which gave housing a much lower priority, State and local officials put housing in first place on their volunteered list of most serious problems facing their level of government. Housing was mentioned most often as an issue of concern to central city public officials, with 45 percent of them singling it out as a most serious problem, compared with 30 percent of all State and local officials surveyed. While only a minority of the public (18 percent) rated their housing as only fair or poor, the problems of these approximately 9 million families nonetheless make housing a top priority for government leaders and create serious pressures to find solutions to housing problems. (Section II)

2. In cities where officials feel the need for new housing is greatest, however, the opposition seems to have been highest. By a substantial 69–31 percent, government leaders in the central cities reported that "there has been organized opposition to construction of new housing," while local and State officials as a whole reported such opposition by 52–46 percent. (Section III)

3. At all levels of government, highest opposition surfaced to subsidized low income housing. By 74–19 percent, local officials said that they had found resistance to low income housing in the key central cities, and this was confirmed by State officials (by 67–29 percent). In the suburbs, subsidized low income housing met with opposition in the experience of 91 percent of local officials and 85 percent of State officials.

After subsidized low income housing, subsidized moderate income housing was believed to be the next target of opposition. Local officials (by 54–37 percent) reported that such housing in central cities has met with opposition. State officials are less certain of central city opposition to subsidized moderate income housing: By 49–48 percent, they reported opposition in central cities. In suburban areas, however, moderate income subsidized housing emerged as running into deep trouble, with an 81–16 percent majority of local officials and a 69–28 percent majority of State officials reporting opposition. Only unsubsidized housing evoked little or no opposition in the central cities and suburbs, according to State and local officials. (Section III)

4. Government officials and the public agree on the prime targets for Federal housing assistance. There is a clear mandate from both groups that the elderly and low income working families be the beneficiaries of Federal housing programs: 89 percent of officials surveyed felt that federal funds should be targeted to elderly citizens, and 87 percent felt they should benefit low income working families. Sixty percent of government leaders felt that Federal funds should be targeted to housing programs for each of the following groups: welfare families, moderate income families, and the physically handicapped. Only minorities of officials backed Federal funding for housing for ethnic and racial minorities and veterans. (Section III)

5. In an evaluation of specific HUD-sponsored housing programs, the Section 235 homeownership assistance program received a negative assessment from State officials by 45–42 percent and from local officials by a thumping 65–26 percent. The problems with the program focus on lack of cooperation of people in maintaining their homes once they have received mortgage assistance, and on the poor quality of the construction, the lack of an enforcement system on maintenance, and the fact that people over the income limits get into the 235 program. Nonetheless, among central city officials who do not have 235 programs, by 46–27 percent they would like to see them in their communities. (Section IV)

6. The low rent public housing program is, on the whole, not badly received: Local officials come up with a 52–42 percent positive rating, while State officials give it a slightly lower 44–40 percent positive rating. The thrust of complaints

here is that the program is not properly supported by the Federal Government. (Section IV)

7. Local officials give the 236 rental assistance program a 46–38 percent favorable rating, although State officials gave it a negative 46–39 percent assessment. Again, central city officials who do not have the 236 program would like to have it (by 57–29 percent), although officials outside central cities do not. The major reported problems with this program are inadequate funding, redtape, bureaucracy, inflexible income limitations, and administrative and management difficulties. This program is viewed as promising if HUD would administer it more effectively. (Section III)

8. The 312 and 115 loans and grants for rehabilitation program received a 45–40 percent positive rating from local officials, although State officials were negative by 31–21 percent. (A high 48 percent of the latter were unable to pass judgment.) This is the only program that would be welcomed where not in existence in communities outside central cities as well as within them. (Section III)

9. On scatter-site public housing, local officials are convinced by 58–32 percent that the general public in their area would oppose such a program, although State officials feel by 46–42 percent that such housing would be acceptable. Most convinced that opposition would exist are public officials in communities outside the central cities. (Section IV)

10. Local and State officials appear open to major changes in HUD housing policy. By 74–13 percent, they agreed that there should be a "change in the 'mix' of HUD's housing programs—that is, spend more on some programs and less on others". Local officials in central cities favor such a change by a higher 87–8 percent. (Section IV)

11. Public officials give a much firmer endorsement to housing allowances than does the public. By 74–25 percent, State and local leaders favor " housing allowances for low income families", while the American people favored it by a lesser 50–35 percent margin. (Section IV)

12. Decentralization in the administration of mortgage pools is a popular idea. By 67–31 percent, a sizable majority of State and local officials favored "having the Federal government provide a pool of mortgage funds which would be administered by the State." (Section IV)

13. By better than 2 to 1, public officials at the local and State level rally behind "special revenue sharing for housing as a replacement for current Federal housing subsidy programs." (Section IV) Support for greater local control and administration of housing programs runs through officials' responses to all the proposed changes. Yet, while the leadership would like to see the role of State and local government expanded, this would not preclude an even more substantial role for the Federal Government. Federal Government involvement must be continued, local and State officials agree, and at a rather high degree of involvement and initiative, including providing and administering mortgage insurance or guarantees, providing income assistance to individuals for housing, providing and administering direct loans for housing, handling property disposition for housing units repossessed by the Federal Government, and enforcing equal opportunity laws. (Section IV)

14. A sizable majority of State and local leaders (by 60–34 percent) said they would endorse the idea of a regional approach on housing for a metropolitan area. The Federal Government clearly has a mandate to move in this direction. (Section IV)

15. Local officials tend to have a rather poor sense of what the public is willing to support in the way of housing programs. The public, for the most part, is more willing to be generous to the poor and to the less fortunate than the leadership assumes. (Section IV)

16. By 52–34 percent, the leaders opted for "rehabilitation of existing housing" as preferable to "new construction". As with the general public, government leaders tend to feel that existing housing has not been refurbished properly to meet people's housing needs. While they place housing high on their list of urgent community problems, local officials worry about the impact of major new housing increments on their government services. (Section IV)

Section II: Locating the Importance of Housing to State and Local Officials

Priority of Serious Problems

In sharp contrast to the general public, which placed housing in 14th place out of 18

volunteered problem areas, State and local government officials in the largest metropolitan areas put housing in first place on their volunteered list of the most serious problems facing their level of government. Housing took priority over the pressing questions of the lack of enough money, taxes, environmental control, transportation, zoning problems, drainage and sewage, crime, unemployment, and education, which followed in that order.

Housing was believed to be of most pressing concern to central city public officials, among whom 45 percent singled it out as a most serious problem, compared with 30 percent of all State and local officials surveyed. The roster of issues for central city officials varied from other local officials with crime, financial operating questions, unemployment, and financing new housing topping all other problems. In the communities outside the central cities, the top issue to emerge was drainage and sewage problems, with housing and financial operating problems tied for second place at 21 percent, followed by land development and zoning questions, and traffic congestion. Counties came up with an entirely different priority order of problems, with pollution, at 31 percent, leading the way, followed by housing and transportation/mass transit problems tied at 25 percent. Drainage and sewage questions, and financial operating problems follow. State officials gave housing the top place at 33 percent, followed by taxes, education, environmental control, financial operating problems, and land development problems.

Observation: Each level of government, of course, reflects the special problems besetting the constituents who live within their area of responsibility. Yet housing emerges in all cases as a major priority. Some caution, however, should be observed in accepting housing as their top priority, since the sponsorship of the study was made clear to all officials before the interviews were conducted. There may well have been some tendency for State and local officials to be prepared to address themselves to the sponsor of the survey and a consequent readiness to discuss housing problems.

Nonetheless, even if this factor were discounted, by any measure, among key officials from the States and localities, housing ranks high in importance, along with fiscal solvency, pollution control, transportation, land development, sewage, and education.

There is also evidence that these public officials place a higher priority and urgency on housing than do the people themselves. Although the public was asked about the "two or three most important problems facing the country" and the State and local officials about the "two or three most important problems facing your (State, county, local) government", nonetheless the fact that housing emerged with only 4 percent mentions from the public compared to a much higher 30 percent mentions by public officials indicates some of the difference in priorities. The public places inflation, Watergate, crime, drugs, taxes, environment control, the energy crisis, education, unemployment, discrimination, all ahead of housing. The public officials place racial problems, drugs, health, welfare, unemployment, and inflation all relatively low on their list, far below housing.

At least part of the explanation for this difference in emphasis between the public and their elected and appointed governmental officials is found when it is recalled that a substantial 82 percent of the public expressed basic satisfaction with their housing today, and most feel that improvements have been made in the State of their housing over the past few years (especially in the value of homes they own). This left only a minority of 18 percent who expressed dissatisfaction with their housing.

However, that 18 percent comes to approximately 9 million families, a sizable number. The pressures to find solutions to the housing problems of this substantial minority inevitably reach public officials. Just because a majority of people express satisfaction with their housing does not alleviate the residual problem facing government in the housing field. This felt pressure from the minority of the public about housing has helped to generate its high priority status among public officials at the State and local level.

Focusing In On Housing

Public officials were next asked about the main housing problems within their constituencies. Easily at the top of their volunteered list was the "need for more housing for low income groups," cited by 35 percent of all officials. In rapid order, both local and State officials poured out a roster of other housing problems worthy of major consideration: More housing for moderate income groups, more housing for the elderly, the problem of substandard or deteriorated housing, the high cost of housing today, the need for more housing, the lack of funds for housing, the need to replace and to renovate substandard

How Serious Are Community Housing Problems?

	Total Local %	Central City %	Outside Central City %	County %	State Total %
The High Cost of New Housing					
Serious	79	92	68	86	94
Not serious	21	8	32	12	5
Not sure	—	—	—	2	1
The Need for More Moderate Income Housing					
Serious	66	82	55	73	84
Not serious	33	17	45	22	15
Not sure	1	1	—	5	1
Inadequate Income of Low and Moderate Income Families					
Serious	63	88	52	56	86
Not serious	33	9	44	38	9
Not sure	4	3	4	6	5
The Need for More Low Income Housing					
Serious	62	80	48	73	90
Not serious	38	19	52	27	9
Not sure	—	1	—	—	1
Deteriorating Neighborhoods					
Serious	59	88	42	61	75
Not serious	41	12	58	39	23
Not sure	—	—	—	—	2
Insufficient Availability of Financing for Housing					
Serious	54	83	42	42	67
Not serious	40	13	52	48	28
Not sure	6	4	6	10	5
The Presence of Substandard Housing					
Serious	53	85	36	52	85
Not serious	47	15	64	48	14
Not sure	—	—	—	—	1
The Poor Quality of New Housing Construction					
Serious	26	26	21	21	32
Not serious	70	74	77	75	59
Not sure	4	—	2	4	9
Zoning Which Excludes Lower Income Families					
Serious	21	22	18	25	46
Not serious	76	75	80	69	50
Not sure	3	3	2	6	4
Building Codes Which Are too Strict					
Serious	16	25	10	16	27
Not serious	82	75	89	78	70
Not sure	2	—	1	6	3

housing, and the high cost of construction. State officials raised yet another concern: The need for more housing in rural areas, volunteered by 11 percent.

These volunteered comments graphically illustrate the wide range of specific housing problems with which public officials feel they are confronted. The problems came into sharper focus, however, when government leaders were probed about 10 specific areas of housing and asked how serious they thought each was. The following table provides a basic guide to where State and local public officials' concerns in housing are focused these days.

The impact of inflation is immediately evident, with a high 79 percent of all officials expressing the view that "the high cost of new housing" was a "serious problem" in the area of their responsibility. A second problem is that of "the need for more moderate income housing," cited as "serious" by 66 percent. Moderate income housing was closely followed by "the inadequate income of low and moderate income families" to afford housing they need, another reflection of the perceived difficulties families have in keeping incomes at a par with rises in the cost of living.

Observation: Each of these three top-cited problems—the high cost of new housing, the need for more moderate income housing, and the inadequacy of the income of low and moderate income families—were given a "serious" classification by a majority of public officials in the central cities, in the communities just outside the central cities, among county officials, and State officials. For none of the other specific housing problems on the list of 10 did a majority of all groups call them "serious."

Four other specific housing problems were singled out as being "serious" by a majority of all local and State officials combined, but there were important differences by where the officials were holding office. The need for more low income housing was believed to be "serious" by 62 percent of all officials, with the proportion rising to 90 percent of State officials and 80 percent of central city officials, compared with only 48 percent of officials in communities surrounding the central cities.

It is worth looking at the perceived need for low income housing in some detail. Those officials who spend more than 10 percent of their time on housing problems tend to see the problem of low income housing as a far more serious problem than those whose total time spent on the problem is 10 percent or less. Public officials in the East, Midwest, and West are far more attuned to the need for low income housing than are those in the South. Interestingly, local legislators and appointive public officials are more concerned with low income housing than are mayors or deputy mayors. In the areas outside the central cities, there is a sharp difference between those officials who serve in communities of 50,000 population and those with less than 10,000 population. Officials from larger communities feel by 67–33 percent that low income housing needs are a serious problem, a view rejected by 73–27 percent in communities with under 10,000 people. Officials in counties where capital expenditures are more than $420 per capita are concerned with low income family housing by 83.17 percent, much higher than most other local officials. By contrast, State officials at all levels are deeply concerned over the need for low income housing. For example, 92 percent of the Governors feel that way, as do 85 percent of the State legislators, 97 percent of State housing experts, and 92 percent of State officials in the South.

Observation: There is an inexorable pattern here which will be repeated throughout this study of the attitudes and assessments of State and local officials: The heart of the low income housing problem obviously is recognized as centering on those populous areas where the poor and the lower income people are concentrated—in the central cities and the more heavily populated and growing urbanized areas. Local officials tend to think primarily in terms of the makeup of their own constituencies. State officials cannot divorce their overall judgments from the knowledge that populous central cities are part of their States and contain within them low income people whose housing problems are believed to be acute.

In fact, for most of the problems, central city officials see the problem as more serious than do other local officials, and the responses of State officials are relatively close to those of the central city officials.

The problems of deteriorating neighborhoods is believed to be "serious" by 59 percent of the government leaders, but rises to a much higher 88 percent in the central cities, 75 percent among State officials, and 61 percent among county officials. But no more than 42 percent of the people vested with public responsibility in the communities outside the central cities feel the same way. A similar pattern exists for concern over substandard housing: Overall, 53 percent of the government officials view it as a "serious" problem, with concern rising to 85 percent among central city officials and State leaders, a lower but still majority 52 percent of county officials, but standing at no more than 36 percent among government leaders in communities outside the central cities.

The pattern on the question of "insufficient availability of financing for housing" is somewhat different. A high 83 percent of central city officials are worried about the financing problem, as are 67 percent of State officials. But no more than 42 percent of county and outlying area government leaders share this concern.

In the remaining three areas of specific housing problems probed by the survey, only minorities of all officials expressed real concern: "the poor quality of new housing construction," thought to be not serious by a 70–26 percent margin; "zoning which excludes lower income families" viewed as "not serious" by 76–21 percent; and "building codes which are too strict," "not serious" by 82–16 percent.

Observation: It is striking that, overall, moderate income housing needs are believed to be slightly more serious a problem than are the

Two or Three Most Serious Problems Facing Local/State Government

	Total Local/ State %	Total Local %	Central Cities %	Outside Central Cities %	Counties %	Total State %
Housing	30	29	45	21	25	33
Financial problems; need more money to operate	22	23	30	21	17	21
Taxes	19	13	15	13	10	32
Environmental control, pollution, population growth	18	14	8	11	31	26
Transportation, mass transit	14	15	14	11	25	14
Planning for zoning, land development	14	13	4	19	12	16
Drainage, sewage	14	19	3	27	21	5
Crime	13	15	32	6	13	8
Unemployment	13	11	24	5	10	15
Education, schools	11	4	9	1	4	26
Highways, road	9	10	3	16	6	6
Develop, finance new housing	9	9	15	8	2	9
Help elderly	9	9	3	11	13	10
Election reform, government restructure	8	4	5	2	8	15
Increased social services	7	7	11	4	8	9
Traffic congestion	6	9	1	18	—	—
Commercial, business redevelopment	6	7	5	11	—	4
Upgrade, maintain present housing	5	6	5	8	2	3
Abandoned, substandard, dilapidated housing	5	6	5	5	8	4
Inflation	5	1	1	1	—	14
Plan for, control rapid growth	5	6	—	8	10	3
More police, firemen	5	6	8	8	—	2
Recreational facilities, parks	5	6	7	8	2	2
Health care	4	2	5	—	4	8
Drug abuse	3	4	9	2	—	2
Racial issues	2	2	7	1	—	1
Youth problem	2	3	—	5	2	—
Welfare	2	2	—	3	2	3
Need statewide building code	1	*	—	1	—	1
Any other problems	14	12	5	15	17	18
No problems	1	1	—	2	2	—

* Less than 0.5 percent.

housing needs of low income families. While State officials see low income housing problems as somewhat more serious, officials in the central cities see the problem of housing for moderate income families and for low income families as equally serious. However, a majority of local officials outside central cities believe that moderate income housing needs are serious, while they do not extend this concern to low income families in the same measure.

This priority ordering of needs by public officials stands in sharp contrast to that among the public in the country. The people themselves expressed more concern for the need to do something about low income housing. Most of the public feel that moderate income families are having their needs met or at least that private building can do the job. But it is likely that public officials tend to think in terms of the more populous communities, especially the bigger cities and their worry is that moderate income people are moving out of the central cities to the surrounding areas, creating housing needs in the suburbs and leaving the central cities populated primarily by low income people, which lowers the tax base of the central cities and in turn makes the problem of financial support for the central cities more acute.

How Serious a Problem is Housing, Compared to Other Problems in City/County/State?

(Base: Housing not volunteered as serious problem)

	Total Local/ State %	Total Local %	Central Cities %	Outside Central Cities %	Counties %	Total State %
Among most serious	19	17	52	10	9	24
Serious, but not among most serious	31	24	24	23	27	47
Not particularly serious	27	28	18	23	50	27
Not serious at all	22	31	6	44	14	—
Not sure	1	—	—	—	—	2

Main Housing Problems in City/County/State

(Volunteered)

	Total Local/ State %	Total Local %	Total State %
Need more housing for low income groups	35	29	35
Need more housing for middle income groups	18	16	22
Need more housing for elderly	17	17	19
Substandard, deteriorated housing	17	21	10
High cost of housing	17	12	27
Need more housing	13	9	22
Lack of funds for housing	12	10	15
Replace, renovate sub-standard housing	11	10	15
High construction cost	7	5	12
Enforcement of zoning codes	6	7	5
Lack of leadership to serve housing needs	5	4	7
High density of housing projects	5	6	2
Need more housing in rural areas	4	1	11
Lack of adequate subsidies, rent	4	4	5
Lack of land to build	4	6	—
High taxes	3	2	4
People lack ability to maintain	3	2	4
High interest rates	2	1	5
Inflation	2	*	4
Poor construction	2	1	4
Need to bring upper, middle class back into cities	2	2	1
High cost of land	2	2	2
People biased against public housing	1	1	2
Lack of information to those eligible	1	1	2
No problems	7	10	1
Any other answers	13	10	19
Not sure	*	—	1

* Less than 0.5 percent.

How Serious a Problem is the High Cost of New Housing in City/County?

	Total Local/ State %	Total Local %	Mayors/ Deputy Mayors %	Other Local Executives %	Local Legislators %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Central Cities %	Outside Central Cities %	Counties %	East %	Midwest %	South %	West %	Total %	Outside Central Cities: Less than 10,000 %	Outside Central Cities: 10,000 to 49,999 %	Outside Central Cities: 50,000 and Over %	Outside Central Cities: Less Than 20% Growth %	Outside Central Cities: 20% or More Growth %	Outside Central Cities: Total %	Counties Direct Per Capita Expenditures: Less Than $420 %	Counties Direct Per Capita Expenditures: More Than $420 %
Very serious	56	51	44	55	53	61	59	48	41	64	67	40	55	62	46	30	57	40	48	32	45	44	35	55	46	67
Somewhat serious	27	28	19	31	32	21	22	34	33	20	25	28	31	20	35	32	26	28	21	33	26	26	31	31	32	29
Not very serious	9	12	21	9	7	5	10	11	16	7	4	19	6	8	12	20	12	19	14	22	19	15	23	6	11	—
Not serious at all	7	9	16	5	7	13	9	6	9	9	4	13	6	9	7	18	5	13	17	13	10	15	11	6	7	4
Not sure	1	*	—	—	1	—	—	1	1	—	—	—	2	1	—	—	—	—	—	—	—	—	—	2	4	—
Serious	83	79	63	86	85	82	81	82	74	84	92	68	86	82	81	62	83	68	69	65	71	70	66	84	78	96
Not serious	16	21	37	14	14	18	19	17	25	16	8	32	12	17	19	38	17	32	31	35	29	30	34	12	18	4
Not sure	1	*	—	—	1	—	—	1	1	—	—	—	2	1	—	—	—	—	—	—	—	—	—	2	4	—

* Less than 0.5%

How Serious a Problem is the Need for More Low Income Housing in City/County?

	Total Local/ State %	Total Local %	Mayors/ Deputy Mayors %	Other Local Executives %	Local Legislators %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Central Cities %	Outside Central Cities %	Counties %	East %	Midwest %	South %	West %	Total %	Outside Central Cities: Less Than 10,000 %	Outside Central Cities: 10,000 to 49,999 %	Outside Central Cities: 50,000 and Over %	Outside Central Cities: Less Than 20% Growth %	Outside Central Cities: 20% or More Growth %	Outside Central Cities: Total %	Counties Direct Per Capita Expenditures: Less Than $420 %	Counties Direct Per Capita Expenditures: More Than $420 %
Very serious	43	33	23	43	31	46	40	31	22	48	61	16	38	34	30	25	43	16	3	15	26	17	15	38	29	50
Somewhat serious	28	29	28	28	30	27	28	35	34	22	19	32	35	34	35	20	21	32	24	30	41	29	35	35	35	33
Not very serious	15	20	20	19	20	11	18	24	22	17	12	23	21	15	15	30	24	23	21	27	19	24	22	21	25	17
Not serious at all	13	18	29	9	19	16	13	10	22	12	7	29	6	16	20	25	12	29	52	28	14	30	28	6	1	—
Not sure	1	*	—	1	—	—	1	—	—	1	1	—	—	1	—	—	—	—	—	—	—	—	—	—	—	—
Serious	71	62	51	71	61	73	68	66	56	70	80	48	73	68	65	45	64	48	27	45	67	46	50	73	64	83
Not serious	28	38	49	28	39	27	31	34	44	29	19	52	27	31	35	55	36	52	73	55	33	54	50	27	36	17
Not sure	1	*	—	1	—	—	1	—	—	1	1	—	—	1	—	—	—	—	—	—	—	—	—	—	—	—

* Less than 0.5 percent.

How Serious a Problem is the High Cost of New Housing in State?

	Total Local/ State %	Total State %	Governors/ Lieutenants/ Assistants %	Other State Executives %	State Legislators %	Total Executives in 15 States only %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Less Than 65% Urban %	65% to 80% Urban %	More Than 80% Urban %	East %	Midwest %	South %	West %
Very serious	56	69	60	80	69	73	66	80	58	67	75	72	63	76	74	74	70	59
Somewhat serious	27	25	32	20	23	27	29	17	33	27	21	22	27	24	26	23	27	22
Not very serious	9	3	8	—	2	—	5	3	7	4	2	6	4	—	—	3	—	11
Not serious at all	7	2	—	—	4	—	—	—	2	1	2	—	4	—	—	—	3	4
Not sure	1	1	—	—	2	—	—	—	—	1	—	—	2	—	—	—	—	4
Serious	83	94	92	100	92	100	95	97	91	94	96	94	90	100	100	97	97	81
Not serious	16	5	8	—	6	—	5	3	9	5	4	6	8	—	—	3	3	15
Not sure	1	1	—	—	2	—	—	—	—	1	—	—	2	—	—	—	—	4

How Serious a Problem is the Presence of Substandard Housing in City/County?

	Total Local/ State %	Total Local %	Mayors/ Deputy Mayors %	Other Local Executives %	Local Legislators %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Central Cities %	Outside Central Cities %	Counties %	East %	Mid-West %	South %	West %	Total %	Outside Central Cities: Less Than 10,000 %	Outside Central Cities: 10,000 to 49,999 %	Outside Central Cities: 50,000 and Over %	Outside Central Cities: Less Than 20% Growth %	Outside Central Cities: 20% or More Growth %	Total %	Counties Direct Per Capita Expenditures: Less Than $420 %	Counties Direct Per Capita Expenditures: More Than $420 %
Very serious	29	25	19	24	31	34	24	25	18	34	52	11	21	29	23	18	26	11	3	8	19	17	5	21	7	38
Somewhat serious	35	28	27	35	22	18	38	30	28	30	33	35	31	25	31	30	29	25	14	23	36	33	17	31	36	25
Not very serious	22	26	23	26	30	34	22	31	29	21	14	30	35	25	27	23	29	30	28	36	24	20	40	35	39	29
Not serious at all	14	21	31	15	17	14	16	14	25	15	1	34	13	21	19	29	16	34	55	33	21	30	38	13	18	8
Not sure	*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Serious	64	53	46	59	53	52	62	55	46	64	85	36	52	54	54	48	55	36	17	31	55	50	22	52	43	63
Not serious	36	47	54	41	47	48	38	45	54	36	15	64	48	46	46	52	45	64	83	69	45	50	78	48	57	37
Not sure	*	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

* Less than 0.5 percent.

How Serious a Problem is the Need for More Moderate Income Housing in State?

	Total Local/ State %	Total State %	Governors/ Lieutenants/ Assistants %	Other State Executives %	State Legislators %	Total Executives in 15 States only %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Less Than 65% Urban %	65% to 80% Urban %	More Than 80% Urban %	East %	Midwest %	South %	West %
Very serious	31	36	29	43	36	32	38	40	19	31	42	33	30	47	61	32	22	30
Somewhat serious	41	48	47	51	47	51	50	53	56	50	46	53	47	47	39	45	54	55
Not very serious	19	14	21	6	15	14	12	7	23	18	10	14	21	3	—	23	24	7
Not serious at all	8	1	3	—	—	3	—	—	2	—	2	—	—	3	—	—	—	4
Not sure	1	1	—	—	2	—	—	—	—	1	—	—	2	—	—	—	—	4
Serious	72	84	76	94	83	83	88	93	75	81	88	86	77	94	100	77	76	85
Not serious	17	15	24	6	15	17	12	7	25	18	12	14	21	6	—	23	24	11
Not sure	1	1	—	—	2	—	—	—	—	1	—	—	2	—	—	—	—	4

How Serious a Problem is the Need for More Moderate Income Housing in City/County?

	Total Local/ State %	Total Local %	Mayors/ Deputy Mayors %	Other Local Executives %	Local Legislators %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Central Cities %	Outside Central Cities %	Counties %	East %	Midwest %	South %	West %	Total %	Outside Central Cities: Less Than 10,000 %	Outside Central Cities: 10,000 to 49,999 %	Outside Central Cities: 50,000 and Over %	Outside Central Cities: Less Than 20% Growth %	Outside Central Cities: 20% or More Growth %	Total %	Counties Direct Per Capita Expenditures: Less Than $420 %	Counties Direct Per Capita Expenditures: More Than $420 %
Very serious	31	29	20	36	28	39	28	33	20	42	37	23	33	39	23	18	31	23	10	27	26	26	20	33	29	38
Somewhat serious	41	37	40	40	33	40	43	35	36	30	45	32	40	31	48	32	36	32	24	28	45	35	30	40	39	41
Not very serious	19	21	21	15	28	16	21	25	29	11	12	26	21	20	15	27	26	26	31	28	19	24	28	21	25	17
Not serious at all	8	12	19	7	11	5	7	6	14	8	5	18	6	9	14	23	5	18	35	15	10	15	20	6	7	4
Not sure	1	1	—	2	—	—	1	1	1	1	1	1	—	1	—	—	2	1	—	2	—	—	2	—	—	—
Serious	72	66	60	76	61	79	71	68	56	80	82	55	73	70	71	50	67	55	34	55	71	61	50	73	68	79
Not serious	27	33	40	22	38	21	28	31	43	9	17	44	27	29	29	50	31	44	66	43	29	39	48	27	32	21
Not sure	1	1	—	2	—	—	1	1	1	1	1	1	—	1	—	—	2	1	—	2	—	—	2	—	—	—

How Serious a Problem is the Need for More Low Income Housing in State?

	Total Local/ State %	Total State %	Governors/ Lieutenants/ Assistants %	Other State Executives %	State Legislators %	Total Executives * in 15 States only %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Less Than 65% Urban %	65% to 80% Urban %	More Than 80% Urban %	East %	Midwest %	South %	West %
Very serious	43	64	60	86	53	70	72	77	49	57	77	47	70	74	75	55	65	62
Somewhat serious	28	26	32	11	32	22	21	20	40	32	17	33	21	26	19	29	27	30
Not very serious	15	7	5	3	11	5	5	3	9	9	4	14	7	—	6	16	3	4
Not serious at all	13	2	3	—	2	3	2	—	2	1	2	6	—	—	—	—	5	—
Not sure	1	1	—	—	2	—	—	—	—	1	—	—	2	—	—	—	—	4
Serious	71	90	92	97	85	92	93	97	89	89	94	80	91	100	94	84	92	92
Not serious	28	9	8	3	13	8	7	3	11	10	6	20	7	—	6	16	8	4
Not sure	1	1	—	—	2	—	—	—	—	1	—	—	2	—	—	—	—	4

How Serious a Problem is Insufficient Availability of Financing for Housing in City/County?

	Total Local/ State %	Total Local %	Mayors/ Deputy Mayors %	Other Local Executives %	Local Legislators %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Central Cities %	Outside Central Cities %	Counties %	East %	Midwest %	South %	West %	Total %	Outside Central Cities: Less Than 10,000 %	Outside Central Cities: 10,000 to 49,999 %	Outside Central Cities: 50,000 and Over %	Cities: Less Than 20% Growth %	Cities: 20% or More Growth %	Total %	Counties: Direct Per Capita Expenditures: Less Than $420 %	Counties: Direct Per Capita Expenditures: More Than $420 %
Very serious	34	34	28	38	32	33	37	33	19	52	64	20	22	41	36	19	27	20	10	24	22	30	11	22	11	34
Somewhat serious	24	20	17	23	20	28	22	22	23	17	19	22	20	18	16	19	30	22	10	17	36	25	19	20	19	21
Not very serious	21	20	23	18	19	24	22	19	22	16	7	23	28	21	18	19	21	23	17	28	20	17	28	28	30	29
Not serious at all	15	20	24	17	21	9	13	21	27	12	6	29	20	12	22	38	18	29	56	26	15	23	34	20	29	8
Not sure	6	6	8	4	8	6	6	5	9	3	4	6	10	8	8	5	4	6	7	5	7	5	8	10	11	8
Serious	58	54	45	61	52	61	59	55	42	69	83	42	42	59	52	38	57	42	20	41	58	55	30	42	30	55
Not serious	36	40	47	35	40	33	35	40	49	28	13	52	48	33	40	57	39	52	73	54	35	40	62	48	59	37
Not sure	6	6	8	4	8	6	6	5	9	3	4	6	10	8	8	5	4	6	7	5	7	5	8	10	11	8

How Serious a Problem is Deteriorating Neighborhoods in State?

	Total Local/ State %	Total State %	Governors/ Lieutenants/ Assistants %	Other State Executives %	State Legislators %	Total Executives in 15 States only %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Less Than 65% Urban %	65% to 80% Urban %	More Than 80% Urban %	East %	Midwest %	South %	West %
Very serious	29	29	24	20	37	30	41	23	21	28	29	11	30	44	46	29	24	15
Somewhat serious	34	46	54	57	32	50	33	50	46	40	56	52	42	44	35	35	59	51
Not very serious	21	20	16	20	23	14	24	27	21	23	15	31	20	9	19	23	11	30
Not serious at all	15	3	3	3	4	3	2	—	7	5	—	6	4	—	—	10	3	—
Not sure	1	2	3	—	4	3	—	—	5	4	—	—	4	3	—	3	3	4
Serious	63	75	78	77	69	80	74	73	67	68	85	63	72	88	81	64	83	66
Not serious	36	23	19	23	27	17	26	27	28	28	15	37	24	9	19	33	14	30
Not sure	1	2	3	—	4	3	—	—	5	4	—	—	4	3	—	3	3	4

How Serious a Problem is Deteriorating Neighborhoods in City//County?

	Total Local/ State %	Total Local %	Mayors/ Deputy Mayors %	Other Local Executives %	Local Legislators %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Central Cities %	Outside Central Cities %	Counties %	East %	Midwest %	South %	West %	Total %	Outside Central Cities: Less Than 10,000 %	Outside Central Cities: 10,000 to 49,999 %	Outside Central Cities: 50,000 and Over %	Cities: Less Than 20% Growth %	Cities: 20% or More Growth %	Total %	Counties Direct Per Capita Expenditures: Less Than $420 %	Counties Direct Per Capita Expenditures: More Than $420 %
Very serious	29	29	16	34	34	37	30	27	19	42	55	15	27	42	25	14	28	15	7	8	29	23	27	27	19	38
Somewhat serious	34	30	31	34	25	27	37	37	31	28	33	27	34	20	33	43	30	27	14	34	27	33	34	34	40	25
Not very serious	21	21	33	14	18	25	21	20	22	21	8	24	31	20	19	16	28	24	11	30	24	15	31	31	26	37
Not serious at all	15	20	20	18	23	11	12	16	28	9	4	34	8	18	23	27	14	34	68	28	20	29	8	8	15	—
Not sure	1	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Serious	63	59	47	68	59	64	67	64	50	70	88	42	61	62	58	57	58	42	21	42	56	56	61	61	59	63
Not serious	36	41	53	32	41	36	33	36	50	30	12	58	39	38	42	43	42	58	79	58	44	44	39	39	41	37
Not sure	1	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

How Serious a Problem is the Presence of Substandard Housing in State?

	Total Local/ State %	Total State %	Governors/ Lieutenants/ Assistants %	Other State Executives %	State Legislators %	Total Executives in 15 States only %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Less Than 65% Urban %	65% to 80% Urban %	More Than 80% Urban %	East %	Mid-west %	South %	West %
Very serious	29	37	39	37	36	38	43	37	26	35	40	42	25	53	55	19	43	30
Somewhat serious	35	48	48	52	47	51	47	50	53	47	52	41	58	38	39	65	49	40
Not very serious	22	13	13	11	13	11	10	13	19	16	8	17	13	9	6	16	8	22
Not serious at all	14	1	—	—	2	—	—	—	2	1	—	—	2	—	—	—	—	4
Not sure	*	1	—	—	2	—	—	—	—	1	—	—	2	—	—	—	—	4
Serious	64	85	87	89	83	89	90	87	79	82	92	83	83	91	94	84	92	70
Not serious	36	14	13	11	15	11	10	13	21	17	8	17	15	9	6	16	8	26
Not sure	*	1	—	—	2	—	—	—	—	1	—	—	2	—	—	—	—	4

* Less than 0.5%

How Serious a Problem is Insufficient Availability of Financing for Housing in State?

	Total Local/ State %	Total State %	Governors/ Lieutenants/ Assistants %	Other State Executives %	State Legislators %	Total Executives in 15 States only %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Less Than 65% Urban %	65% to 80% Urban %	More Than 80% Urban %	East %	Mid-west %	South %	West %
Very serious	34	36	17	52	39	29	39	47	22	26	52	39	35	33	39	31	39	36
Somewhat serious	24	31	36	31	27	30	35	50	22	36	24	29	31	34	39	31	32	20
Not very serious	21	23	36	14	20	29	18	—	44	26	18	20	22	27	13	21	24	36
Not serious at all	15	5	3	3	8	3	5	3	10	5	4	6	6	3	3	14	—	4
Not sure	6	5	8	—	6	9	3	—	2	7	2	6	6	3	6	3	5	4
Serious	58	67	53	83	66	59	74	97	44	62	76	68	66	67	78	62	71	56
Not serious	36	28	39	17	28	32	23	3	54	31	22	26	28	30	16	35	24	40
Not sure	6	5	8	—	6	9	3	—	2	7	2	6	6	3	6	3	5	4

Section III: Where State and Local Officials See the Battle for Housing Shaping Up

Where the Need is Greatest, the Opposition to New Housing Has Been Highest

One striking finding of the survey of the American people was the majority opposition to substantial growth of population in their own neighborhoods and communities. This points to a strong mandate in the country today for the rehabilitation of older housing rather than building new housing.

Overall, 52 percent of public officials reported that "there has been organized opposition to construction of new housing" in the constituency they represent. Local officials in the largest metropolitan areas, however, differ sharply in their experience by where they happen to be. For example, government leaders in central cities reported opposition to new housing by a substantial 69–31 percent, as did local officials in the West (66–34 percent), in the East (56–43 percent), and in counties (49–43 percent). But government officials in the communities outside the central cities reported by 55–44 percent that there had not been organized opposition to new housing, as did those in the South (62–36 percent, no opposition), and those State officials whose constituencies are less than 65 percent urban (no opposition by 61–36 percent).

Observation: There is an obvious and inexorable rule which emerges from these results. Where the country is relatively less populated, new housing apparently finds less opposition. But in the crowded, populous areas, where much of the land is already being utilized by housing, there is much resistance to new housing construction.

Yet, as was seen in Section I of this report, the problems of substandard housing, deteriorating neighborhoods, slum conditions, and poor housing are not believed to be concentrated in the outlying, less populated areas. Rather, they are centered in the more populous central cities, and larger communities.

Thus, the American dilemma in housing in the 1970's: It is in precisely those places where the felt need for better housing is most acute that resistance to new construction is highest.

When asked the kind of opposition they have run into on new housing construction, the answers of the public officials broke down into two different categories: One dealing with the identity of the opposition, the other with the substance of the objections that were raised. The chief opposition groups shape up as "citizens, local groups," mentioned by 26 percent; "ecological or environmental groups," cited by 20 percent homeowner groups, singled out by 13 percent; taxpayer groups (particularly objecting to changes in the tax base due to housing developments); groups which have circulated petitions and caused referenda to be held; opposition from government officials and legislators; law suits and litigation; enactment of local ordinances; opposition from local builders; and from people who "resist change."

The substantive opposition broke down into these types: Opposition to multiple dwellings and high rises, mentioned by 29 percent, the largest single source of opposition; opposition to subsidized, low income development, cited by 23 percent; opposition to increases in population, growth of the community, 16 percent; opposition to rezoning, singled out by 11 percent; complaints that the new housing would bring down neighborhood and property values, 10 percent; racial fear of minorities coming into the neighborhood, mentioned by 7 percent; complaints over crowded schools; complaints of increasing already overburdened sewage problems; and specific opposition to the Section 236 program.

Observation: The springing up of ad hoc citizen groups, particularly drawn from taxpayers and homeowners whose focus of concern appears to have been high rise projects designed for the lower income groups, seems to be the heart of the problem, according to the local and State officials. There are, of course, implicit in these objections the larger issues of mixing less well educated with better educated people, of mixing lower income with moderate income people, of mixing people from ethnic minorities with white majorities.

But there are also two other strains worth noting. First, the fact that 20 percent of the public officials reported ecological groups in opposition to building new housing indicates that the issue of purportedly despoiling the land has become an important housing consideration in the 1970's. Ironically, most environmental groups hold a rather enlightened view about racial and other minorities. Second, the resistance to growth and increasing population in the community, cited earlier, is indeed a serious problem. There is a rather ingrained tendency, once having discovered and lived in a satisfactory community, not

to want that community altered radically either in the makeup of its citizens or in its size.

The roots and causes of this opposition are both serious and real. They mark the environment in which the Federal Government must operate in determining the housing needs of the country and how they must be met.

The Extent to Which Opposition is Centered on Subsidized Housing

Each public official in the survey was asked a series of questions dealing with observed opposition to different types of housing (subsidized low income housing, subsidized moderate income housing, and unsubsidized housing) in central cities, suburban areas, and rural areas. The results are clear: At all levels of government, the most opposition has arisen to subsidized low income housing, followed by subsidized moderate income housing, while a substantial 69 percent of local officials and 68 percent of State officials reported that there was "almost no opposition" to unsubsidized housing in central cities, and another 12 percent (19 percent State officials) said there was "only a little". Thus, by 81–12 percent among local officials and 87–9 percent among State officials, unsubsidized housing is believed not to stir up much opposition in central cities. This pattern was repeated for suburban areas and rural areas.

But subsidized moderate income housing is quite another story. By 54–37 percent in central cities and by 47–27 percent in rural areas, such housing is reported to have met with opposition in the experience of local officials. Among State officials reporting on the central city opposition they have run into, there is rather more even division: By 49–48 percent, they say they have seen relatively little opposition in central cities to moderate income subsidized housing.

In suburban areas, moderate income subsidized housing emerged as running into deep trouble, with an 81–16 percent majority of local officials and a 69–28 percent majority of State officials reporting opposition.

Observation: Most significant, of course, is the reported opposition of suburban residents to subsidized moderate income housing. Clearly, in these cases it is not so much the influx of low income or racial minorities into the neighborhood, but rather a question of anyone new moving into the community in government sponsored housing. The suburbs, according to local and State officials, are firmly wedded to the notion that they should be developed by private builders operating without governmental subsidies.

In the case of subsidized low income housing, resistance was reported to have been met at nearly all levels. In the key central cities, by 74–19 percent, local officials said they had found resistance, and this was confirmed by State officials who said (67–29 percent) resistance existed in central cities to such low income, government-supported housing. In the suburbs, as might be expected, subsidized low income housing met with opposition in the experience of 91 percent of local officials and 85 percent of State officials. In rural areas, local officials reported having met resistance to low income housing backed by the government by 57–16 percent. However, by only a narrow 46–45 percent did State officials say there was resistance to government-subsidized, low income housing in rural areas.

Observation: That rural residents are felt to show the least resistance to low income government-subsidized developments is significant. It suggests that State officials themselves would find it easier to support Federal housing plans for low income families in rural areas.

When asked about the next few years, public officials divide 51–49 percent over the likelihood that opposition to new housing will continue. Most certain that there will be opposition in the future are officials in the central cities, county officials, State legislators, and those State executives whose States are more than 80 percent urban. State officials in the South expect more opposition, although local Southern officials are just as convinced the opposition will not materialize. Opposition is seen as being least likely by officials in the communities outside central cities and in the East, by mayors, and by State officials in the Midwest.

When the past experience and the future expectations of the public officials are combined, the results are the following:

Past and Future Experience on Encountering Resistance to New Housing

	Total Officials %	Local %	State %
Has been opposition in the past and likely to be in the next few years	39	39	39

(Continued on p. 1344.)

(Continued from p. 1343.)

Has been no opposition in the past but likely to be in the next few years	12	12	13
Has been opposition in the past but not likely to be in the next few years	13	14	12
Has been no opposition in the past and not likely to be in the next few years	36	35	36

Basically, the pattern is the same at different levels of State and local government. A hard core of 39 percent feel that the opposition that has been encountered will continue into the near-term future. A similar hard core of 36 percent feel there has been no real opposition nor is there likely to be in the immediate future. But 12 percent feel that where there was little opposition, such resistance is now likely to manifest itself, although a countervailing 13 percent believe that just the opposite is happening: Where there was opposition, it will disappear.

Observation: Fundamentally, the pattern that dominates the thinking of local and State officials is that the status quo ante that has existed in the recent past is likely to prevail in the near-term future. In rough terms, approximately three-fourths of all officials expect the future situation to resemble the past.

When asked what type of opposition they expected in the future, the environmentalists lead the list, followed by local civic groups, taxpayer and homeowner groups, those who will circulate petitions and referenda demands, with other types of opposition trailing off. In terms of substance, opposition to low income, subsidized housing leads the way, closely followed by opposition to high-rise buildings. Substantive opposition is also expected to continue or emerge to the threat of lowered property values, to rezoning, to raising taxes, to overcrowding schools, and to bringing racial minorities into the community.

Observation: Local and State officials expect to be caught in a three-way crossfire: From environmentalists who want to preserve the land; from taxpayer and citizen groups who are worried about rezoning, higher taxes, and overcrowding problems resulting from new housing; and finally, from citizens generally who are frightened by concentrated high rise structures which may bring in large numbers of low income minorities to inundate their neighborhoods.

Whether There Has Been Organized Opposition to Construction of New Housing in This Community/State

	Has been organized opposition %	No organized opposition %	Not sure %
Total Local/State	52	46	2
Total Local	52	46	2
Mayors/Deputy Mayors	49	51	—
Other Local Executives	57	41	2
Local Legislators	48	48	4
Housing Experience			
Government	51	43	6
Housing Experts	51	46	3
Private Professionals	55	44	1
Time Spent on Housing			
10% or Less	46	53	1
More Than 10%	59	38	3
Central Cities	69	31	—
Outside Central Cities	44	55	1
Counties	49	43	8
East	56	43	1
Midwest	45	51	4
South	36	62	2
West	66	34	—
Total Outside Central Cities	44	55	1
Less than 10,000	24	76	—
10,000–49,999	43	55	2
50,000 and over	57	43	—
Less than 20% growth	45	55	—
20% or more growth	42	56	2
Total Counties	49	43	8
Direct per capita expenditures			
Less than $420	39	57	4
More than $420	61	26	13
Total State	50	47	3
Governors/Lieutenants/ Assistants	47	50	3
Other State Executives	43	54	3
State Legislators	56	40	4
Total Executives in 15 States Only	46	54	—
Housing Experience			
Government	48	52	—
Housing Experts	50	47	3
Private Professionals	40	55	5
Time Spent on Housing			
10% or Less	46	51	3
More than 10%	56	40	4
Less than 65% Urban	36	61	3
65% to 80% Urban	43	53	4
More than 80% Urban	76	21	3
East	74	23	3
Midwest	42	58	—
South	38	57	5
West	48	48	4

Kinds of Opposition There Have Been

(Base: "Has been organized opposition to construction of new housing")

	Total Local/State %	Total Local %	Central Cities %	Outside Central Cities %	Counties %	Total State %
Opposition to multiple dwellings, high rises	29	37	33	54	8	11
By civic, citizens, local groups	26	29	37	23	28	19
Opposition to subsidized, low income developments	23	19	27	14	16	30
By environmental groups, ecologists	20	18	12	14	36	24
Opposition to increase in population, growth of community	16	17	16	21	8	16
By homeowners	13	17	22	11	20	5
By taxpayer groups; opposition to resulting higher taxes	11	11	12	11	12	10
Opposition to re-zoning	11	11	8	11	16	11
By circulation of petitions, referendums	11	13	16	9	16	8
Complaints that it would bring down the neighborhood, property values	10	8	8	9	8	13
By government, legislators, officials	7	8	10	5	12	5
Racial opposition, fear of minorities	7	6	10	2	8	8
Law suits, litigation	6	7	12	—	12	5
Complaints of overcrowded schools	6	6	10	5	—	3
By legislation, enactment of ordinances	4	3	—	4	8	6
Complaints of increasing sewage problems	4	4	—	5	8	5
Opposition from private builders	2	1	—	—	2	5
Strong opposition; people becoming upset	2	2	2	2	4	2
Opposition to 236 program	1	—	—	—	—	2
By people who resist change	1	1	—	2	—	—
Any other answer	9	10	14	5	12	6
Don't know	1	—	—	—	—	1

Felt Resistance to Housing Construction in Different Areas of the State

	Resistance in Central Cities		Resistance in Suburban Areas		Resistance in Rural Areas	
	Total Local %	Total State %	Total Local %	Total State %	Total Local %	Total State %
Construction of Subsidized Low Income Housing						
A great deal of resistance	32	18	71	63	33	19
Some, but not a great deal	42	49	20	22	24	27
Only a little	10	19	4	6	8	19
Almost none at all	9	10	3	6	8	26
Not sure	7	4	2	3	27	9
Construction of Subsidized Moderate Income Housing						
A great deal of resistance	16	10	37	32	21	9
Some, but not a great deal	38	39	44	37	25	26
Only a little	19	29	9	18	13	19
Almost none at all	18	19	7	10	14	39
Not sure	9	3	3	3	27	7
Construction of Unsubsidized Housing						
A great deal of resistance	4	2	6	3	7	2
Some, but not a great deal	8	7	16	16	10	9
Only a little	12	19	15	14	10	10
Almost none at all	69	68	59	61	50	72
Not sure	7	4	4	6	23	7

Likelihood of Organized Opposition to New Housing Construction in City/County/State in Next Few Years

	Very Likely %	Somewhat Likely %	Only Slightly Likely %	Not Likely At All %	Not Sure %
Total Local/State	27	23	20	28	2
Total Local	28	22	20	27	3
Mayors, deputy mayors	29	17	15	38	1
Other local executives	25	30	24	18	3
Local legislators	30	17	19	30	4
Housing Experience					
Government	31	18	22	25	4
Housing experts	24	25	24	26	1
Private professionals	27	27	18	25	3
Time Spent on Housing					
10% or less	30	21	19	27	3
More than 10%	25	24	21	28	2
Central cities	29	29	25	16	1
Outside central cities	26	17	18	36	3
Counties	33	27	15	21	4
East	28	16	23	31	2
Midwest	23	30	19	25	3
South	25	14	16	40	5
West	36	28	17	17	2
Total	26	17	18	36	3
Less than 10,000	21	10	17	49	3
10,00–49,999	28	18	20	31	3
50,000 and over	26	19	17	36	2
Less than 20% growth	21	20	21	36	2
20% or more growth	31	14	15	35	5
Total	33	27	15	21	4
Direct Per Capita Expenditures					
Less than $420	25	25	18	28	4
More than $420	41	29	13	13	4
Total State	26	26	21	25	2
Governors, lieutenants, assistants	21	24	29	26	—
Other state executives	18	26	18	38	—
State legislators	34	26	17	19	4
Total executives in 15 states only	24	14	27	35	—
Housing Experience					
Government	21	37	21	21	—
Housing experts	20	27	17	36	—
Private professionals	23	21	26	30	—
Time Spent on Housing					
10% or less	29	26	16	26	3
More than 10%	20	25	27	28	—
Less than 65% Urban	26	23	17	34	—
65% to 80% Urban	16	29	23	30	2
More than 80% Urban	40	24	21	12	3
East	29	29	16	23	3
Midwest	26	13	29	32	—
South	25	31	14	30	—
West	22	29	26	19	4

Profile of Past and Future Organized Opposition to Housing Construction

	Has Been Opposition In the Past and Likely to Be In the Next Few Years %	Has Been No Opposition In the Past But Likely to Be In the Next Few Years %	Has Been Opposition In the Past But Not Likely to Be In the Next Few Years %	Has Been No Opposition In the Past and Not Likely to Be In the Next Few Years %
Total Local/State	39	12	13	36
Total Local	39	12	14	35
Central cities	48	11	21	20
Outside central cities	30	13	13	44
Counties	51	11	2	36
East	38	8	18	36
Midwest	38	16	10	36
South	31	10	7	52
West	50	16	16	18
Total Outside Central Cities	30	13	13	44
Less than 10,000	11	21	11	57
10,000-49,999	32	16	12	40
50,000 and over	41	5	17	37
Less than 20% growth	28	14	17	41
20% or more growth	33	13	10	44
Total State	39	13	12	36
Less than 65% Urban	29	18	6	47
65% to 80% Urban	35	11	9	45
More than 80% Urban	56	9	22	13
East	52	7	24	17
Midwest	29	10	13	48
South	35	21	3	41
West	42	12	8	38

Kind of Opposition Expected

(Base: "Very likely" or "somewhat likely" to be organized opposition to new housing construction in the next few years)

	Opposition Expected		Opposition In the Past	
	Total Local/State %	Total Local %	Total State %	Total Local/State %
By environmental groups, ecologists	24	22	30	20
Opposition to subsidized, low-income housing	24	23	28	23
Opposition to increase in population, growth of community	22	24	19	16
By civic, citizens, local groups	21	22	20	26
Opposition to multiple dwellings, high rises	21	27	11	29
Complaints that it would bring down the neighborhood, property values	11	9	16	10
Opposition to rezoning	9	5	16	11
By taxpayer groups; opposition to resulting higher taxes	8	9	8	11
By homeowners	7	7	6	13
By circulation of petitions, referendums	6	8	2	11
Strong opposition; people becoming upset	6	7	2	2
Complaints of overcrowded schools	5	5	6	6
By government, legislators, officials	4	5	3	7
By people who resist change	4	4	3	1
Racial opposition; fear of minorities	4	4	3	7
Law suits, litigation	4	5	2	6
By legislation, enactment of ordinances	3	2	5	4
Complaints of increasing sewage problems	3	3	2	4
Opposition from private builders	3	2	5	2
Opposition to 236 program	1	1	—	1
Any other answer	9	10	8	9
Don't know	1	1	—	1

Section IV: Public Officials Assess Specific Federal Housing Programs and the Directions They Would Like To See Housing Assistance Move In

Priority Groups for Government Assistance in Housing

Public officials were asked to which groups (from a list of 7) Federal, State and local housing programs should be directed.

The elderly are prime targets for Federal, State and local housing assistance, according to sizable majorities of the public officials. A substantial 70 percent of State officials feel that Federal housing programs should be targeted to elderly citizens' needs, with 65 percent of local officials agreeing with them.

Just about as many officials—75 percent among State officials and 60 percent among local officeholders—also believe that low income working families should be the beneficiaries of Federal housing programs. In addition, 65 percent of State officials and 52 percent of local government leaders share the same priority for their State and local housing programs, respectively.

However, in the case of welfare families, who could be defined as low income nonworking families, no more than 48 percent of State officials and 33 percent of their local government counterparts believe a bullseye target of Federal housing programs should be directed to that group. Similarly, only 38 percent of State officials see welfare families as a high priority housing group for their own State programs, and an even lower 21 percent of local officials feel that local housing programs should be targeted on this group.

Asked about housing programs for moderate income families, State officials led the way, with 45 percent who believed both Federal and their own State housing programs should be geared to their needs. Roughly one in three local officials felt the same about Federal and their own local housing programs.

Local officials see the housing needs of the physically handicapped as a higher priority for Federal programs (41 percent) than for their own local programs (16 percent). No more than one-third of State officials gave a top target priority to the handicapped for Federal housing programs and no more than one-fourth for their own State programs. Racial and ethnic minorities received backing as special targets for housing programs from no more than one in five public officials at the Federal, State, or local housing program levels. Veterans' housing needs were recognized by even fewer: 18 percent at the Federal level, 10 percent at the State level, and a low 4 percent locally.

However, all of the foregoing results must be beefed up by one key additional result: 22 percent of the officials said that all of the groups asked about should be targeted for Federal housing programs. When this 22 percent is added to the support for welfare families, moderate income families, and the physically handicapped, total support rises to 60 percent among State and local officials who believe each of these groups should be the target of Federal housing programs. Again adding the 22 percent, a total of 42 percent see ethnic and racial minorities as logical beneficiaries of Federal housing, and 40 percent put veterans housing in this category.

In the case of State housing priorities, 14 percent of State officials felt that all of the groups should be targets of their housing programs, raising welfare families to 52 percent, moderate income families to 59 percent, the physically handicapped to 38 percent, ethnic and racial minorities to 30 percent, and veterans to 24 percent who should receive State housing assistance.

Only 7 percent gave an across-the-board endorsement to all the groups for local housing programs.

When these additions are made, the priorities for Federal, State, and local housing help look like the table on page 1349.

As the above table indicates, it is State and local officials who see a wide variety of shared government responsibility in the housing field. They tend to feel that housing for the elderly should be shared by Federal, State, and local housing authorities. They feel the same way about low income working family housing. However, in the case of welfare families—those with low incomes who are not working—the responsibility is seen as a shared obligation between the Federal and State governments, with local government opting out of this difficult area. Much the same pattern prevails for moderate income families, where help in housing is viewed more as a national and State responsibility than as a local responsibility.

Housing assistance for the physically handicapped is seen primarily as a Federal obligation, not a State or local function. In no case did a majority of any group of officials see housing di-

Groups to Which Federal, State, and Local Housing Programs Should Be Targeted

	Federal Housing Programs			State Housing Programs	Local Housing Programs
	Total Local/ State %	Total Local %	Total State %	Total State %	Total Local %
The elderly	89	89	87	78	66
Low income working families	87	84	92	79	59
Welfare families	60	57	65	52	28
Moderate income families	60	59	62	59	37
The physically handicapped	60	65	51	38	23
Ethnic and racial minorities	42	44	38	30	20
Veterans	40	42	34	24	11

rected at ethnic and racial minorities as a Federal, State, or local area of obligation, although over 40 percent of State and local government leaders do see a Federal responsibility here. Put another way, if housing help is to be given to ethnic and racial minorities, then these public officials see it coming from the Federal level rather than State or local level. At even a lower level of support from these officials, the same pattern prevails for veterans.

Observation: These public officials clearly believe that there should be rather heavy Federal involvement in satisfying the housing needs of a number of key groups in the population: The elderly; low income working families; welfare families; moderate income families; and the physically handicapped. And if there are to be housing programs directed at ethnic and racial minority groups and veterans, then the Federal Government rather than State or local governments is viewed as bearing the main responsibility.

These results are significant indeed. For they say clearly that State and local officials are looking to the Federal Government for major funding of housing needs in the public area. It is almost as though they are saying, "If in doubt about whose responsibility it is, then place it on the Federal Government in the housing field".

It is also significant that there is rather substantial support for moderate income housing. Although in terms of intensity, moderate income family needs are not given the priority of low income working families, nonetheless a clear majority of public officials feels that moderate income family housing is within the province of Federal and State assistance. On this point, public officials are at odds with the prevailing feelings of the American people themselves.

When asked to choose the one group that should have the highest priority as a target of Federal, State, and local housing programs, 49 percent of local officials singled out low income working families as the top priority for Federal housing programs, a view shared by 58 percent of State officials.[8] State officials also gave highest priority to low income working families for State housing programs (cited by 55 percent). Local officials, however, gave the elderly top billing for their local housing programs (43 percent), with low income working families in second place (30 percent).

Public Officials Assess HUD-Sponsored Housing Programs

A major purpose of this survey was to find out in detail what local and State officials think of the 235 homeownership assistance program, the low rent public housing, the 236 rental assistance, and sections 312 and 115 loans and grants for rehabilitation programs.

Section 235 Homeownership Assistance Program: Under this program, periodic payments are authorized to low income mortgage holders to reduce the interest they have to pay on house mortgages. The homeowner must pay at least 20 percent of his income in mortgage payments. A total of 34 percent of local officials and a higher 44 percent of State officials reported being "very familiar" with the 235 program. However, an additional 34 percent of local officials and 37 percent of State officials said they were "somewhat familiar" with 235, making an aggregate 68 percent of local and 81 percent of State officials who might be considered as reasonably familiar with the 235 program. As

[8] Even though the question asked for the one highest priority, there was a reluctance on the part of some officials to single out a particular group. In the case of Federal programs, 21 percent said all should be the target, while for State programs the proportion is 13 percent and for local programs 7 percent. In this analysis, these percentages are added to the percentages for specific programs.

might be expected, those most familiar with the 235 program at the local level were those whose prior experience had been directly in housing (84 percent familiar), those who spend more than 10 percent of their time in government on housing (84 percent), and officials in central cities (90 percent). At the State level, the pattern of familiarity parallels that at the local level, except that a higher 81 percent overall are familiar with 235.

The degree of penetration of the 235 program varies considerably by type of local government constituency represented. For example, in the central cities, 82 percent of public officials reported that section 235 programs are operative, compared with only 63 percent in the counties, and a much lower 41 percent in the communities outside the central cities.[9] The sharpest contrast can be viewed in the communities outside the central cities, where 235 is reported to exist by 57 percent of those areas with 50,000 or over population, but in no more than 7 percent of the less-than-10,000 population communities. In counties with more than $420 per capita expenditures, 71 percent said they were involved with 235 assistance, compared with a lower 56 percent of the counties where per capita spending is less than $420.

When asked for the most serious problems encountered in the 235 program, local officials singled out eight principal troubles: "People don't maintain their homes properly" (25 percent), "poor quality housing and construction" (18 percent), "controls and enforcement of standards are not strict enough" (16 percent), "ineligible people receive aid, with inadequate enforcement of income requirements" (15 percent), "too much redtape and delay" (11 percent), "lack of funds for the program" (9 percent), "low income housing should be dispersed or it becomes a ghetto" (8 percent), and "resistance to low income housing mixed with higher income housing deteriorates the neighborhoods" (7 percent). State officials had similar complaints, but with a different order of priority: "Controls and enforcement of standards not strict enough" (19 percent), "too much redtape and delay" (17 percent), "people don't maintain their homes properly" (14 percent), "building costs and size restrictions are unrealistic, and land and materials are too expensive" (11 percent), "poor quality of housing and construction" (11 percent), "not enough units to meet the needs of people" (10 percent), "lack of funds for the program" (10 percent), "unfair and unrealistic income requirements" (9 percent), and "not enough publicity or public awareness of the program" (9 percent).

Finally, those who had 235 programs in their community or State were asked to rate the program. Among State officials, the section 235 program received a 45–42 percent negative assessment, while among local officials it did even worse, with a 65–26 percent negative evaluation.

Those who do not have 235 programs were asked if they wanted to see it used in their communities. Among central city officials, by 46–27 percent, they would like to see 235 set up. Among county officials, the introduction of 235 was approved by 35–12 percent, but a whopping 53 percent simply could not make a determination, indicating a rather low level of information and interest. Among officials in communities outside the central cities, by 38–34 percent, they said they did not want to have 235 in their communities.

Observation: It is perfectly apparent that section 235 homeownership assistance programs receive at best a mixed reception from local and State officials. The program has penetrated central cities more than others. Yet these same officials also made up the bulk of the 65–26 percent negative assessment of the 235 program. The sum and substance of their problems is the lack of cooperation of people in maintaining their homes once they have received mortgage assistance; the poor quality of the construction in the first place, which makes it more difficult to keep them up; the lack of an enforcement system on maintenance; and the fact that people over the income limit get into the 235 program.

Certainly, as reflected in this playback, the 235 program leaves much to be desired in terms of being an effective program to help low income people own their own homes.

The Low Rent Public Housing Program: This program provides Federal financial and technical assistance to local housing authorities to plan, build, acquire, lease, run, and operate low rent public housing projects. The sums are to be repaid, mainly by local authorities, from the sale of local bonds. Tenants are required to pay not more than 25 percent of their income for this housing. In recent years, since 1970, the Federal Government has become deeply involved in payment of both construction and operating costs, particularly as more welfare families have occupied low rent public housing projects.

[9] It must be remembered that the sample was drawn in the 25 largest metropolitan areas of the country, and all data apply only to those areas.

A substantial 68 percent of all public officials surveyed said they were reasonably familiar with the low rent housing program, with a higher 81 percent of State officials reporting familiarity, compared with a lower 62 percent of local officials.

In terms of penetration, the low rent housing program is reported to exist in a high 82 percent of the central cities, 59 percent of counties, but only 29 percent of communities outside the central cities.

Local authorities complain that their biggest problems with the low rent public housing program are that: "The program is underfunded and the subsidies too low" (32 percent); "the projects are of poor quality and design and are rundown" (25 percent); "there is poor management and administration, and too much redtape" (18 percent); "there are not enough units and too much waiting on lists" (14 percent); "tenants are destructive and don't take care of the buildings" (11 percent); "the high-rise and huge projects create problems" (11 percent); "the housing doesn't improve the environment and keeps people concentrated in ghettos" (9 percent). State officials tend to parallel the views of local authorities, except that they complain less about the rundown state of the projects, the claim that tenants are destructive, and that high-rises create problems.

When asked to rate the low rent public housing assisted by the Federal Government, local officials rate the program 52–42 percent positive, while State officials give the program a lower 44–40 percent positive rating. Yet when those who do not now have low rent public housing in their community were asked if they wanted it, opposition in the central cities was registered by 62–15 percent and, in the communities outside the central cities, by 64–17 percent. County officials, however, are more divided, with 28 percent for having them and 28 percent against (the plurality of 44 percent are simply not sure).

Observation: Taken as a whole, the federally backed low rent public housing programs are not badly received where they now exist. The thrust of the complaints is far less that the projects are badly administered or allowed to run down by the tenants, but rather that they are not supported properly by the Federal Government.

Their general reputation, however, is sufficiently negative that where they do not exist they are not wanted.

Section 236 Rental Assistance Program: The purpose of this program is to increase the volume of modern, decent housing available to lower income families by authorizing interest reduction payments by the Federal Government which in effect reduce the rental charge to the tenant. These periodic payments, made to the mortgagee on behalf of the tenant, reduce interest costs on a HUD-insured project to 1 percent, thereby reducing the amount of rent it is necessary to charge the tenant to cover the monthly cost of the project. (In no case can this be more than 25 percent of a tenant's income.) These payments consider the mortgage principal, interest, and mortgage insurance premium fees. Only new or substantially rehabilitated structures are eligible under this program. The project owner of a section 236 project must be a nonprofit or limited dividend organization or a cooperative association.

In terms of familiarity, the 236 rental assistance program is known to a substantial 72 percent of the public officials surveyed, with 69 percent of all local officials aware of it and a higher 77 percent of State officials who feel reasonably familiar with 236.

The major reported problems with the 236 program are "insufficient and inadequate funding" (20 percent at both the local and State levels); "redtape, bureaucracy, and slowness of HUD in processing applications" (16 percent locally and 18 percent in the States); "income limitations too inflexible and too low" (15 percent locally and 7 percent statewide); "administration and management problems" (14 percent locally and 20 percent State); "not enough, we need more" (8 percent locally and 19 percent State); "maintenance and FHA standards not adhered to" (8 percent in both local and State); "not well-publicized, so people who need it don't know about it" (4 percent local and 11 percent State); "people who don't qualify take advantage of it, so it helps the wrong people" (4 percent local and 9 percent State).

When asked to rate the effectiveness of the 236 rental assistance program, local officials gave it a 46–38 percent favorable rating where it exists, although State officials gave it a negative 46–39 percent assessment. Among central city officials who do not have the 236 program, a 57–29 percent majority said they would like to have it. Among county officials, by 31–23 percent, a plurality want it, but it is rejected by 44–24 percent among officials in communities outside the central cities.

Observation: In general, this program is viewed as promising if HUD federally would clean up the way it has been administered,

speed up response to applications, increase funding, and raise the income limits above present levels.

Section 312 and 115 Loans and Grants for Rehabilitation: This program, which is being phased out, consists of 3 percent, 20-year loans and grants to individual owners and tenants for the rehabilitation of property located in urban renewal projects.

The 312 and 115 loans and grants for rehabilitation programs is familiar to 46 percent of all officials surveyed (44 percent of local officials and 51 percent of State officials).

The 312 and 115 program has made the least penetration of the four HUD housing programs asked about, with only 38 percent of all local officials saying it exists in their constituency. However, a higher 76 percent of central city officials reported using it, compared with no more than 33 percent in the counties and 19 percent in communities outside central cities. With 54 percent of local officials in the East reporting 312 and 115 in existence in their communities, that region leads the rest of the country in experience with it by a wide margin.[10]

When asked to rate this program, local officials by 45–40 percent in communities where it is used give the program a positive rating, although State officials are negative by 31–21 percent, with a high 48 percent unable to pass judgment. When the majority with no experience with 312 and 115 loans and grants for rehabilitation were asked if they would like to see the program set up in their own communities, central city officials said they would welcome it by 44–31 percent, communities outside the cities would like it by 35–30 percent, and county officials would like it by 38–7 percent, although 55 percent of the latter simply do not know.

When asked why they would like to see this program in their communities, respondents said that the biggest appeals of the rehabilitation assistance program are that it will "help people fix up and maintain their homes," "it will preserve existing housing and prevent deterioration and abandonment of housing," and "we have a lot of elderly and low income people who need it." Opposition centers around the simple statement, "We just don't have a need for it."

Observation: The 312 and 115 loans and grants for rehabilitation of houses have not been as widely used or experienced as other HUD programs. But where it has been used the experience has not been so negative that it ought to be abandoned. In fact, there is much evidence of a real appetite for this program or one like it. This is the only program which met with a desire on the part of officials outside the central cities to have it.

Opposition to Scatter-Site Housing and Relocation of Families When Planning Public Housing

Local officials are convinced, by 58–32 percent, that the general public in their area would oppose a program of scatter-site public housing. But State officials believe, by 46–42 percent, that the public would not oppose such housing activity. Most-convinced that opposition would exist are public officials in communities outside the central cities, especially those in the South and in those counties where per capita expenditures are less than $420 per year.

When asked where various groups would line up on scatter-site housing proposals, State officials estimated that the low income families eligible for such public housing would be in favor of it by 84–6 percent, mayors of the large cities in their States 68–19 percent, State legislatures by 51–35 percent, and the general public, as reported above, by 46–42 percent. However, State officials confirm the judgment of officials outside the central cities by stating, by 73–17 percent, that residents of suburban communities would oppose such scatter-site public housing.

Observation: One of the purported advantages of the scatter-site principle is that it is a way to allow low income groups to move into neighborhoods, such as the suburbs, from which they have been largely excluded in the past.

When asked how serious a problem has been the relocation of residents of areas selected as sites for public housing in the central cities, by 48–24 percent public officials said this has been a serious problem. Central city officials feel this way most of all, by a margin of 67–13 percent, a view closely matched by State officials at 66–21 percent. The more urban the State, the more strongly the officials feel this problem of relocation is serious.

However, despite feeling it is a serious problem, by 73–20 percent local officials report that the difficulties of relocation have not prevented public housing from being constructed.

Observation: Although troublesome, the relocation problem is not viewed as being either

[10] It must be remembered that the sample was drawn in the 25 largest metropolitan areas of the country and all data apply only to those areas.

insurmountable or a major impediment to development of public housing.

State and Local Officials React to Changes in Federal Housing Policy

A series of seven proposals for modifying or changing existing Federal housing policy were put to the cross-section of public officials at all levels. The results are highly significant and point to new directions.

- By 74–13 percent, all the officials agreed that there should be a "change in the 'mix' of HUD's housing programs—that is, spend more on some programs and less on others." Such a change is favored by local officials in central cities by 87–8 percent, by those in communities outside the central cities by 70–16 percent, by county officials by 73–8 percent, and by State officials by a margin of 73–17 percent.
- By 74–25 percent, a sizable majority of State and local officials favor "housing allowances for low income families. By housing allowances, we mean a direct payment to low income families which could be used for any housing of their choice as long as it met minimum standards". This proposal was favored by central city officials by 82–17 percent, by officials in communities outside the central cities by 68–32 percent, by county officials by 64–33 percent, and by State officials by 80–19 percent.

Observation: When the American people were asked about such an allowance plan, they also favored it, but by a lesser 50–35 percent margin.

- By 67–31 percent, a majority of State and local officials favored "having the Federal Government provide a pool of mortgage funds which would be administered by the State". This proposal met with 61–36 percent support in the central cities, 58–41 percent backing in the communities outside the central cities, 71–27 percent favor in counties, and 76–21 percent backing among State officials.

Observation: The idea of decentralization in the administration of mortgage pools is a popular one.

- By 66–32 percent, better than 2 to 1, public officials at the local and State level would favor "special revenue sharing for housing as a replacement for current Federal housing subsidy programs. States would assume greater responsibility for housing." This revenue sharing and decentralization approach would be favored by central city officials by 61–39 percent, those in communities outside the central cities by 66–34

Support for Possible Changes in Federal Housing Policy

(Positive includes "in favor" and "might be good"; negative includes "might be bad" and "am opposed.")

	Total Local/ State %	Total Local %	Total State %
Housing allowances for low income families. By housing allowance we mean direct payment to low income families which could be used for any housing of their choice as long as it met minimum standards.			
Positive	74	71	80
Negative	25	28	19
Special revenue sharing for housing as a replacement for current Federal housing subsidy programs. States would assume greater responsibility for housing.			
Positive	66	63	73
Negative	32	36	26
Change the "mix" of HUD's housing programs—that is, spend more on some programs and less on others.			
Positive	74	75	73
Negative	13	12	17
Have the Federal Government provide a pool of mortgage funds which would be administered by the state.			
Positive	67	62	76
Negative	31	36	21
A program of general income maintenance, to replace current programs such as welfare, food stamps, low and moderate income housing subsidies, Medicaid. Under this plan, recipients could spend the subsidy according to their own priorities.			
Positive	61	56	72
Negative	36	41	26
No significant change in basic design of existing HUD housing subsidy programs, but improvement in HUD management and the programs. This would mean continued reliance on housing construction programs.			
Positive	52	51	54
Negative	44	44	43
Making no changes or only minor changes in Federal housing policies and programs, other than ending the current freeze on funding of subsidized housing programs.			
Positive	37	41	30
Negative	59	56	65

percent, by county officials by 60–34 percent, and by State officials by 73–26 percent.

Observation: Here is a mandate to replace the current Federal housing subsidy program, largely centered at the Federal level, with a revenue sharing approach to be administered by the States.

• By 61–36 percent, a majority of all public officials at the local and State levels would favor "a program of general income maintenance, to replace current programs such as welfare, food stamps, low and moderate income housing subsidies, and Medicaid. Under this plan, recipients could spend the subsidy according to their own priorities." Central city officials favored this plan of income maintenance by 67–32 percent, officials outside the central cities by 57–43 percent, and State officials by a thumping 72–26 percent. County officials, however, would oppose income maintenance by a margin of 52–42 percent.

Observation: General income maintenance is the first proposal surveyed where all major groups of officials did not concur with the proposal. County officials demur on income maintenance. The other groups favor it by a substantial margin, however.

• By 52–44 percent, a slim majority of local and State officials agreed with the proposition that there be "no significant change in basic design of existing HUD housing subsidy programs, but improvements in HUD management of the programs. This would mean continued reliance on housing construction programs." This approach, more modified than some of the other more drastic suggestions, met with a close 54–44 percent approval from central city officials, with 50–45 percent favor from officials in communities outside the central cities, 52–44 percent acceptance by county officials, and 54–43 percent backing from State officials.

Observation: The promise of better administration from HUD apparently carried the day for this proposition, more than did the continuance of the subsidy programs, which in previous questions officials preferred to see revenue shared with the States.

• By 59–37 percent, State and local officials rejected the standstill proposition that "no changes or only minor changes should be made in Federal housing policies and programs, other than ending the current freeze on funding of subsidized housing programs." Central city officials would oppose such a no-change policy by 58–40 percent, those in communities outside the central cities would oppose it by 54–40 percent, county officials by 53–42 percent, and State officials by a substantial 65–30 percent.

When asked to state in their own words what changes they would like to see made in Federal housing policy (before any of the above alternatives were presented to them), local and State officials said they most favored "more local involvement" and "better defined, planned, and administered programs."

Running through the new proposed changes was this idea of greater local control and administration of housing programs. The survey asked about local option for some specific current programs. By 72–24 percent, State and local officials believe that "local government should have the power to reject the construction of low-rent housing projects." By a much closer 51–41 percent, a majority also would like to give local governments the power to reject 236 rental assistance programs. By an even closer 48–44 percent, officials favored giving local governments the right to reject 235 homeownership assistance programs. Most in favor of local options for rejection of all three programs were officials in communities outside the central cities. Most opposed to such local options, particularly on the latter two programs, were State officials and central city officials.

Observation: On low rent housing projects, continuing the local option to reject such a project (the option already exists) would be popular. But trying to apply the same local government authority to 236 or 235 programs would stir up serious opposition, even though, by small margins, public officials at the State and local levels favor giving local government such rights.

The Role of Federal, State, and Local Government and the Private Sector in Housing

Despite the sizable majorities who favor revenue sharing approaches for the housing field, and the strong desire on the part of local and State governments to have a larger voice in housing, there is little mandate for the Federal Government to become less involved in housing programs. When asked: "In general, do you feel the Federal Government is playing too large a role in housing programs in *(State/city/county)*, too small a role or about the right role?" Thirty-nine percent opted for the same role as now for the Federal Government, 34 percent wanted a

larger role, and only 21 percent a smaller role for the Federal Government.

However, when a similar series of questions about State government, local government, and the private sector was put to the cross-section of government officials, a substantial 58 percent wanted to see a larger role in housing for the State, and 53 percent a larger role for local government, while 44 percent wanted to see a larger role for the private sector as well.

Observation: It is clear from the results that the leadership itself would like to see the role of State and local government expanded, but these added responsibilities would not preclude an enlarged role for the Federal Government and the private sector. These local and State officials appear to be saying that they would like to see the total thrust given to housing boosted from current levels, and they do not see an expanded role for State or local government reducing the responsibilities vested in the Federal establishment.

Probing for the reasoning behind these conclusions quickly revealed why these officials did not want to see a diminished Federal role in housing. The number-one reason for believing the role of the Federal Government was "too small" today was that "the Federal Government has the funds which are not available on a State or local level." But the officials also feel that the "Federal Government has not been setting nor meeting goals for adequate housing in the country." There are some caveats on the subject of Federal involvement, with officials warning that "the Federal Government is too large to be sensitive to local needs" and "the Federal Government has too much control" and "there is too much bureaucracy at the Federal level."

But weighed off against these reasons at the Federal level is the volunteered comment of State and local officials that "the State today is doing little or nothing about housing and it is about time to take some responsibility for adequate housing." There is also an expression of "need for more State housing funds." Buttressing the feeling of a lack of State housing assistance was the finding that 64 percent of all local officials feel that the State has not been "helpful in providing housing-related expertise," and, by an even larger 69 percent, that the State has not "been helpful in providing funds for housing programs." When asked why the State had not been more active in the housing area, State officials explained that "other problems are more pressing"; this was believed to be a factor inhibiting a larger State role in housing policy by 71 percent of those who feel the State is playing too small a role (74 percent of State officials); "lack of popular support" was given credibility by 65–29 percent of the "too small a role" group, and "lack of legislative support" was believed to be an inhibiting element by 61–31 percent of the "too small a role" group. State officials who feel the State is playing too small a role divided 47–47 percent over the proposition that "lack of trained and experienced housing personnel" has been a serious handicap in enlarging the State's role. But by 53–47 percent, this same group of State officials reject the reasoning that "inadequate tax revenues" have been restricting more State activity in housing; and by 53–40 percent they also reject the notion that the "home rule principle" has been the inhibiting force impeding greater State participation in the housing field.

Observation: By any measure, there is a wide-open mandate to have State governments become far more involved in housing problems and housing programs than has been the case up to now.

The counterpart reasoning to that about States was evident when the government officials were asked for their views behind wanting to see the local role in housing expanded. Local governments, it was felt, simply had not had enough money to get into the housing field in a major way. There was also some feeling that local governments have been hampered by Federal and State legal restrictions against their greater involvement and that local governments, although closer to the people, need more housing expertise than they have demonstrated in the past. And there are some worries that local government will not be efficient and might be dominated by real estate, developer interests.

Nonetheless, when asked directly about it, local officials who feel local government is playing too small a role (51 percent of local officials) said they believed inhibiting factors in keeping them from playing a more important role in housing were: "Lack of legislative support," considered a difficulty by 67–24 percent; "lack of popular support," a factor by a 63–26 percent margin; "other problems which get a priority and seem more pressing," believed by 60–33 percent; and "inadequate tax revenues," cited as an inhibiting factor by a 51–40 percent margin. But this same group of local officials (the "too small a role" group) deny by 51–39 percent that their "lack of trained and experienced housing personnel" is a reason for slowing their taking added responsibilities in the housing field.

The private sector is criticized for not taking a bigger role in public housing, with local and State officials criticizing the building industry for being "too profit-motivated and not willing to go into public housing." There is also a sense that not enough private money has been invested into housing construction, that the private sector participates only when forced to, that there ought to be more tax and subsidy incentives for private building, and less government restrictions and redtape.

Division of Responsibility in Housing Field

The cross-section of government leaders was asked to define precisely what functions they saw as being primarily local, State, and Federal responsibilities in the housing field.

First, the perceived responsibilities of local government:

- A substantial 86 percent feel local government should "develop and administer zoning laws."
- A high 73 percent felt that local government should "develop and administer housing codes."
- By a narrow 47–44 percent, officials feel that local government should take prime responsibility over State government for "providing consumer education services to homeowners."
- A slim plurality of 35 percent feel that local government should administer rent control laws, while 31 percent feel the Federal Government should do this, and another 24 percent see it as a State function.

In only one area was State government seen as primarily responsible:

- A 42 percent plurality felt that State government should provide technical assistance to private developers, while 31 percent feel this is a local responsibility, and 30 percent believe this is the province of the Federal Government.

Finally, the areas in which the Federal Government is seen in a dominant role:

- A high 78 percent believe the Federal Government should "provide mortgage insurance or guarantees."
- A substantial 68 percent feel that it is a Federal function to "provide income assistance to individuals for housing."
- Sixty-one percent feel that it is a Federal responsibility to "administer mortgage insurance or guarantees," thus adding the administration of this program as well as the funding responsibilities to the Federal level.
- A majority of 58 percent feel that the Federal Government, rather than State or local governments, should "provide direct loans for housing."
- A majority of 56 percent also feel that the Federal Government should be dominant in "handling property disposition for housing units repossessed by the Federal Government."
- A majority of 52 percent also believe the Federal Government should "enforce equal opportunity laws."
- An even 50 percent, compared to 40 percent who feel this way about State government, think the Federal Government should hold a "periodic review of management of housing receiving government assistance."
- A plurality of 45 percent feel that the Federal Government should "provide direct subsidies to builders" (34 percent feel this is not the responsibility of any level of government).
- A narrow plurality of 39 percent, compared with 32 percent who see this as a State responsibility, feel that the Federal Government should primarily "administer direct loans for housing" (21 percent feel this is not government's responsibility at all).
- By only 37–36 percent, the Federal Government is favored over State government to "administer income assistance to individuals for housing."

Although 31 percent want to see the Federal Government administer direct subsidies to builders, compared with 24 percent who favor the State's doing that, a still-higher 35 percent believe it is not the responsibility of any level of government to handle such subsidies.

Observation: Although in principle these public officials would like to see more housing responsibility and authority granted to State government and even local government as part of revenue sharing programs, when specific programs are cited the Federal Government is selected as the dominant force in most areas. Basically, only the traditional zoning and housing code developments are left to local governments, along with consumer education and perhaps administration of rent control. State government is seen as dominant in only one area—that of providing technical assistance to private developers.

In contrast to these rather limited primary roles for local and State government, public officials at those levels opt for the Federal Government's assuming the funding responsibilities,

the major enforcement of standards functions, and the direct assistance programs to individuals.

In short, local and State officials themselves know, when they are put to the test, that Federal Government involvement must be continued and at a rather high degree of involvement and initiative. Nonetheless, this should not be taken to mean that they are idly suggesting a greater role for State and local governments in the future. They would prefer to see their own greater involvement in housing, particularly at the State level. And the Federal Government is viewed as an instrument to push in this direction. But, obviously, the day is not near when the Federal Government will be simply a provider of funds and a kind of consultant to State and local governments in the housing area. Rather, the shedding of Federal dominance in housing will be gradual, and undoubtedly will take a longer rather than shorter period of time.

The Benefits of a Regional Approach to Housing Policy

When asked: "Do you feel a regional approach to housing policy for a metropolitan area, cutting across local and, if necessary, State lines, makes sense?" by 60–34 percent, a sizable majority of State and local officials said it did indeed make sense. Officials in every region in the country agreed with the implication that city boundaries just make little sense in developing a policy. Governors, who might normally be expected jealously to guard State's-rights prerogatives, and even though in some cases it might mean giving up some of their sovereignty to a regional authority, accept the regional approach by 73–24 percent. Mayors favored the principle, although ay smaller 49–44 percent margin.

The major benefits seen in such a regional approach to housing for a metropolitan area are that "it eliminates duplication of efforts and will yield more effective management"; "it will provide a more equitable distribution of housing benefits to all groups"; "it could very well eliminate ghettos and the geographic concentration of the poor in one area and would disperse them throughout an entire metropolitan region"; "it will lead to a coordination of building codes and uniformity in codes"; "it will make the urban area more responsive to community needs"; "better housing services will result"; and "more effective use of funds will result."

There are, however, some risks, and these are recognized by the State and local leaders: "A regional approach might threaten local political sovereignty"; "there might be too much competition and lack of agreement within the region"; "some communities would reject the idea"; "local government rather than regional government is more responsive to the needs of the people in an area such as housing"; "local zoning laws and codes would have to be unified and that might not be easy"; "not all housing needs can be met by imposing one standard"; "adds another overlapping bureaucracy."

Observation: Although the local and State officials can see many problems connected with establishing regional authority in metropolitan areas to determine housing policy, nonetheless the fact remains that by substantial margins they opt for this approach. The Federal Government certainly has a mandate to move in this direction.

Specific Preferences

In the study of public attitudes, respondents were asked whether they themselves would be in favor of nine different types of housing projects in their own neighborhood, and then how they thought their neighbors would feel about each of the projects.

In the table below, results to these two questions are shown as well as local officials' estimates of the level of community support.[11]

In every case, there is a wide gap between what the public say they themselves would accept and what they feel their neighbors would accept. It is difficult to determine the exact truth between the two sets of results. While experience has shown that people are perhaps not as courageous or as tolerant in practice as they say they would be, it is also true that the public has been led to believe the worst of their neighbors in terms of their lack of tolerance and decency. Our feeling is that the true results are probably closer to the public's own attitudes than to the public's judgment about their neighbors.

Looking down the list, public officials, with some exceptions, tend to underestimate the public's own acceptance of these projects but to have a more positive view of public acceptance than the public has of its neighbors.

In two areas—"small housing project of apartments for elderly," and "single family houses or town houses for moderate income

[11] In order to increase comparability with the attitudes of local officials (all drawn in the 25 largest SMSA's) data for the public are restricted to respondents from cities and suburban areas.

Public Acceptance of Specific Public Housing Compared to Local Officials' Estimates of Public Acceptance

	Public Views		Local Officials' Estimate of Public Acceptance %
	Self Would Accept %	Neighbors Would Accept %	
Small housing project of apartments for elderly	72	33	80
Large housing project of apartments for elderly	58	27	51
Single family houses or town houses for low income families	57	24	44
Small housing project of apartments for low income families	52	19	20
Single family houses or town houses for moderate income families	54	26	69
Small housing project which has apartments for three groups: low income families, moderate income families, and the elderly	49	23	43
Small housing project of apartments for moderate income families	47	21	42
Large housing project of apartments for low income families	38	16	5
Large housing project of apartments for moderate income families	36	16	18

families"—public officials overestimate the public's own level of acceptance of the projects.

In four areas—"large housing project of apartments for elderly"; "single family houses or town houses for low income families"; "small housing project which had apartments for three groups—low income families, moderate income families, and the elderly"; and "small housing project for moderate income families"—public officials underestimate the public's own acceptance of these projects, but see the public as more accepting than the public itself sees its neighbors.

Finally, in three areas—"small housing project of apartments for low income families"; "large housing project of apartments for low income families"; and "large housing project of apartments for moderate income families"—public officials not only significantly underestimate the public's own acceptance of these projects but also have the same or even a more negative view of the public's acceptance than the public itself has of its neighbors.

Observation: Particularly if one uses the public's own acceptance level for comparison purposes, officials tend to have a rather poor sense of what the public is willing to support. The public, for the most part, is more willing to be generous to the poor and to the less fortunate than the leadership assumes.

By 51–36 percent, a majority of State and local officials opt for meeting housing goals for low income families by "helping them obtain better existing housing than they have now." And by a slightly higher 55–32 percent, the leaders want to see moderate income housing needs met through the same approach—the utilization and development of housing.

Similarly, when asked about their own housing goals at the State and local level, by 52–34 percent the leaders opted for "rehabilitation of existing housing" as a preferable alternative to "new construction." Local officials chose rehabilitation by 56–31 percent, while State officials had the same preference, but by a lower 43–40 percent. The only major exception to this pattern could be found among State officials in the East, where by a lopsided 61–17 percent they opted for new construction.

Observation: As with the general public, these public officials tend to believe that existing housing has not been refurbished properly to meet people's housing needs. Tied to this, of course, is the reluctance in many communities to see the number of housing units increase, for fear it will lead to overcrowding.

These latent worries about overstraining a community with new and additional subsidized housing emerged when local officials were asked how much more strain additional government-subsidized housing would put on services such as police protection, electricity supply, sewage service, and garbage collection in their area. A majority of 54 percent answered that such additional housing would cause some strain, compared with 42 percent who felt it would be "hardly any" or "no strain at all." Only among local housing experts, central city leaders, and among local leaders in the South did anywhere near a majority feel they could absorb such subsidized housing without undue strain. Those who felt there would be a strain were asked if the strain might force them to raise taxes or to seek additional revenue. By a resounding 76–18 per-

cent, those who felt a strain would result also believe that some kind of revenue relief would have to be provided.

Observation: It is patently clear that local officials are worried about the upsetting impact of major new housing on their community. Yet, at the same time, they place housing at the top of the list of urgent community problems. It is this dilemma that faces housing planners.

Regional authorities in metropolitan areas might go a long way toward easing this dilemma, providing the expertise which communities could tap and at the same time allowing the kind of autonomy which the American people feel strongly about in a pluralistic society.

Groups To Which Federal, State and Local Housing Programs Should Be Targeted

	Federal Housing Programs			State Housing Programs	Local Housing Programs
	Total Local/ State %	Total Local %	Total State %	Total State %	Total Local %
The elderly	67	65	70	64	59
Low income working families	65	60	75	65	53
Welfare families	38	33	48	38	21
Moderate income families	38	35	45	45	30
The physically handicapped	38	41	34	24	16
Ethnic and racial minorities	20	20	21	16	13
Veterans	18	18	17	10	4
All of them (vol.)	22	24	17	14	7
None	2	—	2	2	6
Not sure	*	—	1	2	2

* Less than 0.5 percent.

One Group That Should Have Highest Priority in Federal, State, and Local Housing Programs

	Federal Housing Programs			State Housing Programs	Local Housing Programs
	Total Local/ State %	Total Local %	Total State %	Total State %	Total Local %
Low income working families	31	27	41	42	23
The elderly	25	26	19	22	36
Welfare families	8	7	9	6	5
Moderate income families	6	7	4	9	13
Ethnic and racial minorities	3	4	1	—	4
The physically handicapped	2	2	3	3	2
Veterans	1	2	1	—	*
All of them (vol.)	21	22	17	13	7
None	2	2	3	2	7
Not sure	1	1	2	3	3

* Less than 0.5 percent.

Familiarity with HUD-Sponsored Federal Housing Programs

	Total Local/ State %	Total Local %	Total State %
HUD Section 235 Homeownership Assistance			
Very familiar	38	34	44
Somewhat familiar	35	34	37
Only slightly familiar	16	18	13
Not familiar at all	11	14	6
Not sure	—	—	—
HUD Low Rent Public Housing			
Very familiar	38	35	43
Somewhat familiar	30	27	38
Only slightly familiar	19	23	13
Not familiar at all	12	15	5
Not sure	1	*	1
HUD Section 236 Rental Assistance			
Very familiar	36	33	41
Somewhat familiar	36	36	36
Only slightly familiar	17	17	17
Not familiar at all	11	14	6
Not sure	*	*	—
HUD Section 312 and 115 Loans and Grants For Rehabilitation			
Very familiar	23	21	26
Somewhat familiar	23	23	25
Only slightly familiar	26	25	29
Not familiar at all	27	30	20
Not sure	1	1	—

* Less than 0.5 percent.

Familiarity with HUD Low Rent Public Housing

	Very Familiar %	Somewhat Familiar %	Only Slightly Familiar %	Not Familiar At All %	Not Sure %	Familiar %	Not Familiar %
Total Local/State	38	35	16	11	—	73	27
Total Local	34	34	18	14	—	68	32
Mayors, deputy mayors	35	33	16	16	—	68	32
Other local executives	44	30	15	11	—	74	26
Local legislators	21	39	24	16	—	60	40
Housing Experience							
Government	25	41	18	16	—	66	34
Housing experts	46	38	13	3	—	84	16
Private professionals	44	28	18	10	—	72	28
Time Spent on Housing							
10% or less	21	35	24	20	—	56	44
More than 10%	51	33	10	6	—	84	16
Central cities	45	45	9	1	—	90	10
Outside central cities	30	25	24	21	—	55	45
Counties	27	41	17	15	—	68	32
East	37	26	17	20	—	63	37
Midwest	37	34	18	11	—	71	29
South	30	34	18	18	—	64	36
West	28	44	21	7	—	72	28
Total State	44	37	13	6	—	81	19
Governors, lieutenants, assistants	45	37	13	5	—	82	18
Other state executives	68	29	3	—	—	97	3
State legislators	28	42	19	11	—	70	30
Total executives in 15 states only	60	27	8	5	—	87	13
Housing Experience							
Government	40	46	12	2	—	86	14
Housing experts	70	23	7	—	—	93	7
Private professionals	39	37	19	5	—	76	24
Time Spent on Housing							
10% or less	27	44	18	11	—	71	29
More than 10%	69	25	6	—	—	94	6
Less than 65% Urban	47	36	14	3	—	83	17
65% to 80% Urban	43	39	11	7	—	82	18
More than 80% Urban	44	32	15	9	—	76	24
East	51	23	13	13	—	74	26
Midwest	52	42	3	3	—	94	6
South	42	41	14	3	—	83	17
West	30	41	22	7	—	71	29
Feels state government's housing role too small	48	34	12	6	—	82	18

Familiarity with HUD Low Rent Public Housing

	Familiar Very %	Somewhat Familiar %	Only Slightly Familiar %	Not Familiar At All %	Not Sure %	Familiar %	Not Familiar %
Total Local/State	38	30	19	12	1	68	31
Total Local	35	27	23	15	*	62	38
Mayors, deputy mayors	27	30	22	20	1	57	42
Other local executives	46	25	21	8	—	71	29
Local legislators	28	26	26	20	—	54	46
Housing Experience							
Government	38	32	16	14	—	70	30
Housing experts	50	27	16	7	—	77	23
Private professionals	43	25	21	11	—	68	32
Time Spent on Housing							
10% or less	22	25	32	20	1	47	52
More than 10%	53	28	11	8	—	81	19
Central cities	57	26	14	3	—	83	17
Outside central cities	22	26	29	22	1	48	51
Counties	37	29	19	15	—	66	34
East	45	22	17	16	—	67	33
Midwest	33	30	23	14	—	63	37
South	30	28	26	14	2	58	40
West	28	28	27	17	—	56	44
Total State	43	38	13	5	1	81	18
Governors, lieutenants, assistants	45	42	5	5	3	87	10
Other state executives	63	31	6	—	—	94	6
State legislators	30	39	23	8	—	69	31
Total executives in 15 states only	57	35	5	3	—	92	8
Housing Experience							
Government	49	40	7	2	2	89	9
Housing experts	77	13	7	—	3	90	7
Private professionals	35	39	21	5	—	74	26
Time Spent on Housing							
10% or less	27	45	19	8	1	72	27
More than 10%	67	29	4	—	—	96	4
Less than 65% Urban	33	53	11	3	—	86	14
65% to 80% Urban	47	30	16	5	2	77	21
More than 80% Urban	50	35	9	6	—	85	15
East	56	32	6	6	—	88	12
Midwest	48	42	10	—	—	90	10
South	41	40	16	3	—	81	19
West	30	36	19	11	4	66	30

* Less than 0.5 percent.

Familiarity with HUD Section 236 Rental Assistance

	Very Familiar %	Somewhat Familiar %	Only Slightly Familiar %	Not Familiar At All %	Not Sure %	Familiar %	Not Familiar %
Total Local/State	36	36	17	11	*	72	28
Total Local	33	36	17	14	*	69	31
Mayors, deputy mayors	32	37	15	15	1	69	30
Other local executives	44	30	16	10	—	74	26
Local legislators	21	40	21	18	—	61	39
Housing Experience							
Government	27	39	18	16	—	66	34
Housing experts	45	37	15	3	—	82	18
Private professionals	40	33	14	13	—	73	27
Time Spent on Housing							
10% or less	22	36	23	19	—	58	42
More than 10%	47	36	9	7	1	83	16
Central cities	43	47	7	3	—	90	10
Outside central cities	27	28	23	21	1	55	44
Counties	33	8	17	12	—	71	29
East	38	28	20	14	—	66	34
Midwest	34	36	18	11	1	70	29
South	27	41	5	27	—	68	32
West	29	40	22	9	—	69	31
Total State	41	36	17	6	—	77	23
Governors, lieutenants, assistants	34	45	18	3	—	79	21
Other state executives	71	29	—	—	—	100	
State legislators	25	34	28	13	—	59	41
Total executives in 15 states only	54	38	5	3	—	92	8
Housing Experience							
Government	36	45	17	2	—	81	19
Housing experts	67	20	10	3	—	87	13
Private professionals	33	39	23	5	—	72	28
Time Spent on Housing							
10% or less	16	47	26	11	—	63	37
More than 10%	75	19	6	—	—	94	6
Less than 65% Urban	39	39	22	—	—	78	22
65% to 80% Urban	36	35	18	11	—	71	29
More than 80% Urban	50	32	12	6	—	82	18
East	61	26	10	3	—	87	13
Midwest	46	29	19	6	—	75	25
South	30	51	14	5	—	81	19
West	26	33	30	11	—	59	41

* Less than 0.5 percent.

Familiarity with HUD Section 312 and 115 Loans and Grants for Rehabilitation

	Very Familiar	Somewhat Familiar	Only Slightly Familiar	Not At All Familiar	Not Sure	Familiar	Not Familiar
	%	%	%	%	%	%	%
Total Local/State	23	23	26	27	1	46	53
Total Local	21	23	25	30	1	44	55
Mayors, deputy mayors	13	28	20	38	1	41	58
Other local executives	34	21	27	18	—	55	45
Local legislators	12	20	26	41	1	32	67
Housing Experience							
Government	21	35	21	21	2	56	42
Housing experts	33	25	18	24	—	58	42
Private professionals	25	20	25	30	—	45	55
Time Spent on Housing							
10% or less	10	20	30	39	1	30	69
More than 10%	36	26	16	21	1	62	37
Central cities	39	35	11	15	—	74	26
Outside central cities	12	18	27	42	1	30	69
Counties	17	15	37	29	2	32	66
East	32	23	23	22	—	55	45
Midwest	19	24	24	32	1	43	56
South	9	23	20	46	2	32	66
West	19	19	29	33	—	38	62
Total State	26	25	29	20	—	51	49
Governors/Lieutenants/Assistants	26	26	35	13	—	52	48
Other State Executives	46	20	14	20	—	66	34
State Legislators	13	28	34	25	—	41	59
Total Executives in 15 States Only	38	27	27	8	—	65	35
Housing Experience							
Government	21	39	21	19	—	60	40
Housing Experts	50	13	20	17	—	63	37
Private Professionals	19	23	39	19	—	42	58
Time Spent on Housing							
10% or Less	12	24	38	26	—	36	64
More than 10%	46	27	15	12	—	73	27
Less than 65% Urban	22	22	31	25	—	44	56
65% to 80% Urban	28	27	27	18	—	55	45
More than 80% Urban	26	26	30	18	—	52	48
East	32	33	16	19	—	65	35
Midwest	36	32	13	19	—	68	32
South	22	22	42	14	—	44	56
West	15	15	40	30	—	30	70

Whether HUD-Sponsored Federal Housing Programs Exist in Your City/County

	Total Local %	Mayors/ Deputy Mayors %	Other Local Executives %	Local Legislators %	Housing Experience Private Government %	Private Professionals %	Housing Experts %	Time Spent on Housing 10% or Less %	Time Spent on Housing More Than 10% %	Central Cities %	Outside Central Cities %	Counties %	East %	Mid-West %	South %	West %	Total %	Outside Central Cities Less Than 10,000 %	Outside Central Cities 10,000 to 40,999 %	Outside Central Cities 50,000 and Over %	Less Than 20% Growth %	20% or More Growth %	Counties Direct Per Capita Expenditures Total %	Counties Direct Per Capita Expenditures Less Than $420 %	Counties Direct Per Capita Expenditures More Than $420 %
HUD Section 236 Rental Assistance																									
Exists	61	55	67	60	60	66	70	51	75	90	40	71	61	56	63	67	40	8	45	55	38	43	71	64	79
Does not exist	29	39	28	23	36	26	20	35	22	7	49	12	26	36	28	28	49	77	47	36	46	52	12	12	13
Not sure	10	6	5	17	4	8	10	14	3	3	11	17	13	8	9	5	11	15	8	9	16	5	7	4	8
HUD Section 235 Homeownership Assistance																									
Exists	57	59	61	51	60	65	58	45	74	82	41	63	50	59	59	62	41	7	44	57	47	34	63	56	71
Does not exist	32	34	35	28	33	24	30	39	21	11	49	16	36	30	32	28	49	74	47	36	38	61	16	12	21
Not sure	11	7	6	21	7	11	12	16	5	7	10	21	14	11	9	10	10	19	9	7	15	5	21	32	8
HUD Low Rent Public Housing																									
Exists	50	36	57	55	55	61	57	36	70	82	29	59	57	51	55	37	29	4	29	48	38	20	59	52	67
Does not exist	39	51	35	33	40	32	37	48	28	13	61	20	33	41	32	51	61	82	63	45	49	73	20	24	17
Not sure	11	13	8	12	5	7	6	16	2	5	10	21	10	8	13	12	10	14	8	7	13	7	21	24	16
HUD Section 312 and 115 Loans and Grants for Rehabilitation																									
Exists	38	25	48	39	49	48	41	28	58	76	19	33	54	37	25	30	19	8	22	21	28	10	33	12	54
Does not exist	40	53	40	30	33	30	44	46	34	15	59	29	30	40	48	49	59	73	58	52	50	68	29	36	21
Not sure	22	22	12	31	18	22	15	29	8	9	22	38	16	23	27	21	22	19	20	27	22	22	38	52	25

Job Done by HUD-Sponsored Federal Housing Programs in Helping to Alleviate Housing Problems in Own City/County/State

(Base: Total state officials and local officials who said program exists in their city/county)

	HUD 235 Homeownership Assistance Program		HUD 236 Rental Assistance		HUD Low Rent Public Housing		HUD Section 312 and 115 Loans and Grants For Rehabilitation	
	Total Local %	Total State %	Total Local %	Total State %	Total Local %	Total State %	Total Local %	Total State %
Excellent	6	6	17	13	16	13	22	6
Pretty good	20	36	29	26	36	31	23	15
Only fair	43	28	25	30	23	27	22	16
Poor	22	17	13	16	19	13	18	15
Not sure	9	13	16	15	6	16	15	48
Positive	26	42	46	39	52	44	45	21
Negative	65	45	38	46	42	40	40	31

Two or Three Most Serious Problems with the HUD 235 Homeownership Assistance Program

(Base: Total state officials and local officials who said programs exists in their city/county)

	Total Local %	Total State %
People don't maintain homes properly	25	14
Poor quality housing, construction	18	11
Controls, enforcement of standards not strict enough	16	19
Ineligible people receiving aid; inadequate enforcement of income requirements	15	7
Too much red tape, delay	11	17
Lack of funds for program	9	10
Low income housing should be dispersed; becomes a ghetto	8	7
Resistance to low income housing mixed with higher income housing; deterioration of neighborhoods	7	5
Building costs, size restrictions unrealistic; land, materials expensive	6	11
Poorly located; should be near work, schools, transportation, etc.	6	2
Not enough units to meet needs	6	10
Local control is better	5	2
Unfair, unrealistic income requirements should be available to all who need it	5	9
Not enough publicity, public awareness	4	9
Foreclosure, abandonment of housing	4	—
No available land	4	2
Dull, monotonous architecture	2	2
Should reduce cost, interest rates instead of subsidizing	1	2
Existing housing should be used instead of new construction	1	2
All other answers	17	12
No problems	2	4
Don't know	10	16

Two or Three Most Serious Problems with the HUD Low Rent Public Housing Program

(Base: Total state officials and local officials who said program exists in their city/county)

	Total Local %	Total State %
Underfunded; subsidies too low	32	17
Poor quality and design; rundown	25	8
Poor management, administration; too much red tape	18	28
Not enough units; long waiting lists	14	21
Tenants are destructive; don't take care of buildings	11	5
High rise, huge projects create problems	11	3
Doesn't improve people's environment; still keeps people in ghettos, concentrated	9	15
The Brooke Amendment	4	4
Neighborhood opposition; creates community problems	4	4
All other answers	30	33
No problems	9	2
Don't know	5	17

Two or Three Most Serious Problems with the HUD 236 Rental Assistance Program

(Base: Total state officials and local officials who said program exists in their city/county)

	Total Local %	Total State %
Insufficient, inadequate funds	20	20
Red tape, bureaucracy, slowness of HUD in processing applications	16	18
Income limitations inflexible, too low	15	7
Administration, management problems	14	20
Not enough; we need more	8	19
Maintenance, FHA standards not kept up	8	8
Not well publicized; people who need it don't know about it	4	11
People who don't qualify take advantage of it; helps wrong people	4	9
Many vacant 236 apartments	1	2
Should build private homes, not apartments	—	3
All other answers	37	29
No problems	6	2
Don't know	16	18

Whether Would Like to See HUD-Sponsored Federal Housing Programs Set Up in Own City/County

(Base: Said program "does not exist" in own city/county or "not sure")

	Total Local %	Central Cities %	Outside Central Cities %	Counties %
HUD 235 Homeownership Assistance				
Would like to see set up	36	46	34	35
Would not like to see set up	32	27	38	12
Not sure	32	27	28	53
HUD 236 Rental Assistance				
Would like to see set up	27	57	24	31
Would not like to see set up	40	29	44	23
Not sure	33	14	32	46
HUD Low Rent Public Housing				
Would like to see set up	19	15	17	28
Would not like to see set up	58	62	64	28
Not sure	23	23	19	44
HUD Section 312 and 115 Loans and Grants for Rehabilitation				
Would like to see set up	37	44	35	38
Would not like to see set up	18	31	20	7
Not sure	45	25	45	55

Why Would Like/Would Not Like to See HUD 235 Homeownership Assistance Set Up in Own City/County

(Base: Said program "does not exist" in own city/county or "not sure")

	Total Local %
Why Would Like to See Program Set Up	
Homeownership fosters pride in upkeep of property	15
Good way to provide housing for low or moderate income people	11
Encourages better mix of people in community, socially beneficial	6
Promotes homeownership	4
All other answers	5
Why Would Not Like to See Program Set Up	
Not needed	16
Creates slums; lowers property values	7
No available land	7
Wouldn't be accepted by community	4
Not enough funds available	4
Unrealistic cost ceiling for building	1
All other answers	10
Don't know, not familiar with it	29

Why Would Like/Would Not Like to See HUD Low Rent Public Housing Set Up in Own City/County

(Base: Said program "does not exist" in own city/county or "not sure")

	Total Local %
Why Would Like to See Program Set Up	
We need it, economically desirable	12
Good for senior citizens	6
All other answers	5
Why Would Not Like to See Program Set Up	
No need for it	29
Would change town for the worse; low income wouldn't fit in	16
Segregation of low income families; stigma attached	10
Geographically impractical; no land, no mass transit, etc.	10
Prefer alternatives (e.g., leased housing, rent supplements)	6
All other answers	15
Don't know; not familiar with it	10

Why Would Like/Would Not Like to See HUD 236 Rental Assistance Set Up in Own City/County

(Base: Said program "does not exist" in own city/county or "not sure")

	Total Local %
Why Would Like to See Program Set Up	
We need it; hard to find housing people can afford	22
Elderly people need it	12
Young people need it	4
All other answers	8
Why Would Not Like to See Program Set Up	
We don't need it; don't want hand outs	21
Detrimental to neighborhood; projects become slums	9
No room for it, no place available	5
All other answers	21
Don't know; not familiar with it	16

Why Would Like/Would Not Like to See HUD Section 312 and 115 Loans and Grants for Rehabilitation Set Up in Own City/County

(Base: Said program "does not exist" in own city/county or "not sure")

	Total Local %
Why Would Like to See Program Set Up	
Help people fix up, maintain their homes	17
Preserve existing housing; prevents deterioration and abandonment	15
We have a lot of people who need it (e.g., low income, elderly)	10
Prevent decline of neighborhood	8
We need it; would help us	8
Good if properly controlled, administered	4
All other answers	6
Why Would Not Like to See Program Set Up	
We've no need for it	12
Have new housing; no need to fix up existing housing	2
We've already done rehabilitation	1
All other anwers	5
Don't know; not familiar with it	37

Whether the General Public in Own City/County/State Would Generally Support or Oppose Scatter-Site Public Housing

	Total Local/State %	Total Local %	Total State %
Would support scatter-site housing	37	32	46
Would oppose scatter-site housing	53	58	42
Not sure	10	10	12

Whether Various Groups in the State Would Generaly Support or Oppose Scatter-Site Public Housing

(Base: State officials only)

	Would support %	Would oppose %	Not sure %
Low income families eligible for public housing	84	6	10
Mayors of large cities	68	19	13
The state legislature	51	35	14
The general public	46	42	12
Residents of suburban communities	17	73	10

Whether the General Public in Own City/County Would Generally Support or Oppose Scatter-Site Public Housing

	Would support scatter-site housing %	Would oppose scatter-site housing %	Not sure %
Total Local/State	37	53	10
Total Local	32	58	10
Mayors/Deputy Mayors	27	66	7
Other Local Executives	35	55	10
Local Legislators	32	57	11
Housing Experience			
Government	25	68	7
Housing Experts	40	53	7
Private Professionals	38	55	7
Time Spent on Housing			
10% or Less	25	65	10
More than 10%	42	50	8
Central Cities	43	46	11
Outside Central Cities	22	69	9
Counties	40	50	10
East	26	66	8
Midwest	38	51	11
South	18	73	9
West	43	46	11
Total Outside Central Cities	22	69	9
Less than 10,000	10	69	21
10,000–49,999	26	71	3
50,000 and over	26	67	7
Less than 20% growth	17	75	8
20% or more growth	28	63	9
Total Counties	40	50	10
Direct per capita expenditures			
Less than $420	37	56	7
More than $420	43	43	14

Whether Various Groups in the State Would Generally Support or Oppose Scatter-Site Public Housing

	Total State %	Governors/ Lieutenants/ Assistants %	Other State Executives %	State Legislators %	Total Executives in 15 States only %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Less Than 65% Urban %	65% to 80% Urban %	More Than 80% Urban %	East %	Midwest %	South %	West %
Low Income Families Eligible for Public Housing																	
Would favor	84	89	79	83	92	79	83	86	84	84	81	85	85	90	93	78	74
Would oppose	6	5	12	4	6	10	3	7	7	6	14	4	3	3	—	14	7
Not sure	10	6	9	13	2	11	14	7	9	10	5	11	12	7	7	8	19
Mayors of Large Cities																	
Would favor	68	59	68	74	62	71	66	72	62	76	66	69	68	68	83	51	74
Would oppose	19	22	26	11	22	12	31	14	21	16	29	16	12	19	10	30	11
Not sure	13	19	6	15	16	17	3	14	17	8	5	15	20	13	7	19	15
The State Legislature																	
Would favor	51	37	56	58	49	52	52	40	46	59	39	55	59	52	63	30	67
Would oppose	35	45	26	34	32	33	38	42	42	25	47	33	26	39	27	51	19
Not sure	14	13	18	8	19	15	10	18	12	16	14	12	15	9	10	19	14
The General Public																	
Would favor	46	42	59	40	46	45	41	38	41	53	34	56	41	35	52	38	63
Would oppose	42	50	29	44	46	48	45	43	49	31	57	35	38	48	38	57	19
Not sure	12	8	12	16	8	7	14	19	10	16	9	9	21	17	10	5	18
Residents of Suburban Communities																	
Would favor	17	16	24	13	19	14	14	19	15	20	14	15	24	23	7	11	30
Would oppose	73	71	68	77	73	76	79	72	73	73	78	71	71	74	77	84	52
Not sure	10	13	8	10	8	10	7	9	12	7	8	14	5	3	16	5	18

How Serious Have Found Problem of Relocating Residents, When Public Housing is Planned for a Central City Area?

	Total Local/ State %	Total Local %	Central Cities %	Outside Central Cities %	Counties %	Total State %	Less Than 65% Urban %	65% to 80% Urban %	More Than 80% Urban %
Very serious problem	29	26	45	15	26	37	28	27	67
Somewhat serious problem	19	14	22	11	10	29	27	40	9
Only a slightly serious problem	12	10	5	8	22	15	17	18	9
No problem at all	12	14	8	18	14	6	11	4	3
Not relevant	21	32	16	44	24	—	—	—	—
Not sure	7	4	4	4	4	13	17	11	12
Serious	48	40	67	26	36	66	55	67	76
Not serious	24	24	13	26	36	21	28	22	12

Whether Relocation Problem has Prevented Construction of Public Housing

(Base: Local officials who have found relocating residents to be a "very serious" or "somewhat serious" problem)

	Total Local %	Central Cities %	Outside Central Cities %	Counties %	East %	Midwest %	South %	West %
Has prevented construction	20	25	18	11	36	14	—	10
Has not prevented construction	73	75	70	72	54	82	100	80
Not sure	7	—	12	17	10	4	—	10

Support for Possible Changes in Federal Housing Policy

	Total Local/State %	Total Local %	Central Cities %	Outside Central Cities %	Counties %	Total State %
Housing allowances for low income families. By housing allowance we mean a direct payment to low income families which could be used for any housing of their choice as long as it met minimum standards.						
In favor	34	32	45	27	27	38
Might be good	40	39	37	41	37	42
Might be bad	12	14	10	18	10	9
Am opposed	13	14	7	14	23	10
Not sure	1	1	1	—	3	1
Special revenue sharing for housing as a replacement for current Federal housing subsidy programs. States would assume greater responsibility for housing.						
In favor	31	27	32	22	33	40
Might be good	35	36	29	44	27	33
Might be bad	16	18	23	16	16	13
Am opposed	16	18	16	18	18	13
Not sure	2	1	—	—	6	1
Change the "mix" of HUD's housing programs—that is, spend more on some programs and less on others.						
In favor	28	29	36	27	24	27
Might be good	46	46	51	43	49	46
Might be bad	11	9	5	12	8	15
Am opposed	2	3	3	4	—	2
Not sure	13	13	5	14	19	10
Have the federal government provide a pool of mortgage funds which would be administered by the state.						
In favor	24	19	19	15	29	34
Might be good	43	43	42	43	42	42
Might be bad	13	14	18	15	10	11
Am opposed	18	22	18	26	17	10
Not sure	2	2	3	1	2	3
A program of general income maintenance, to replace current programs such as welfare, food stamps, low and moderate income housing subsidies, Medicaid. Under this plan, recipients could spend the subsidy according to their own priorities.						
In favor	22	21	25	21	17	25
Might be good	39	35	42	36	25	47
Might be bad	17	19	15	18	29	13
Am opposed	19	22	17	25	23	13
Not sure	3	3	1	—	6	2

(Continued on p. 1370.)

Support for Possible Changes in Federal Housing Policy (Continued)

No significant change in basic design of existing HUD housing subsidy programs, but improvement in HUD management of the programs. This would mean continued reliance on housing construction programs.						
In favor	19	18	14	19	23	22
Might be good	33	33	40	31	29	32
Might be bad	23	22	15	27	19	25
Am opposed	21	22	29	18	25	18
Not sure	4	5	2	5	4	3
Making no changes or only minor changes in federal housing policies and programs, other than ending the current freeze on funding of subsidized housing programs.						
In favor	15	17	15	17	19	11
Might be good	22	24	25	23	23	19
Might be bad	21	20	19	22	13	22
Am opposed	38	36	39	32	40	43
Not sure	4	3	2	6	5	5

Support for Possible Changes in Federal Housing Policy

	Total Local/ State %	Total Local %	Mayors/ Deputy Mayors %	Other Local Executives %	Local Legislators %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Central Cities %	Outside Central Cities %	Counties %	East %	Midwest %	South %	West %
Housing allowances for low income families. By housing allowance we mean direct payment to low income families which could be used for any housing of their choice as long as it met minimum standards.																	
Positive	74	71	66	77	68	75	67	76	66	77	82	68	64	74	73	61	72
Negative	25	28	34	22	29	25	31	23	31	23	17	32	33	22	27	39	27
Special revenue sharing for housing as a replacement for current Federal housing sudsidy programs. States would assume greater responsibility for housing.																	
Positive	66	63	61	62	67	67	54	67	65	61	61	66	60	62	58	66	70
Negative	32	36	39	36	32	33	44	33	33	39	39	34	34	35	42	34	29
Change the "mix" of HUD's housing programs—that is, spend more on some programs and less on others.																	
Positive	74	75	72	73	81	82	78	74	74	79	87	70	73	79	77	69	75
Negative	13	12	11	15	10	9	7	11	12	11	8	16	8	14	10	21	6
Have the federal government provide a pool of mortgage funds which would be administered by the state.																	
Positive	67	62	57	62	66	57	68	64	64	60	61	58	71	67	50	63	67
Negative	31	36	41	36	32	41	32	36	34	39	36	41	27	32	47	34	31
A program of general income maintenance, to replace current programs such as welfare, food stamps, low and moderate income housing subsidies, Medicaid. Under this plan, recipients could spend the subsidy according to their own priorities.																	
Positive	61	56	61	62	45	53	65	50	55	60	67	57	42	59	65	43	52
Negative	36	41	40	36	50	45	35	45	43	40	32	43	52	38	33	55	47
No significant change in basic design of existing HUD housing subsidy programs, but improvement in HUD management and the programs. This would mean continued reliance on housing construction programs.																	
Positive	52	51	49	47	59	38	52	48	55	47	54	50	52	58	46	57	45
Negative	44	44	44	47	40	37	44	50	40	50	44	45	44	40	53	47	47
Making no changes or only minor changes in federal housing policies and programs, other than ending the current freeze on funding of subsidized housing programs.																	
Positive	37	41	37	35	51	46	37	38	46	33	40	40	42	47	37	44	34
Negative	59	56	56	61	48	51	59	59	48	66	48	54	53	51	61	50	60

Support for Possible Changes in Federal Housing Policy

	Total Local/ State %	Total State %	Governors/ Lieutenants/ Assistants %	Other State Executives %	State Legislators %	Total Executives in 15 States only %	Housing Experience: Government %	Housing Experience: Housing Experts %	Housing Experience: Private Professionals %	Time Spent on Housing: 10% or Less %	Time Spent on Housing: More Than 10% %	Less Than 65% Urban %	65% to 80% Urban %	More Than 80% Urban %	East %	Mid-west %	South %	West %
Housing allowances for low income families. By housing allowance we mean direct payment to low income families which could be used for any housing of their choice as long as it met minimum standards.																		
Positive	74	80	84	83	76	87	82	79	79	77	84	73	78	91	84	84	79	73
Negative	25	19	17	17	22	13	17	20	21	22	16	27	20	9	16	16	21	23
Special revenue sharing for housing as a replacement for current Federal housing sudsidy programs. States would assume greater responsibility for housing.																		
Positive	66	73	78	76	68	73	73	86	68	70	78	68	70	85	83	71	67	73
Negative	32	26	21	24	30	27	27	14	32	29	22	31	30	15	16	29	33	23
Change the "mix" of HUD's housing programs—that is, spend more on some programs and less on others.																		
Positive	74	73	81	60	75	70	75	76	74	79	63	75	70	73	80	67	73	69
Negative	13	17	8	26	15	19	13	14	18	11	23	17	13	21	9	17	22	15
Have the federal government provide a pool of mortgage funds which would be administered by the state.																		
Positive	67	76	68	77	81	65	76	82	73	74	79	75	71	85	84	78	73	69
Negative	31	21	33	18	17	33	22	13	27	24	18	25	24	15	12	22	27	24
A program of general income maintenance, to replace current programs such as welfare, food stamps, low and moderate income housing subsidies, Medicaid. Under this plan, recipients could spend the subsidy according to their own priorities.																		
Positive	61	72	65	77	74	79	74	75	67	69	77	58	75	82	83	78	73	50
Negative	36	26	32	20	25	21	24	24	30	29	21	39	22	18	17	22	27	38
No significant change in basic design of existing HUD housing subsidy programs, but improvement in HUD management and the programs. This would mean continued reliance on housing construction programs.																		
Positive	52	54	38	52	66	49	61	52	53	49	60	50	58	50	52	74	38	53
Negative	44	43	56	48	29	46	34	48	45	44	40	41	39	50	45	19	59	43
Making no changes or only minor changes in federal housing policies and programs, other than ending the current freeze on funding of subsidized housing programs.																		
Positive	37	30	25	28	35	30	39	24	28	29	32	33	34	21	29	42	19	35
Negative	59	63	73	60	61	68	59	76	70	66	65	64	58	79	65	51	81	62

What Changes, If Any, Would Like to See Made in Federal Housing Policy

	Total Local/ State %	Total Local %	Central Cities %	Outside Central Cities %	Counties %	Total State %
More local involvement, control by cities	26	29	44	23	25	20
Better defined, planned, administered programs	19	17	25	11	19	24
Eliminate red tape	13	13	15	13	12	13
More low cost housing	9	9	15	6	8	7
Other alternatives besides subsidies (e.g. leased housing, home ownership)	9	6	11	5	4	14
More state involvement, control	8	1	1	2	—	23
Rehabilitation of existing housing	8	7	8	6	8	10
More housing for low income groups, poor	7	7	10	6	6	8
Stricter control on people who qualify; too many giveaways	7	8	4	9	12	4
Specific care for elderly, handicapped	6	8	12	6	8	2
More scatter-site housing	5	6	8	5	4	5
Housing subsidies	5	6	7	4	10	4
Revenue sharing	4	5	10	4	2	2
Decentralization	3	3	1	2	8	4
Regional approach	3	2	4	2	2	6
Should publicize available programs better	3	2	3	2	2	6
Less public housing	2	3	1	3	4	1
No change necessary	2	3	1	4	4	1
All other answers	20	17	21	17	12	26
Don't know	8	10	4	13	12	3

Whether Local Governments Should Have the Power to Reject the Construction of Federal Housing Programs

	Total Local/ State %	Total Local %	Central Cities %	Outside Central Cities %	Coun- ties %	Total State %	Under 65% Urban %	65% to 80% Urban %	More Than 80% Urban %
Low Rent Housing Projects									
Local government should have the power	72	76	68	84	67	64	74	63	55
Should not have the power	24	20	29	12	29	31	23	32	36
Not sure	4	4	3	4	4	5	3	5	9
Section 236 Rental Assistance Program									
Local government should have the power	51	56	49	63	48	42	43	32	48
Should not have the power	41	36	48	27	42	51	48	62	48
Not sure	8	8	3	10	10	7	9	6	4
Section 235 Homeownership Assistance Program									
Local government should have the power	48	53	46	58	49	38	42	46	21
Should not have the power	44	39	52	33	37	53	53	45	68
Not sure	8	8	2	9	14	9	5	9	11

Role of Government and the Private Sector in Dealing with Housing Programs

	Total Local/ State %	Total Local %	Central Cities %	Outside Central Cities %	Counties %	East %	Mid-west %	South %	West %	Total State %	East %	Mid-west %	South %	West %
Federal Government's Role														
Too large a role	21	20	18	20	25	19	23	27	14	24	6	10	43	33
Too small a role	34	35	50	30	27	41	37	9	45	32	39	40	22	30
About the right role	39	39	28	46	38	35	34	59	36	38	48	43	32	30
Not sure	6	6	4	4	10	5	6	5	5	6	7	7	3	7
State Government's Role														
Too large a role	5	7	11	5	6	10	6	5	5	2	—	—	5	—
Too small a role	58	51	58	46	51	49	53	45	54	74	77	77	76	63
About the right role	31	35	29	41	29	31	34	45	35	23	23	23	19	30
Not sure	6	7	2	8	14	10	7	5	6	1	—	—	—	7
Local Government's Role														
Too large a role	3	3	4	3	2	8	3	—	—	3	—	6	5	—
Too small a role	53	51	55	43	65	47	56	41	59	57	58	55	65	48
About the right role	40	42	41	51	21	42	33	57	41	36	42	35	27	41
Not sure	4	4	—	3	12	3	8	2	—	4	—	4	3	11
The Private Sector's Role														
Too large a role	5	4	8	2	4	1	3	9	7	7	6	13	3	7
Too small a role	44	43	60	34	42	42	51	20	51	46	58	37	57	30
About the right role	46	48	31	59	46	52	38	66	42	43	32	50	38	56
Not sure	5	5	1	5	8	5	8	5	—	4	4	—	2	7

How Helpful has State Been to City/County in Housing Area

		Housing Experience						Time Spent on Housing								
	Total Local %	Mayors/ Deputy Mayors %	Other Local Executives %	Local Legislators %	Government %	Housing Experts %	Private Professionals %	10% or Less %	More Than 10% %	Central Cities %	Outside Central Cities %	Counties %	East %	Mid-west %	South %	West %
In Providing Housing Related Expertise																
Very helpful	3	3	4	1	4	3	1	3	3	—	4	4	4	4	—	2
Somewhat helpful	24	13	27	31	21	28	25	22	28	31	19	27	39	25	7	16
Not helpful	64	71	64	56	69	64	68	62	64	68	64	57	48	64	76	75
Not sure	9	13	5	12	6	5	6	13	5	1	13	12	9	7	17	7
In Providing Funds for Housing Programs																
Very helpful	4	4	3	4	5	2	5	2	6	4	3	4	11	1	—	—
Somewhat helpful	17	13	15	24	22	22	18	10	27	23	17	12	29	19	5	9
Not helpful	69	70	77	59	66	71	68	75	61	73	67	71	52	70	76	86
Not sure	10	13	5	13	7	5	9	13	6	—	13	13	8	10	19	5

Why Federal Government is Playing Too Large or Too Small a Role in Dealing with Housing Programs

(Base: State government is playing "too large" or "too small" a role)

	Total Local/ State %	Total Local %	Total State %
Too Large a Role			
Federal government too large to be sensitive to local needs; local and state government understands needs better	19	18	20
Federal government has has too much control; prefer local or state control	14	13	17
Too much bureaucracy; at federal level	11	12	10
Need federal funds, but control should be local or state	5	3	10
All other answers	4	6	—
Too Small a Role			
Federal government has funds; not available on state or local level	27	24	33
Federal government not setting, meeting goals of adequate housing	19	17	23
Federal government has power, influence to get things done	4	4	3
Problem can best be solved on wide, federal level	1	1	1
All other answers	11	13	7

Factors Inhibiting a Larger State Role in Housing Policy

(Base: State officials who said State government playing "too small" a role)

	Is A Factor %	Is Not A Factor %	Not Sure %
Other problems that are more pressing	71	27	2
Lack of popular support	65	29	6
Lack of legislative support	61	31	8
Lack of trained and experienced housing personnel	47	47	6
Inadequate tax revenues	47	53	—
Home rule	40	53	7

Why State Government is Playing Too Large or Too Small a Role in Dealing with Housing Programs

(Base: State government is playing "too large" or "too small" a role)

	Total Local/ State %	Total Local %	Total State %
Too Large a Role			
State government too large to be sensitive to local needs; local government understands needs best	4	6	1
State government has too much control	1	2	—
All other answers	*	1	—
Too Small a Role			
State doing little or nothing; not taking responsibility for adequate housing	50	56	40
Need more state funds	18	15	22
Federal government usurping state authority	11	8	16
State cannot provide sufficient funds; only federal government can	9	6	13
Not enough statewide controls, plans, decision-making	7	5	11
State is not providing personnel, technical expertise	4	4	5
State has no legal, constitutional authority to deal with housing	3	1	5
State role has been increasing lately	3	1	5
Allow cities to control progress; cities limit state's role	2	2	2
All other answers	6	6	6
Don't know	*	1	—

* Less than .5 percent.

Factors Inhibiting a Larger Local Role in Housing Policy

(Base: Local officials who said local government playing "too small" a role)

	Is A Factor %	Is Not A Factor %	Not Sure %
Lack of legislative support	67	24	9
Lack of popular support	63	26	11
Other problems that are more pressing	60	33	7
Inadequate tax revenues	51	40	9
Lack of trained and experienced housing personnel	39	51	10

Why Local Government is Playing Too Large or Too Small a Role in Dealing with Housing Problem

(Base: Local government is playing "too large" or "too small" a role)

	Total Local/ State %	Total Local %	Total State %
Too Large a Role			
Use zoning laws, building codes to restrict, prevent building of projects	1	1	3
All other answers	2	2	1
Too Small a Role			
Not enough money	30	35	21
Hampered by federal, state, legal restrictions; their role usurped by federal or state government	23	24	21
Not doing enough, anything	17	18	14
Don't use own initiative; rely on others	15	11	26
They are closest to, most aware of, housing needs	11	15	3
Lack expertise, capability	10	10	11
Need more power, say, authority	10	13	6
Not meeting community housing needs	9	7	11
Lack of popular support	9	7	13
Preoccupied with other problems	5	5	6
Move too slowly	2	2	1
Should do more to get better socio-economic mix	2	2	1
Dominated by real estate, developers, upperclass interests	2	1	4
Local authorities limited to zoning	1	—	1
All other answers	5	2	11

Why the Private Sector is Playing Too Large or Too Small a Role in Dealing with Housing Problem

(Base: Private sector is playing "too large" or "too small" a role)

	Total Local/ State %	Total Local %	Total State %
Too Large A Role			
Building too much high priced, high-income housing	5	5	5
Has too much decision-making poyer; usurping power of government	4	2	6
All other answers	2	1	5
Too Small A Role			
Profit-motivated; public housing not as profitable as private	33	35	30
Have not met housing needs, invested enough in housing construction	21	23	18
Private sector is apathetic; doesn't care; won't participate unless forced to	19	16	23
No incentive; need subsidies, tax exemptions	18	14	24
Lack of funds, resources	18	19	18
Hampered by government restrictions, regulations, red tape; too much government control	12	12	11
Too conservative; don't do anything risky, innovative	7	5	11
Private sector best able to meet need; has most resources	6	6	5
They don't want to participate in these programs	2	—	6
All other answers	6	6	5

Which Level of Government Should Be Primarily Responsible for Different Aspects of Housing

	Local Government %	State Government %	Federal Government %	Not Government Responsibility %	Not sure %
Primarily Local Responsibility					
Development and administration of zoning laws					
Total local/state officials	86	23	4	1	1
Local officials	93	13	4	1	—
State officials	73	44	3	1	2
Development and administration of housing codes					
Total local/state officials	73	37	10	2	1
Local officials	83	23	10	2	—
State officials	52	66	9	2	2
Development and administration of building codes					
Total local/state officials	69	41	10	1	1
Local officials	79	27	12	1	—
State officials	48	70	8	1	2
Provide consumer education services to homeowners					
Total local/state officials	47	44	25	10	3
Local officials	54	37	26	7	2
State officials	32	60	23	15	4
Rent control					
Total local/state officials	35	24	31	16	5
Local officials	35	21	32	17	5
State officials	34	31	29	14	5
Primarily State Responsibility					
Provide technical assistance to private developers					
Total local/state officials	21	42	20	10	2
Local officials	38	33	31	19	2
State officials	16	57	27	18	2
Primarily Federal Responsibility					
Provide mortgage insurance or guarantees					
Total local/state officials	2	14	78	11	3
Local officials	3	14	76	12	3
State officials	1	16	82	8	3
Provide income assistance to individuals for housing					
Total local/state officials	9	26	68	11	3
Local officials	9	25	66	12	3
State officials	7	30	70	8	4
Administer mortgage insurance or guarantees					
Total local/state officials	7	26	61	14	3
Local officials	8	21	61	17	3
State officials	4	35	62	6	4
Provide direct loans for housing					
Total local/state officials	8	28	58	19	3
Local officials	9	23	59	21	2
State officials	5	38	58	16	4
Handling property disposition for housing units repossessed by the Federal government					
Total local/state officials	29	15	56	4	5
Local officials	36	10	53	5	6
State officials	16	25	63	3	3
Enforcement of equal opportunity laws					
Total local/state officials	35	48	52	4	2
Local officials	38	40	54	4	2
State officials	28	65	47	5	2
Periodic review of management of housing receiving government assistance					
Total local/state officials	34	40	50	4	3
Local officials	38	30	53	4	3
State officials	24	60	46	3	5
Provide direct subsidies to builders					
Total local/state officials	8	21	45	34	4
Local officials	9	20	45	33	4
State officials	6	22	46	35	5
Administer direct loans for housing					
Total local/state officials	18	32	39	21	3
Local officials	21	23	39	25	2
State officials	10	50	39	13	5

(Continued on p. 1378.)

(Continued from p. 1377.)

Administer income assistance to individuals for housing					
Total local/state officials	27	36	37	11	3
Local officials	34	26	37	12	2
State officials	13	57	37	9	3
Primarily Not Government Responsibility					
Administer direct subsidies to builders					
Total local/state officials	14	24	31	35	4
Local officials	17	17	32	36	4
State officials	9	38	29	35	5

Note: Totals come to more than 100 percent since officials chose more than one level of government.

Major Benefits to a Regional Approach to Housing

	Total Local/ State %	Total Local %	Total State %
Eliminates duplication of effort; more effective management, planning	29	24	37
More equitable distribution; heterogeneous social and economic mix	29	27	33
Eliminates ghettos, geographic concentrations of poor in one area; disperse throughout region	23	21	27
Coordinates building codes, zoning; uniformity	19	18	20
Responsive to all community needs	15	12	19
Better, more housing, services	15	14	16
Better, more effective use of funds; costs less	14	14	14
Coordinates housing with jobs; closer to employment	6	7	6
Coordinates housing with transportation	5	6	5
People would have a choice where to live	2	3	2
All other answers	15	13	19
Don't know	6	8	3

Whether a Regional Approach to Housing Policy for a Metropolitan Area Makes Sense

	Regional approach makes sense %	Does not make sense %	Not sure %
Total Local/State	60	34	6
Total Local	55	39	6
Mayors/Deputy Mayors	49	44	7
Other Local Executives	64	29	7
Local Legislators	51	45	4
Housing Experience			
Government	57	39	4
Housing Experts	70	27	3
Private Professionals	46	49	5
Time Spent on Housing			
10% or Less	50	43	7
More than 10%	62	34	4
Central Cities	75	21	4
Outside Central Cities	47	45	8
Counties	48	48	4
East	58	40	2
Midwest	48	45	7
South	50	43	7
West	65	26	9
Total State	70	24	6
Governors/Lieutenants/ Assistants	73	24	3
Other State Executives	77	16	7
State Legislators	62	36	2
Total Executives in 15 States Only	80	17	3
Housing Experience			
Government	64	26	10
Housing Experts	73	20	7
Private Professionals	67	31	2
Time Spent on Housing			
10% or Less	65	32	3
More than 10%	76	12	12
Less than 65% Urban	67	22	11
65% to 80% Urban	70	25	5
More than 80% Urban	73	24	3
East	68	19	13
Midwest	81	19	—
South	65	32	3
West	65	23	12

Roles Which Should Be Prime Responsibility of Government but Are Not Now

	Should Be Prime Responsibility of Federal Government Total Local/ State Officials %	Should Be Prime Responsibility of State Government Total Local/ State Officials %	Should Be Prime Responsibility of State Government Total State Officials %	Should Be Prime Responsibility of Local Government Total Local/ State Officials %	Should Be Prime Responsibility of Local Government Total Local Officials %	Should Not Be Government Responsibility Total Local/ State Officials %
Provide income assistance to individuals for housing	9	7	9	3	3	4
Provide mortgage insurance or guarantees	6	4	5	1	1	4
Provide direct loans for housing	5	8	13	4	5	6
Provide technical assistance to private developers	4	13	21	7	9	5
Periodic review of management of housing receiving government assistance	4	11	16	9	10	1
Rent control	4	9	11	10	11	7
Development and administration of building codes	4	10	23	8	9	—
Administer mortgage insurance or guarantees	3	11	20	2	3	6
Provide direct subsidies to builders	3	6	5	3	3	10
Administer income assistance to individuals for housing	3	14	25	7	10	4
Enforcement of equal opportunity laws	3	6	8	8	9	1
Development and administration of housing codes	3	13	27	11	11	—
Handling property disposition for housing units repossessed by the federal government	3	4	9	13	16	1
Provide consumer education services to homeowners	3	9	16	15	16	2
Administer direct subsidies to builders	2	10	17	5	7	11
Administer direct loans for housing	2	13	28	6	9	7
Development and administration of zoning laws	1	8	18	10	10	—
None	68	43	27	50	48	65
Not sure	11	12	8	10	10	12

Major Problems of Regional Approach to Housing

	Total Local/ State %	Total Local %	Total State %
Threatens local political sovereignty; undermines local control, home rule	32	29	36
Competition, jealousy; lack of agreement	29	23	43
Opposition from residents; negative community reaction	22	22	22
Local government is most responsive to local needs	10	14	3
Overcoming local laws, zoning, ordinances	9	10	7
Not all needs are met by setting one standard of housing, living	9	10	7
Adds another layer of bureaucracy, red tape; overlapping	7	6	9
Violates state's rights; state legislatures would never agree	5	5	6
Unfair to smaller, rural or suburban communities; competing against big cities	5	5	6
Lack of regional orientation and commitments	2	2	2
Implementation is difficult	2	2	3
People would get lost in shuffle	1	1	1
Sewage and drainage problems	1	1	1
None	1	2	1
All other answers	12	10	15
Don't know	2	3	2

Preference for Rehabilitation or New Construction in Meeting Your Housing Goals

	Rehabilitation of existing housing is better %	New construction is better %	Not sure %
Total Local/State	52	34	14
Total Local	56	31	13
Mayors/Deputy Mayors	54	31	15
Other Local Executives	55	34	11
Local Legislators	59	27	14
Housing Experience			
Government	46	34	20
Housing Experts	63	25	12
Private Professionals	59	30	11
Time Spent on Housing			
10% or Less	59	30	11
More than 10%	53	31	16
Central Cities	56	36	8
Outside Central Cities	58	28	14
Counties	50	33	17
East	52	37	11
Midwest	56	26	18
South	50	40	10
West	65	22	13
Total State	43	40	17
Governors/Lieutenants/ Assistants	31	49	20
Other State Executives	44	44	12
State Legislators	51	33	16
Total Executives in 15 States Only	38	44	18
Housing Experience			
Government	36	47	17
Housing Experts	35	38	27
Private Professionals	46	33	21
Time Spent on Housing			
10% or Less	48	37	15
More than 10%	34	46	20
Less than 65% Urban	42	48	10
65% to 80% Urban	46	33	21
More than 80% Urban	40	43	17
East	17	61	22
Midwest	48	33	19
South	56	32	12
West	44	40	16

Which Makes More Sense—New Housing or Existing Housing?

	Total Local/ State	Total Local	Central Cities	Outside Central Cities	Counties	East	Midwest	South	West	Total State	Less Than 65% Urban	65% to 80% Urban	More Than 80% Urban	East	Midwest	South	West
In meeting housing program goals for low income families																	
Use available money to build new housing	36	35	39	36	29	46	34	36	21	37	32	35	45	52	23	31	44
Help them obtain better existing housing than they now have	51	52	48	51	61	43	46	57	68	50	59	50	39	31	62	60	44
Not sure	13	13	13	13	10	11	20	7	11	13	9	15	16	17	15	9	12
In meeting housing program goals for moderate income families																	
Use available money to build new housing	32	29	33	28	26	38	18	39	22	38	44	35	36	52	31	26	48
Help them obtain better existing housing than they now have	55	58	56	57	64	53	64	50	67	47	44	48	48	34	50	63	36
Not sure	13	13	11	15	10	9	18	11	11	15	12	17	16	14	19	11	16

How People in This Neighborhood Would Feel if Decided to Build Various Housing Around Here

(In favor includes "strongly in favor" and "somewhat in favor"; opposed includes "somewhat opposed" and "strongly opposed")

	Total Local Officials			Local Officials "in favor" Only		
	In Favor %	Opposed %	Not Sure %	Central Cities %	Outside Central Cities %	Counties %
Small housing project of apartments for the elderly	80	18	2	91	72	82
Single family houses or town houses for moderate income families	69	30	1	80	64	65
Large housing project of apartments for the elderly	51	46	3	76	37	49
Single family houses or town houses for low income families	44	54	2	63	35	37
Small housing project which had apartments for all three groups—low income families, moderate income families, and the elderly	43	52	5	55	33	49
Small housing project of apartments for moderate income families	42	55	3	61	30	43
Small housing project of apartments for low income families	20	76	4	30	11	29
Large housing project of apartments for moderate income families	18	80	2	26	12	24
Large housing project of apartments for low income families	5	93	2	3	2	18

Extent to Which Additional Government Subsidized Housing Would Cause a Strain on City/County Services

(e.g., police protection, electricity supply, sewage service, garbage collection)

	Major Strain %	Minor Strain %	Hardly Any Strain %	No Strain at All %	Not Sure %
Total Local	25	29	25	17	4
Mayors/deputy mayors	27	29	20	17	17
Other local executives	22	28	32	17	1
Local legislators	28	29	20	17	6
Housing Experience					
Government	20	34	21	21	4
Housing experts	13	29	36	18	4
Private professionals	29	23	26	16	6
Time Spent on Housing					
10% or less	28	31	18	20	3
More than 10%	21	24	34	14	7
Central cities	18	23	36	19	4
Outside central cities	31	30	15	19	5
Counties	23	33	32	10	2
East	32	30	19	15	4
Midwest	19	26	26	24	5
South	16	27	32	18	7
West	29	33	26	10	2
Total Outside Central Cities	31	30	15	19	5
Less than 10,000	42	17	10	28	3
10,000 to 49,999	28	30	20	17	5
50,000 and over	26	40	10	17	7
Less than 20% growth	36	26	12	20	6
20% or more growth	25	35	17	18	5
Total Counties	23	33	32	10	2
Direct Per Capita Expenditures					
Less than $420	21	39	36	4	—
More than $420	25	25	29	17	4

How Many Projects Have Visited

(Base: Have visited subsidized federal housing projects in last six months)

	Total Local/ State	Total Local	Total State
One	13	13	13
Two	21	21	20
Three	16	19	11
Four to five	15	12	20
Six to ten	17	15	21
Over ten	18	19	15
Not sure	*	1	—

Not sure

Whether Would Be Forced to Raise Taxes or Seek Additional Revenue to Pay for Increased Services

(Base: Additional government subsidized housing would cause a "major" or "minor" strain)

	Total Local	Mayors/ Deputy Mayors	Other Local Executives	Local Legislators	Central Cities	Outside Central Cities	Counties	East	Midwest	South	West
	%	%	%	%	%	%	%	%	%	%	%
Would be forced to raise taxes or seek additional revenue	76	81	74	74	70	80	72	82	70	57	83
Would not be forced to do this	18	14	22	17	20	16	21	10	24	32	17
Not sure	6	5	4	9	10	4	7	8	6	11	—

Approximate Proportion of Professional Working Time Directly Involved with Housing Matters

	Total Local/ State	Total Local	Mayors/ Deputy Mayors	Other Local Executives	Local Legislators	Total State	Governors/ Lieutenants/ Assistants	Other State Executives	State Legislators
	%	%	%	%	%	%	%	%	%
0 percent (none)	9	9	9	4	13	9	8	—	15
1 to 10 percent	48	48	49	48	51	50	71	20	54
11 to 25 percent	15	15	19	13	15	13	11	9	19
26 to 49 percent	8	8	12	6	6	8	5	11	8
50 to 74 percent	6	6	—	10	6	6	5	11	4
75 to 99 percent	4	4	7	4	2	5	—	17	—
100 percent	9	9	4	14	6	9	—	32	—
Not sure	1	1	—	1	1	—	—	—	—

Whether Personally Visited Any Subsidized Federal Housing Projects in Last Six Months

	Total Local/ State	Total Local	Mayors/ Deputy Mayors	Other Local Executives	Local Legislators	Total State	Governors/ Lieutenants/ Assistants	Other State Executives	State Legislators
	%	%	%	%	%	%	%	%	%
Have visited	63	62	58	63	66	63	61	76	56
Have not visited	36	36	41	34	34	36	39	24	42
Not sure	1	2	1	3	—	1	—	—	2

A Survey of the Attitudes and Experience of Occupants of Urban Federally Subsidized Housing

By *Louis Harris and Associates, Inc.*
Project Director: Carolyn E. Setlow

Introduction

This is the final report of a survey of occupants of urban federally subsidized housing programs, submitted to the Department of Housing and Urban Development for review and comment by Louis Harris and Associates, Inc. Between June 21st and July 11th, 1973, trained Harris interviewers conducted interviews among a cross-section of occupants of three urban federally subsidized housing programs: Section 235 mortgage subsidy, Section 236 rent subsidy and low rent public housing.

On January 5, 1973, HUD announced a moratorium on subsidized housing programs in order to evaluate their effectiveness prior to developing recommendations on the Federal role in housing. The objective of this survey is to obtain data on the attitudes of occupants of subsidized housing concerning their understanding of their housing subsidy, their evaluations of the programs that provide it, and their support for alternative approaches to subsidized housing. These attitudes are among the important factors to be taken into consideration as part of this evaluation.

The survey of occupants of subsidized housing programs [1] is one of four surveys conducted by the Harris firm under this contract. The remaining surveys include:

1. A survey of the attitudes of the American public toward Federal Government housing policies and programs,

2. A survey of the attitudes of State government officials toward Federal Government housing policies and programs, and

3. A survey of the attitudes of local government officials toward Federal Government housing policies and programs.

The results of these three additional surveys will be presented to HUD under separate cover.

The methodology employed in conducting this survey of the American public (the sample design, conduct of interviewing, data processing, and analysis) are described below.

The Sample Design

The sample was drawn from lists of urban subsidized housing addresses provided by HUD. Interviews were conducted with a total of 1453 households in subsidized housing programs located in Standard Metropolitan Statistical Areas (SMSA's). The households were distributed among three programs in the following way:

1. Section 235 mortgage subsidy program: A total of 391 households in Section 235 housing was surveyed in the Nation's 50 largest SMSA's. The interviews were divided between owners of new houses (196 interviews) and owners of existing houses (195 interviews).

2. Section 236 rent subsidy program: A total of 556 households in the Section 236 program was surveyed. The interviews were divided among households in limited dividend projects (284 interviews) and households in nonprofit projects (272 interviews).

3. Low rent public housing: A total of 511 households in low rent public housing was surveyed. The interviews were divided between tenants of conventional public housing (233 interviews) and leased public housing (278 interviews).

Elderly public housing units and elderly Section 236 units were excluded from the sample.

The sample was not drawn to reflect accurately the true distribution of households within the universe of the three program types surveyed.

Instead, the sample was designed to include an adequate number of households in each subsample (that is, program type) in order that each subsample could be independently projected to the entire universe of households within that pro-

[1] Whenever reference is made to subsidized housing programs throughout this report, urban subsidized housing alone (that is, housing in standard metropolitan statistical areas) is included. Subsidized housing located outside SMSA's was not surveyed in this research.

gram type in Standard Metropolitan Statistical Areas. Weights were applied, however, to restore each subsample to its true proportion of the universe of subsidized housing households in metropolitan areas of the United States. The following table illustrates the number of cases interviewed in each subsample and its weighted percentage of the total sample of subsidized housing:

	Number Of Cases In Universe	Number Of Cases Interviewed	Weighted Percentages Of Total Sample
Total households in three urban subsidized housing programs (excluding elderly)	751,626	1458	100
Total Section 235 mortgage subsidy	101,347	391	13
New 235 housing	36,445	196	5
Existing 235 housing	64,902	195	8
Total Section 236 rent subsidy	93,000	556	14
Limited dividend sponsor projects	69,701	284	10
Nonprofit sponsor projects	23,379	272	4
Total public housing	557,199	511	73
Conventional public housing	517,221	233	67
Leased public housing	39,978	278	6

All interviews were conducted with either the head of household or his/her spouse. If only the head of household or his/her spouse was at home, that person was interviewed. If both the head of household and his/her spouse were at home, interviewers were instructed to interview either the man or woman. If the man was interviewed at the first household where both the man and woman were at home, interviewers were instructed to interview the woman at the next household where both head of household and spouse were at home. In this way, interviews were distributed equally between heads of household and their spouses, in those households where a head of household and spouse were present.

Interviews were conducted only with persons who were aware that their housing is either owned or subsidized by the Government. The first question on the questionnaire determined this awareness. If a respondent was not aware of the Government ownership or subsidy, the interview was immediately terminated and not counted toward quota.

Conduct of Interviews

All field work was assigned from the New York office through a group of 15 area supervisors, who in turn assigned as many interviewers as were needed in their regions. Upon approval of the questionnaire, field kits were mailed special delivery to the area supervisors for distribution to their local staffs. These kits contained, in addition to the basic questionnaire, a full written explanation of the substance and purpose of the survey with detailed instructions covering any complex or unusual requirements.

Before interviewing commenced, the written instructions were supplemented by a briefing (in person or by telephone) from either the New York field department or area supervisor. As the work progressed, it was monitored to assure that schedules and quotas were being met and that all results conformed to the specified sampling design. Returns were sent back to the New York office as they were completed, and checked again for quality and completeness. Before the completed questionnaires were processed, they were turned over to an independent validating service, which rechecked 20 percent of each interviewer's respondents to guarantee that the work had been properly conducted and completed in accordance with our specified procedures. In general this validation was done by telephone, but where the interviewer had a high proportion of respondents without telephones the validation was conducted in person. If the 20 percent check turned up any questionable interviews, the interviewer's full quota was invalidated.

Data Processing

Once validation was completed and editing checks made, open-ended (unstructured) questions were coded to permit computer processing.

The full questionnaire was then key punched, key verified and put on magnetic tapes. The data was tabulated by basic cross-tabulation programs and presented in the form of annotated tables showing cross tabulations (frequencies and percentages) of questions by independent variables agreed upon in advance by the Department of Housing and Urban Development and Louis Harris and Associates.

Analysis

In addition to total occupants of subsidized housing, responses throughout the study are reported by type of housing program and other key variables. A definition of these breaks and their distribution in the sample are shown here.

	Weighted Percentage of Sample
Total Occupants of Subsidized Housing	100
Total section 235 mortgage subsidy	13
New 235 housing	5
Existing 235 housing	8
Total section 236 rent subsidy	14
Limited dividend sponsor projects	10
Nonprofit sponsor projects	4
Total public housing	73
Conventional public housing	67
Leased public housing	6
Length of Time In Public Housing (How long been living in public housing)	
Less than 3 years	25
Three years or more	48
Income (1972 pretax household income)	
Under $3,000	46
$3,000 to $5,999	34
$6,000 and over	20
$4,000 to $6,999 [2]	
235 (Section 235 occupants in that income range)	6
236 (Section 236 occupants in that income range)	5
Public housing (public housing occupants in that income range)	16
Race	
White	38
Black	53
Black [2]	
235 (black occupants of section 235 housing)	5
236 (black occupants of section 236 housing)	4
Public housing (black occupants of public housing)	44
Number of Family Members Per Household	
1-2 family members	38
3-4 family members	30
5 or more family members	32
Location	
Inside central cities	84
Outside central cities	16
Geographic Region [3]	
East	34
Midwest	21
South	33
West	12
Age	
Under 30 years	25
30 to 49 years	36
50 years and over	39

The following report includes statistical tables drawn from the annotated tabulation. In addition, the report includes a description of the main findings but also a discussion of the signification of the study results, including clearly identifiable "observation" sections discussing the policy implication of the findings.

The questionnaire administered in this survey was developed by Louis Harris and Associates in close consultation with HUD personnel. A copy of the questionnaire is available from Louis Harris and Associates, Inc., 1270 Avenue of the Americas, New York, N.Y. 10023.

Definition of Housing Programs

Section 235 Mortgage Subsidy: Under Section 235 of the National Housing Act, as amended, HUD makes monthly payments to

[2] An analysis of occupants with identical incomes ($4,000 to $6,999) and of occupants of the same race (blacks) within the three different program types allows a factoring out of differences due to income or to race in order that differences due to program type become more apparent.

[3] The geographic regions are based on the ten federally designated regions and were designed to be as comparable as possible. East includes Region I (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont), Region II (New Jersey and New York) and Region III (Delaware, District of Columbia, Maryland, Pennsylvania, Virginia, and West Virginia). Midwest includes Region V (Illinois, Indiana, Michigan, Minnesota, Ohio and Wisconsin), Region VII (Iowa, Kansas, Missouri, and Nebraska) and Region VIII (Colorado, Montana, North Dakota, South Dakota, Utah, and Wyoming). South includes Region IV (Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee) and Region VI (Arkansas, Louisiana, New Mexico, Oklahoma, and Texas). West includes Region IX (Arizona, California, and Nevada) and Region X (Idaho, Oregon, and Washington).

mortgagees to reduce interest costs to as low as 1 percent on a home mortgage insured by the Federal Housing Administration (HUD-FHA). The homeowner's mortgage payments must be at least 20 percent of his adjusted monthly income. The amount of subsidy varies according to the income of the homeowner and the total amount of the mortgage payment at the market rate of interest. Family income and mortgage limits are established for eligibility in each locality. With minor exceptions, family limits are based upon 135 percent of approved or permissible public housing limits.

Section 236 Rent Subsidy: The Housing and Urban Development Act of 1968 established the Rental Housing Assistance Program (Section 236) to increase the volume of modern decent housing available to lower income families by authorizing interest reduction payments by the Federal Government that in effect reduce the rental charge to the tenant. These periodic payments, made to the mortgagee on behalf of the tenant, reduce interest costs on a HUD-insured project to 1 percent, thereby reducing the amount of rent it is necessary to charge the tenant to cover the monthly cost of the project. (In no case can this be more than 25 percent of a tenant's income.) These payments consider the mortgage principal, interest, and mortgage insurance premium fees. Only new or substantially rehabilitated structures are eligible under this program. The project owner of a Section 236 project must be a nonprofit or limited dividend organization or a cooperative association.

Low Rent Public Housing: This program was designed to help public agencies provide decent, safe, and sanitary housing for low income families at rents they can afford. Financial and technical assistance is provided by HUD to local housing authorities to plan, build, and/or acquire, own, and operate low rent public housing projects. Federal annual contributions are made to cover the debt service on local authority bonds sold to pay for the development or acquisition of public housing. Low rent public housing includes conventional public housing projects and leased units in privately owned housing. Tenants are required to pay not more than 25 percent of their income for this housing.

Summary of Key Findings

The following conclusions can be reached about the views and experiences of occupants of federally subsidized housing on the subject of their own housing conditions and the subsidy program itself.

1. Two out of three occupants of subsidized housing feel that their current housing is an improvement over where they used to live. Satisfaction with their most recent housing move is higher among occupants of subsidized housing than among the Nation as a whole: 65 percent of subsidized housing occupants feel that their current home is better than their last one, compared with 59 percent of the American public at large. Most convinced that their move was a step forward are Section 235 homeowners: an overwhelming 80 percent of them feel that their current home is better than where they lived before. (See Section II)

2. Areas of greatest felt improvement are found in the internal conditions of the dwelling unit. Majorities of occupants felt that they are better off now than in their previous housing in these areas: heating, number of electrical outlets, overall quality of the house or apartment, condition of walls, ceilings, floors, number of rooms. Problems of overcrowding have been somewhat relieved: occupants reported an average of 1.0 persons per room in their previous housing, compared with an average of 0.7 persons per room now. Similarly, 10 percent of people in public housing reported that they did not have complete kitchen facilities in their previous home, while 10 percent lacked hot piped water, 7 percent a bathtub or shower, and 6 percent a flush toilet. In terms of general neighborhood conditions, however—police protection, transportation, access to jobs, kind of neighbors, shopping, and noise—most occupants feel that their present homes offer no marked improvement over where they lived before. (See Section II)

3. Occupants of subsidized housing rate their apartment building or house less positively than the Nation as a whole. The American public gave their housing an 82–18 percent positive evaluation as a place to live, compared with a 62–38 percent positive rating for all subsidized housing. While public housing tenants felt that their current housing provides vast improvements over where they used to live, their overall rating of their housing (58–42 percent positive) falls farthest below the national norm. (See Section II)

4. While occupants of Sections 235 mortgage subsidy and 236 rent subsidy housing are more upwardly mobile (with greater numbers of the young, the employed, and families with two

possible breadwinners), public housing projects have a high concentration of the elderly (the mean age is 51 years), female heads of households (54 percent of households have female heads), the poor (the mean annual income is $3,200), the unemployed (29 percent of heads of household are unemployed), and minority group members (60 percent of all households are black). Racial composition varies dramatically by program type: 60 percent of public housing occupants are black, compared with 35 percent of Section 235 and 27 percent of Section 236 housing. (See Section I)

5. The survey of the American public showed black Americans to be more disenchanted with their living conditions than any other segment of the Nation. (Blacks nationwide gave their housing a 56–44 percent positive rating, compared with 82–18 percent for the American public.) Section 235 and 236 subsidy programs apparently offer real alternatives to black Americans, since black occupants of these programs give their housing higher ratings than do blacks across the Nation. Black tenants of public housing (rating their housing 57–43 percent positive), however, are no happier with their building as a place to live than are blacks nationwide. (See Section II)

6. Maintenance seems to be an overriding problem for tenants of 236 projects and public housing. While 57 percent of renters gave a positive rating to the job done in maintaining and making repairs and improvements in their building, 40 percent rated the maintenance job negatively. Maintenance service received higher positive ratings in buildings in the Midwest and the South (71 percent and 64 percent, respectively), while a 54 percent majority of occupants in the East were critical of the maintenance of their building. (See Section II)

Landlords are held partially to blame for maintenance problems. While 36 percent of renters feel that their landlord is "very concerned" about the quality of housing provided for tenants, another 36 percent felt that he was "only somewhat concerned" and 21 percent "not concerned at all." Landlords in the East are under sharpest attack: only 24 percent felt that they were "very concerned" about the quality of housing. (See Section II)

Apart from landlords, renters hold their neighbors to blame for maintenance problems. Asked how hard they feel most tenants in their building really try to keep the building clean and in good condition, only 23 percent of renters said "very hard," while 32 percent said "only somewhat hard" and 33 percent "not hard at all." Tenants of conventional public housing were harder on their neighbors than were those in leased public housing and 235 rent subsidy housing. (See Section II)

7. Subsidized housing occupants' perceptions of their neighborhoods compare unfavorably with those of the American public at large. The American people gave their neighborhood an 84–16 percent positive rating. While majorities of Sections 235 and 236 occupants evaluate their neighborhood in positive terms, public housing tenants gave their neighborhood a 55–45 percent negative rating. Unlike conventional public housing, however, leased housing received a 57–43 percent positive neighborhood rating. (See Section III)

8. The most serious neighborhood problems include lack of recreation for teenagers (serious for 51 percent of subsidized housing occupants), crime in the streets (serious for 48 percent), lack of recreation for adults (48 percent), noisy people in the streets (47 percent), lack of parks and playgrounds for children (47 percent), not enough good stores and shopping areas (46 percent), drug addiction (45 percent), and dirty streets and sidewalks (44 percent). In all cases, neighborhood problems were considered more serious in subsidized housing neighborhoods than in neighborhoods nationwide. (See Section III)

Certain neighborhood problems seem to have a far more serious effect on public housing tenants than on either Section 235 homeowners or 236 renters; they include crime in the street, noisy people in the street, not enough good stores and shopping areas, drug addiction, dirty streets and sidewalks, dirty air and pollution, cheating and overcharging by stores, and poor housing conditions. Crime and drug addiction are by far the most serious problems in public housing neighborhoods. Until the social problems afflicting public housing neighborhoods are dealt with, there can be little hope for substantially improved living environments for tenants of public housing. (See Section III)

9. Occupants of subsidized housing look to government to play a larger role in tackling major neighborhood problems. In the following areas, government services received negative ratings: recreation for young people, parks and

playgrounds, housing inspection and code enforcement, programs for the elderly, welfare centers, child care centers, city social services, drug addict treatment services, and narcotics control. (See Section III)

10. Monthly rents paid by public housing occupants are considerably lower than the national norm for apartment renters. The mean gross rent paid by public housing tenants is $60 monthly, compared with $134 nationwide. The average monthly rent paid by Section 236 renters is somewhat higher: $122 per month. Payments for 235 mortgage subsidy housing average $153 per month. (See Section IV)

Subsidized housing occupants are basically satisfied with their current expenditures on housing. Nearly three out of four occupants (73 percent) feel that their rent or mortgage payments are "about right" for what they get, while another 6 percent even say that their housing costs are too low. Only one in five occupants felt their rents or payments are "too high." (See Section IV) While tenants of subsized housing feel that they get good value for their money now, they are reluctant to accept any increase in rent, even if it is just to cover increasing maintenance costs. By 50–27 percent, they feel that such rent increases would be "unfair." (See Section IV)

11. By 79–13 percent, subsidized housing occupants have had satisfactory experiences with the subsidized housing program. Satisfaction with the program is slightly higher among 235 homeowners and 235 renters than among public housing tenants, although the latter give the subsidy program a strong 77–14 percent endorsement. Leased public housing again proves to be the preferred approach, however; an overwhelming 90 percent of leased housing tenants have had satisfactory experiences with the subsidy program, compared with 76 percent of conventional housing renters. (See Section IV)

12. On the alternative of housing allowances, subsidized housing occupants are at odds with government officials and the public at large. By 74–25 percent, State and local government officials approved direct housing allowances for low income families. The American public was somewhat more divided on the subject of housing allowances, although they favored such a program by 50–35 percent. The likely recipients of direct housing payments responded less favorably to this alternative, however; by 50–35 percent, occupants of subsidized housing would prefer the present subsidy program to direct housing allowances. Most opposed are the elderly (by 64–21 percent) and families with one or two members (by 65–23 percent). (See Section IV)

13. The greatest turnover in occupancy in urban federally subsidized housing can be expected to be found in Section 236 rent subsidy housing. Fifty percent of tenants of Section 236 housing expect to move during the next 2 years, compared with only 8 percent of Section 235 housing tenants and 16 percent of public housing tenants. A majority of Section 236 tenants planning to move expect to give up apartment living and move into a house: 46 percent into a house they will own, 26 percent into a rented house.

Section I: Who Lives in Urban Federally Subsidized Housing?

A key criterion for evaluating any Federal program is to determine whether or not that program serves the people for whom it was intended. For that reason, this survey of the attitudes of urban federally subsidized housing occupants will begin with a profile of the occupants themselves. Designed to sample a representative cross-section of heads of households and their spouses in three types of urban federally subsidized housing (Section 235 mortgage subsidy homeowners, Section 236 rent subsidy occupants, and low rent public housing tenants), this survey reflects the attitudes of the families served by three of the principal federally subsidized housing programs.

Sex

Households headed by females make up a high proportion of households in the apartment buildings and houses surveyed. Nearly half (49 percent) are headed by females. Their concentration is highest in public housing (54 percent), and drops to 35 percent in 235 mortgage subsidy homes and to 33 percent in 236 rent subsidy apartments. A full 68 percent of households with incomes under $3,000 have female heads.

	Total Occupants
	%
Male headed households	51
Female headed households	49

Age

The average age of heads of household and their spouses is 47 years. Public housing projects have a somewhat older population, with heads of households and their spouses averaging 51 years. The least affluent group has the oldest population; the average age among the under $3,000 group was 56 years.

Race

A majority of the sample (53 percent) are black, compared with 38 percent white and 9 percent Spanish-American. The highest concentration of blacks is found in public housing projects (60 percent black), while majorities in 235 mortgage subsidy homes (57 percent) and 236 rent subsidy apartments (69 percent) are white.

	Total Occupants %
White	38
Black/Negro	53
Oriental	*
Spanish-American	9
American Indian	*
Other	*

* Less than 0.5 percent.

The concentration of blacks is higher in 235 existing housing (43 percent) than in new housing (24 percent), in 236 nonprofit housing (46 percent) than in 236 limited dividend, and in conventional public housing (63 percent) than in leased public housing (31 percent).

Income and Benefits

The average pretax income earned by families in federally subsidized housing in 1972 was $4,000. In 235 mortgage subsidy homes, annual income was $6,700; and in 236 rent subsidy households, $5,600. Average income in public housing project homes dropped to $3,200.

Average income in white families was higher than black ($4,500 and $3,600, respectively). Similarly, occupants of subsidized housing outside central cities outearned those in central cities ($5,000 and $3,800, respectively). The highest concentration of poor is found among elderly occupants, who average an annual income of only $2,700.

For many households, income includes benefits collected regularly from the government. Twenty-nine percent of all urban subsidized housing families collect welfare payments (and a higher 34 percent of public housing families), 27 percent collect social security (and 32 percent of public housing families), 10 percent collect pensions, 5 percent disability insurance, and 1 percent unemployment insurance.

Employment Status

Unemployment runs high among occupants of urban federally subsidized housing. More than one out of five heads of household (23 percent) are unemployed, while another one out of five (20 percent) are retired. Unemployment runs even higher among public housing tenants (29 percent), the under-$3,000 income group (32 percent), westerners (29 percent) and the 30-to-49 year olds (29 percent). One out of two people in the 50-and-over age group is retired.

	Total Nation %	Total Occupants %
Hourly wage worker	28	28
Salaried	33	13
Self-employed	12	2
Retired	18	20
Unemployed	3	23
Student	1	1
Military service	1	2
Housewife	3	8
Other	1	3

Observation: Well represented in public housing projects are the least privileged members of American society—the elderly, minority group members, the poor, female heads of household, welfare and social security recipients, the retired, and the unemployed.

With the greater numbers of the young, the employed, and families with two possible breadwinners, residents of Section 235 and 236 housing are potentially much more upwardly mobile. Not surprisingly, public housing projects will prove to be the locus of greatest dissatisfaction and discontent among occupants of federally supported housing programs.

Sex of Occupants

	Male (Head of House-hold)	Female Head of House-hold	Female Wife of Male Head of House-hold
	%	%	%
Total Nation	46	11	43
Total Occupants	31	49	20
Total 235 Mortgage Subsidy	31	35	34
235 new	30	26	44
235 existing	33	40	27
Total 236 Rent Subsidy	38	33	29
236 limited dividend	38	29	33
236 nonprofit	35	45	20
Total Public Housing	30	54	16
Conventional public	30	54	16
Leased public	25	58	17
Length of Time in Public Housing			
Less than 3 years	27	62	11
Three years or more	31	50	19
Under $3,000	22	68	10
$3,000 to $5,999	36	42	22
$6,000 and over	46	16	38
White	34	41	25
Black	27	58	15
1–2 family members	34	57	9
3–4 family members	29	48	23
5 or more family members	30	38	32
Inside central cities	29	52	19
Outside central cities	39	34	27
East	36	49	15
Midwest	29	52	19
South	28	48	24
West	30	44	26
Under 30 years	25	40	35
30 to 49 years	24	51	25
50 years and over	41	52	7

Age

	Mean Number of Years
	%
Total Occupants	47
Total 235 Mortgage Subsidy	37
235 new	33
235 existing	39
Total 236 Rent Subsidy	36
236 limited dividend	35
236 nonprofit	40
Total Public Housing	51
Conventional public	51
Leased public	48
Length of Time in Public Housing	
Less than 3 years	45
Three years or more	54
Under $3,000	56
$3,000 to $5,999	43
$6,000 and over	34
$4,000 to $6,999	
235	38
236	32
Public housing	43
White	48
Black	48
Black	
235	40
236	33
Public housing	50
1-2 family members	64
3-4 family members	36
5 or more family members	37
Inside central cities	47
Outside central cities	46
East	48
Midwest	46
South	50
West	41

Ethnic Group or Racial Background

	White	Black/ Negro	Oriental	Spanish American	American Indian	Other
	%	%	%	%	%	%
Total Occupants	38	53	*	9	*	*
Total 235 Mortgage Subsidy	57	35	*	8	*	—
235 new	69	24	—	6	1	—
235 existing	46	43	1	10	—	—
Total 236 Rent Subsidy	69	27	*	3	—	1
236 limited dividend	76	20	—	3	—	1
236 nonprofit	47	46	1	4	1	1
Total Public Housing	30	60	*	10	—	—
Conventional public	27	63	—	10	—	—
Leased public	60	31	*	8	*	1
Length of Time in Public Housing						
Less than 3 years	36	51	*	13	*	*
Three years or more	27	65	—	8	—	—

* Less than 0.5 percent.

Benefits Currently Collected by Head of Household

	Pension Benefits	Unemployment Insurance	Social Security Payments	Welfare Payments	Disability Insurance	None	Not Sure
	%	%	%	%	%	%	%
Total Occupants	10	1	27	29	5	39	1
Total 235 Mortgage Subsidy	4	1	9	15	3	71	3
Total 236 Rent Subsidy	7	2	16	13	4	66	1
Total Public Housing	12	1	32	34	6	28	1
Under $3,000	15	1	41	38	6	13	*
$3,000 to $5,999	8	1	22	30	5	47	1
$6,000 and over	2	1	5	3	3	86	2
White	10	1	33	21	6	41	1
Black	11	1	25	35	4	35	*
1–2 family members	20	1	53	22	4	19	1
3–4 family members	4	2	13	30	6	52	1
5 or more family members	3	*	9	36	7	51	2
Inside central cities	11	1	25	31	5	37	1
Outside central cities	8	1	37	18	6	44	1
East	10	1	27	33	4	33	1
Midwest	16	2	24	23	3	38	1
South	9	*	33	25	4	44	1
West	5	1	16	38	18	39	2
Under 30 years	1	2	2	31	4	61	1
30 to 49 years	4	1	10	36	3	50	2
50 years and over	22	*	59	21	9	13	*

* Less than 0.5 percent.

Pretax Household Income for 1972

	Mean Income $		Mean Income $
Total Occupants	4,000	235	5,500
Total 235 Mortgage Subsidy	6,700	236	5,800
235 new	7,100	Public housing	3,200
235 existing	6,400	1-2 family members	2,600
Total 236 Rent Subsidy	5,600	3-4 family members	4,800
236 limited dividend	5,800	5 or more family members	5,000
236 nonprofit	4,900	Inside central cities	3,800
Total Public Housing	3,200	Outside central cities	5,000
Conventional public	3,200	East	4,300
Leased public	3,400	Midwest	4,500
Length of Time in Public Housing		South	3,200
Less than 3 years	3,000	West	4,500
Three years or more	3,300	Under 30 years	5,000
White	4,500	30 to 49 years	4,800
Black	3,600	50 years and over	2,700

Employment Status

	Hourly Wage Worker %	Salaried %	Self-employed %	Retired %	Unemployed %	Student %	Military Service %	Housewife %	Other %
Total Nation	28	33	12	18	3	1	1	3	1
Total Occupants	28	13	2	20	23	1	2	8	3
Total 235 Mortgage Subsidy	54	27	2	4	7	1	2	2	1
235 new	58	27	2	2	4	1	3	3	—
235 existing	49	27	2	6	9	1	2	2	2
Total 236 Rent Subsidy	39	21	2	14	9	5	6	3	1
236 limited dividends	41	23	2	12	8	5	6	2	1
236 nonprofit	31	18	2	18	12	4	6	6	3
Total Public Housing	22	9	2	25	29	*	1	9	3
Conventional public	22	9	2	24	30	—	1	9	3
Leased public	22	6	3	30	22	5	1	8	3
Length of Time in Public Housing									
Less than 3 years	20	2	3	25	32	1	3	9	5
Three years or more	24	12	2	24	26	*	1	9	2
Under $3,000	11	7	2	31	32	1	1	13	2
$3,000 to $5,999	34	13	2	17	22	1	3	5	3
$6,000 and over	62	26	3	2	4	1	2	*	*
White	25	15	3	24	15	2	4	10	2
Black	28	13	2	19	29	1	*	5	3
1-2 family members	14	9	3	45	14	1	1	10	3
3-4 family members	33	17	1	5	30	2	2	7	3
5 or more family members	41	14	3	4	27	*	3	6	2
Inside central cities	29	12	2	20	24	1	1	8	3
Outside central cities	29	17	3	23	16	1	6	5	*
East	29	12	*	20	25	*	1	13	*
Midwest	31	10	1	27	13	1	1	8	8
South	28	17	5	20	24	1	1	4	*
West	29	10	1	11	29	4	6	4	6
Under 30 years	41	18	1	*	24	3	4	5	4
30 to 49 years	40	14	3	3	29	1	1	8	1
50 years and over	11	8	2	50	16	*	1	9	3

* Less than 0.5 percent.

Section II: Urban Subsidized Housing Occupants' Experience and Attitudes Toward Their Housing

Occupants of Section 235 mortgage subsidy and 236 rents subsidy housing are relative newcomers to federally subsidized housing. Mortgage subsidy homeowners have lived in their homes for an average of 2.5 years, while rent subsidy tenants have been in their present homes for an average of 1.4 years. (Section 235 and 236 housing were authorized in 1968.) Public housing tenants have been in their apartments somewhat longer: conventional public housing tenants average 5.5 years in their current apartments, while leased public housing tenants average only 2.8 years.

For most occupants, moving into their new homes meant a change in their kind of residence. Most 235 homeowners are first-time homeowners; only 12 percent of them had lived previously in a house owned by themselves or their family, while 45 percent had lived in a rented house, 32 percent in a rented apartment, and 5 percent in a public housing project. (Only 22 percent of 235 homeowners had ever owned a house before this.) While 42 percent of 236 rent subsidy tenants moved there from a rented apartment, 19 percent had lived in a rented house, 27 percent in a house owned by themselves or a member of the family, and 4 percent in public housing. Only 11 percent of public housing tenants moved there directly from another public housing project, while 51 percent

moved from a rented apartment, 21 percent from a rented house, and 12 percent from a house owned by themselves or a member of the family. (Twenty percent of occupants of public housing said they had lived in public housing before. Most of these, however, lived there during their adult lives sometime after they turned 18 years old.)

Observation: The high proportion of first-time homeowners among beneficiaries of Section 235 housing suggests that some counseling on how to be a homeowner might be appropriate.

Kind of Place Lived in Before Moving Here
(Base: Been living in building/house 10 years or less)

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Rented apartment	48	32	42	51
Cooperative apartment	*	*	*	—
Public housing project	9	5	4	11
Rented house	24	45	19	21
House that I or spouse owned	5	7	11	4
House owned by family	9	5	16	8
Other	5	6	7	5
Not sure	*	—	1	—

* Less than .5 percent.

How First Learned About Subsidized Housing

A number of sources were responsible for informing present occupants that their apartment or house was available. Sources of information vary substantially by type of housing:

- Real estate agents, newspaper and radio advertising, friends and neighbors played important roles in publicizing the 235 mortgage subsidy program. Real estate agents were by far the most important source of information about 235 existing houses, while newspaper and radio advertising played a more important role in publicizing 235 new houses.
- Occupants of 236 rent subsidy housing learned that the program was available from friends and neighbors, by riding or passing by the building or a sign, from newspaper and radio advertising, or from relatives who lived there.
- The housing authority played the major role in informing tenants about public housing, followed by social services, welfare and family relocation services, and friends and neighbors. More than half of all tenants of leased public housing learned that their apartment was available through the housing authority.

How Housing Conditions Now Compare with Where They Used to Live

By and large, occupants of subsidized housing feel that their move to their current home was for the better considering the amount of money they pay. For every person who feels that his current apartment or house is worse than his previous place, there are five who feel that their present home is better than where they were living before. In fact, satisfaction with their most recent housing move is higher among occupants of subsidized housing than among the nation as a whole: 65 percent of subsidized housing occupants who moved there in the past 10 years feel that their current home is better than where they used to live, compared with 59 percent of the American public who feel that way.

How Current Apartment/House Compares with Where You Were Living Before, Considering the Value You Get for Your Money
(Base: Been living in building/house 10 years or less)

	Total Occupants of Subsidized Housing %	Total Nation %
Better than previous place	65	59
About the same	20	26
Worse than previous place	12	10
Not sure	3	5

Most convinced that their move was a step forward and not backward are Section 235 homeowners: an overwhelming 80 percent of them feel that their current house is better for the money than where they lived before. Sixty-four percent of 236 occupants and 62 percent of public housing tenants feel that their present housing surpasses where they used to live. A higher 71 percent of those who moved into public housing in the past 3 years feel that their move was for the better, compared with only 57 percent of those that have lived in public housing 3 years or more.

Observation: The findings suggest that those who have lived in public housing longer may be more likely than newcomers to have forgotten the negative aspects of their former housing and to focus on the problems of their current housing. Yet, even among this group, a majority feel that their present housing is better than where they used to live.

On 12 out of 20 housing items, occupants of federally subsidized housing felt that they are better off now than they were where they were living before moving here. Majorities felt that they are better off now in the following eight areas: heating, number of electrical outlets, overall quality of the house/apartment, condition of walls and ceilings, condition of floors, number of rooms, kitchen counter and storage space, and number of bedrooms. Pluralities felt that they are better off now in these areas: their view, privacy, availability of washer and dryer, and rodent infestation.

In seven areas related to housing, majorities or pluralities of subsidized housing occupants feel that things are about the same now as they were in their previous home: police protection, transportation in general, air conditioning, access to jobs, kind of neighbors, commuting to work and shopping. In only one area do a plurality of occupants (35 percent) feel that they are worse off now than they used to be: lack of noise.

Observation: Areas of greatest improvement can be found in the internal conditions of the dwelling unit—heating, electrical outlets, condition of walls, ceilings and floors, number of rooms, kitchen counters and storage space, and overall quality of the dwelling unit itself. (The conduct of interviews in early summer may explain the less positive evaluation of air conditioning.)

When it comes to general neighborhood conditions, however—police protection, transportation, access to jobs, kind of neighbors, commuting to work, shopping, and noise—occupants are noticeably less satisfied. Since a person's satisfaction with his home is intimately connected with the larger environment in which he is living, neighborhood problems can easily impinge on the daily living in a particular kind of housing. For this reason, attitudes toward the neighborhood will be examined at length in Section III of this report.

A basic measure was made of the kind of conditions subsidized housing residents lived in before they moved into their current homes. On the whole, they enjoyed the basic facilities of living: Complete kitchen facilities, hot and cold running water, flush toilets, and a bathtub or shower. Tenants of public housing apparently moved from somewhat more primitive conditions than did Section 236 and 235 occupants: 10 percent of public housing tenants were without complete kitchen facilities, 10 percent without hot and cold piped water, 6 percent without flush toilets and 7 percent without a bathtub or shower.

Occupants of federally subsidized housing evidently enjoy less crowded conditions in their current housing than they did where they lived previously. A calculation of the number of persons per room in both their current and previous housing shows an improvement in this area. The mean number of persons per room where they used to live was 1.0 compared with .7 where they are living now. This represents a decrease of .3 persons per room. (The under-$3,000 income group gained the most space in their move, a decrease of .4 persons per room.)

That people feel they have made less progress in available transportation, access to jobs and commuting to work than they do in the internal conditions of their new homes is not surprising in light of further findings: on the whole, people have to travel longer to get to their jobs from their subsidized housing than they did from where they used to live. Before they moved, those surveyed averaged a 26-minute trip to work; now they average a 29-minute trip. Their commute has increased by an average of 3 minutes.

Certain groups have been inconvenienced more than others in their commute to work. Tenants of conventional public housing have added 6 minutes to their commute, while 236 rent subsidy tenants have saved a minute and 235 homeowners have experienced no substantial change in travel time. (Owners of new 235 homes have added 2 minutes, while owners of existing homes have lost a minute.)

In addition to adding minutes to their commute, some occupants of subsidized housing have had to change their means of transportation in arriving at their job. The percentage of people who now walk to work has decreased, while the number who travel to work by car has increased. Only among public housing tenants has the percentage who travel to work by mass transit increased.

Observation: Federally subsidized housing has unquestionably improved the internal hous-

ing conditions of those who have benefited from the programs. Subjectively speaking, occupants feel that they are better off now in a number of different areas. Objectively speaking, a calculation of number of persons per room substantiates their claim that they have more rooms now than they did where they used to live.

While occupants feel they've "come a long way" as far as internal housing conditions are concerned, they raise some serious questions about the location of subsidized housing. Many have exchanged a shorter commute to work for a neighborhood similar to the one they had left. Attitudes toward the neighborhood will be examined in Section III of this report.

Rating of Apartment or House as a Place to Live

While most subsidized housing tenants agree that they are better off now than they used to be, some (and especially public housing tenants) notice a gradual decline of their own apartment building or house.

On the whole, residents of 236 rent subsidy housing feel that their housing has "stayed about the same" since they have lived there: 65 percent felt there had been no change, while 19 percent said it had "gotten worse" and 14 percent said it had "improved." Although still the perceptions of a minority, the decline is considered worse in 236 nonprofit housing than in 236 limited dividend.

A majority of tenants of leased public housing feel that their building has "stayed about the same": 60 percent of them see no change in the building. Moreover, for every tenant who feels that the housing has "gotten worse" (19 percent), another feels that it has "improved" (19 percent).

Conventional public housing projects are felt to have experienced more serious decline. While 48 percent of their tenants felt that the building has "stayed the same" and 19 percent felt it had "improved," 31 percent of tenants of conventional public housing felt that their building has "gotten worse" since they have lived there. An even higher 35 percent of those who have lived in public housing 3 years or more felt the building has "gotten worse."

Compared with other geographical regions, 236 and public housing are felt to have gone downhill most in the East. In fact, a 44 percent plurality of tenants in the East felt that their building has "gotten worse," compared with minorities of tenants in the Midwest (31 percent), the South (13 percent), and the West (13 percent).

Observation: Feelings about decline of the building reflect in part the age of various subsidized housing programs. As earlier findings showed, tenants of conventional public housing have been there an average of 5.5 years, compared with much shorter occupancies of leased public housing and 236 housing. Conventional public housing buildings have had more time to decline.

A slower deterioration of leased public housing than conventional may also be attributed to the nature of the program, however. A better "mix" of tenants in buildings with leased public housing and the private ownership of the building may well retard the decline of housing conditions.

Greater felt decline in the East can be explained in part by the distribution of conventional public housing nationwide. Forty-three percent of all conventional housing tenants are located in the East, while 18 percent are in the Midwest, 34 percent in the South and 5 percent in the West.

All in all, however, conventional public housing still seems to have been kept up most poorly. While nearly half of its tenants see no change, a substantial minority (and particularly those who have been there the longest) feel that their buildings have gone downhill. If past investments in conventional public housing are to be protected, these buildings should get some attention now.

Occupants of 236 and public housing explained why they felt their buildings had improved or gotten worse. Residents of 236 housing who felt their building had improved mentioned better maintenance, kept cleaner (24 percent), improved grounds, surroundings (12 percent), and painted, made improvements myself (4 percent). Public housing tenants who felt their building had improved referred to better maintenance, kept cleaner (20 percent), remodeling of kitchen, bathroom, cabinets, doors, etc. (17 percent), and walls, roof fixed, painted (6 percent).

Occupants of 236 rent subsidy housing who felt their building had gotten worse mentioned slower, less maintenance service (19 percent), more rundown, deteriorated (14 percent), children behave badly (14 percent) and people are dirty, destructive (8 percent). Public housing tenants who reported decline in their building referred to the fact that the building was more run-

down, deteriorated (14 percent), slower, less maintenance service (13 percent), people aren't nice, don't get along (13 percent), premises dirty (11 percent), children behave badly (9 percent), and people are dirty, destructive (9 percent).

Problems of maintenance and of bad neighbors came up again when the tenants of 236 rent subsidy and public housing were asked to volunteer the two or three biggest problems or complaints they have about living in their apartment building or house. Section 236 tenants complained of inside maintenance problems; they don't make the repairs they're supposed to (25 percent), noisy neighbors; don't like neighbors (16 percent), noisy children (12 percent), no place, playground for children to play (11 percent), and no privacy (7 percent). Twenty-three percent were unable to come up with any problems or complaints.

The biggest complaints or problems volunteered by public housing occupants were inside maintenance problems (29 percent), noisy neighbors (13 percent), noisy children (12 percent), unkempt grounds; don't maintain the yard (9 percent), and stealing, breaking into apartments (8 percent). Twenty-five percent said they had no complaints at all.

The complaints of 235 homeowners are very different from those of renters. They referred primarily to bad construction, house poorly built (21 percent), plumbing problems; leaks, broken pipes (13 percent), repairs not made (12 percent), need more, bigger rooms, house (12 percent), and hole in ceiling, roof; leaks (8 percent). Thirty-one percent had no complaints.

Observation: Maintenance seems to be the overriding problem bothering tenants of 236 and public housing. No playgrounds for children is a complaint of 236 residents but not of public housing tenants; design of public housing projects apparently included adequate playground facilities.

Next to maintenance problems, the biggest complaints have to do with troublesome neighbors. Substantial numbers of tenants in both types of subsidized rental units complained of noisy neighbors, noisy children, no privacy, destructive neighbors, etc. Here is further proof of the cost of concentrating large numbers of the least privileged groups together.

Bad construction is a serious problem for Section 235 howeowners, and particularly for owners of new 235 houses. (Twenty-nine percent of owners of new houses felt the houses were poorly built, compared with a smaller 16 percent of owners of existing houses.) Additional complaints of plumbing problems, need for repairs, leaks, rundown condition of house, etc., may be evidence that better construction can prove cheaper in the long run.

While majorities of renters (57 percent) give a positive rating (20 percent "excellent," 37 percent "pretty good") to the job done in maintaining and making repairs and improvements in their building or house, two out of five give a negative rating (18 percent "only fair" and 22 percent "poor"). While maintenance in buildings in the Midwest and the South received higher positive ratings (71 percent and 64 percent, respectively), a majority of occupants in the East (54 percent) were critical of the maintenance of their building.

The landlord is held partially to blame for any maintenance problem. While 36 percent of renters felt that their landlord is "very concerned" about the quality of housing provided for tenants, another 36 percent felt he was "only somewhat concerned," and 21 percent said "not concerned at all." Landlords of 236 rent subsidy buildings finished with higher scores here (43 percent "very concerned") than did landlords of low rent public housing (35 percent "very concerned"). Landlords in the East are under sharpest attack: only 24 percent felt that they were "very concerned," while 34 percent felt they were "not concerned at all."

Apart from the landlord, however, renters hold the tenants themselves to blame for maintenance problems. When asked how hard they feel most tenants in this building really try to keep the building clean and in good condition, only 23 percent said "very hard," while 32 percent said "only somewhat hard" and 33 percent said "not hard at all." (Another 7 percent felt "it depends," while 5 percent were "not sure.") Again, tenants received the lowest ratings on their efforts to keep the building clean and in good condition in the East (47 percent said "not hard at all"), where the rating for general maintenance job was most negative. In addition, tenants of conventional public housing were harder on their neighbors than were those in leased public housing and 236 rent subsidy housing.

All in all, occupants of all three types of subsidized housing rate their apartment building or house less positively than the Nation as a whole. The American public gave their housing an 82–18 percent positive evaluation as a place to live, compared with a 62–38 percent positive rating for all subsidized housing. Receiving the

lowest ratings were low rent public housing (58–42 percent positive). Compared with conventional public housing (58–42 percent positive), leased public housing emerged somewhat more favorably (with a 66–34 percent positive rating).

That evaluations of housing reflect the real condition of the building and its surroundings and not a more general standard of living was substantiated by further findings. A control group of occupants of all types of subsidized housing with similar incomes ($4,000 to $6,999) was broken out of the total and looked at by type of housing. Section 235 homeowners in this income range gave their housing a 78–22 percent positive rating and 236 tenants in this income category gave their housing a comparable 73–26 percent positive rating. Tenants of low rent public housing in this same income range gave their housing a much lower 53–47 percent positive rating.

The Harris survey of the American public showed black Americans to be more disenchanted with their living conditions than any other segment of the population. Compared with an 82–18 percent positive rating from the entire population, blacks gave their housing a 56–44 percent rating nationwide. To what extent, one might ask, does public housing alleviate the housing dissatisfaction experienced by black Americans? The following table answers this question:

		Blacks			
	Total Nation %	Subsidized Housing Occupants %	235 Mortgage Subsidy %	236 Rent Subsidy %	Public Housing %
Excellent	15	15	20	18	14
Pretty good	41	44	48	51	43
Only fair	33	31	22	27	32
Poor	11	10	10	3	11
Not sure	—	—	—	1	—
Positive	56	59	68	69	57
Negative	44	41	32	30	43

Observation: While tenants of low rent public housing felt that their homes now provide vast internal improvements over where they used to live, their overall rating of their housing falls far below the national norm. In the case of black Americans, for example, where dissatisfaction with housing conditions proved to be greatest, Section 235 and 236 subsidy programs apparently offer a real alternative to their previous housing. Black tenants of public housing, however, are no happier with their building as a place to live than are black Americans as a group.

Rating of Apartment Building/House as a Place to Live

	Total Nation %	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Excellent	43	19	28	22	16
Pretty good	39	43	47	50	42
Only fair	15	27	20	23	29
Poor	3	11	5	5	13
Not sure	*	*	—	*	—
Positive	82	62	75	72	58
Negative	18	38	25	28	42

* Less than .5 percent.

Public housing has apparently failed in its attempt to provide tenants with a whole new, more acceptable living environment. As later findings will show, this living environment extends beyond the four walls of the dwelling unit and into the surrounding neighborhood. Any planning for housing which fails to consider this larger neighborhood environment is overlooking an essential and even critical dimension.

Future Housing Plans and Aspirations

Few 235 homeowners have plans to move elsewhere in the near future. In fact, while 8 percent expect to live in their home for only 2 years or less, 11 percent plan to stay ten years or more and 46 percent expect to stay "the rest of my life." One out of four (27 percent) were not yet sure of their plans.

Those who expect to move during the next 2 years were asked what they expect their next home to be. Of the 8 percent of 235 homeowners who expect to move, none plans on apartment living; instead, the majority expect to own another house.

The greatest turnover in occupants can be expected to be found in Section 236 rent subsidy housing. Fifty percent of tenants of this housing expect to move during the next 2 years (26 percent in less than 1 year, 24 percent in 1 to 2 years). The majority of those planning to move expect to give up apartment living and move into a house: 46 percent into a house they will own, 26 percent into a rented house.

Tenants of public housing are much more uncertain about their housing plans. A substantial 46 percent of public housing occupants were

"not sure" how much longer they expected to live in this building. Only 16 percent expect to move in the next couple of years, while 30 percent plan to live out their lives there. Among the 16 percent who plan to move in the immediate future, most hope to move to houses: 39 percent to a house that they will own, and 23 percent to a rented house.

The desire to live in a house, rather than an apartment, is great among occupants of federally subsidized housing, almost as great as among the Nation as a whole. All other things being equal, the American public would opt for a house over an apartment by 90–8 percent. Current 235 mortgage subsidy homewoners have even stronger attachments to house living: by 98–1 percent, they would prefer living in a house to an apartment. Section 236 rent subsidy renters also have definite preferences for living in a house: by 77–21 percent, they would choose a house over an apartment. By 64–33 percent, public housing tenants share the same preference.

Whether Would Rather Live in a House or an Apartment, All Other Things Being Equal

	House %	Apartment %	Not Sure %
Total Nation	90	8	2
Total Occupants of Subsidized Housing	69	28	3
235 mortgage subsidy	98	1	1
236 rent subsidy	77	21	2
Public housing	64	33	3

The reasons for preferring a house over an apartment are highlighted when those who expect to move in the next 2 years explained "what they were hoping to find when they move that they don't have now":

- Section 235 homeowners are looking forward to more room, a larger house (35 percent), a yard, garden, trees, land, country living (22 percent), lower payments (21 percent), and a better, quieter neighborhood, place to live (17 percent).
- Section 236 rent subsidy occupants are hoping to find privacy (37 percent), yard, garden, trees, land, country living (36 percent), more room, living space (25 percent), own their own house (23 percent), and a better, quieter neighborhood, place to live (20 percent).

Public housing tenants look forward to a better, quieter neighborhood, place to live (35 percent), yard, garden, trees, land, country living (25 percent), a better place for children to play (20 percent), privacy (15 percent), and own their own house (13 percent).

Their main reasons for planning to move repeat some of these same themes. Section 235 homeowners volunteered that the house needs repairs, that the payments are high, that they need more room, and that they want a cleaner, better neighborhood.

Recipients of rent subsidies explained that they want their own home, private house, that they have had a change in their circumstance (graduated, new job, school), that they want a yard for the children to play, that they have no privacy here, and that they need more room, space.

More than any other reason, public housing tenants explain that they want a cleaner, better neighborhood. In addition, they said that they want a yard, a place for the children to play, that they want their own home, private house, that they need more room, space, and that they want to move away from crime.

Observation: Section 235 homeowners are the most settled in their housing of all the beneficiaries of federally subsidized housing. Having fulfilled their desires to live in a house rather than an apartment, majorities expect to stay where they are for a long time. Those who do plan to move are looking for more room, country living, a nicer neighborhood, even lower mortgage payments, and a better constructed house with fewer repair needs. With this group representing only a small minority of 235 homeowners, however, the mortgage subsidy program can be considered a success in satisfying its occupants.

Half of all 236 rent subsidy recipients plan to move in the next couple of years. Most of these people aspire to house living and yearn for more privacy, a yard, garden, trees and country living, more room, a nicer neighborhood, and private home ownership. This is clearly a very upwardly mobile group, with changing circumstances in their personal lives and hopes for more middle class living standards. On the whole, it appears that 236 housing channels people from apartment living to private houses.

Tenants of public housing are in a much less enviable position. Despite their lower levels of satisfaction with their housing, they are less hopeful of moving elsewhere. (Only 16 percent have definite plans to move, while 46 percent are

How Long Have Been Living in This Apartment Building/House

	Total Occupants %	Total 235 Mortgage Subsidy %	235 New %	235 Existing %	Total 236 Rent Subsidy %	236 Limited Dividend %	236 Non-Profit %	Total Public Housing %	Conventional Public %	Leased Public %
Less than 1 year	19	11	9	13	39	41	33	17	16	33
1 to 2 years	24	37	54	26	49	47	56	17	16	27
3 to 4 years	25	49	36	55	11	11	11	23	23	19
5 to 6 years	9	2	1	3	1	1	—	12	12	13
7 to 8 years	8	*	—	1	—	—	—	11	11	4
9 to 10 years	6	1	—	1	—	—	—	8	9	1
More than 10 years	9	—	—	—	—	—	—	12	13	3
All my life	*	*	—	1	—	—	—	*	*	—
Mean number of years	4.4	2.5	2.2	2.7	1.4	1.4	1.4	5.3	5.5	2.8

* Less than .5 percent.

Housing History Before Moving Here

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Whether Ever Owned Own House (Before)				
Owned house	16	22	25	13
Did not own house	84	78	75	87
Not sure	*	—	—	*
Whether Ever Lived in a Co-op				
Lived in co-op	3	4	2	3
Did not live in co-op	90	92	94	89
Not sure	7	4	4	8
Whether Ever Lived in Public Housing (Before)				
Lived in public housing	19	20	13	20
Did not live in public housing	81	78	87	80
Not sure	*	2	*	*

* Less than .5 percent.

Whether Ever Lived in a Public Housing Project Up Until the Time You Were 18

(Base: Lived in public housing project before)

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Lived in public housing up until time was 18	15	15	24	14
Did not live in public housing up until time was 18	83	85	76	84
Not sure	2	—	—	2

uncertain and 30 percent expect to stay permanently where they are.) While majorities of these tenants aspire to house living, few have any hopes of attaining this status. Those who have plans to leave are fleeing in search of a better neighborhood. All in all, tenants of public housing are the most alienated in terms of their living environment and the least optimistic about changing it.

How First Learned This Apartment Building/House Was Available

	Total Occupants %	Total 235 Mortgage Subsidy %	235 New %	235 Existing %	Total 236 Rent Subsidy %	236 Limited Dividend %	236 Nonprofit %	Total Public Housing %	Conventional Public %	Leased Public %
Through the housing authority	20	4	7	3	3	2	4	26	24	53
Through a friend, neighbor	16	16	18	15	22	21	24	15	15	11
Social service, welfare, family relocation	12	1	2	1	2	1	5	16	16	9
Riding, passing by; saw sign, building	10	13	14	12	21	23	16	7	7	7
Through family, relatives	7	6	9	4	9	9	8	6	7	4
Family, relatives lived here	7	1	—	2	12	11	13	7	7	5
In the newspaper, radio; advertising	7	18	21	17	16	16	17	3	3	3
Through a real estate agent	5	30	15	40	3	4	2	1	1	1
Came to the office here	5	1	3	1	2	2	3	6	6	*
General knowledge; knew it existed	4	*	—	1	4	4	3	5	5	2
Word of mouth	3	2	2	2	5	5	3	3	3	4
Through my landlord	1	—	—	—	1	1	3	*	*	1
Through a builder, constructor	1	4	7	2	1	1	—	1	1	—
Where I/spouse work	*	1	2	1	*	*	*	—	—	—
All other answers	3	3	5	2	2	3	2	3	3	1
Don't know	3	1	1	2	1	1	1	4	4	1

* Less than 0.5 percent.

How Current Apartment/House Compares with Where You Were Living Before, Considering the Value You Get for Your Money

(Base: Been living in building/house 10 years or less)

	Better Than Previous Place %	About the Same %	Worse Than Previous Place %	Not Sure %
Total Occupants	65	20	12	3
Total 235 Mortgage Subsidy	80	12	6	2
235 new	83	12	3	2
235 existing	79	11	8	2
Total 236 Rent Subsidy	64	20	14	2
236 limited dividend	63	21	14	2
236 nonprofit	66	18	14	2
Total Public Housing	62	22	13	3
Conventional public	63	22	12	3
Leased public	61	19	17	3
Length of Time in Public Housing				
Less than 3 years	71	13	13	3
Three years or more	57	28	12	3
Under $3,000	68	21	10	1
$3,000 to $5,999	62	22	12	4
$6,000 and over	67	17	10	6
$4,000 to $6,999				
235	81	12	5	2
236	67	18	13	2
Public housing	55	26	12	7
White	69	19	11	1
Black	62	21	13	4

(Continued on p. 1402.)

(Continued from p. 1401.)

Black				
235	78	12	9	1
236	64	23	12	1
Public housing	59	22	14	5
1-2 family members	65	22	11	2
3-4 family members	64	17	14	5
5 or more family members	66	22	11	1
Inside central cities	63	23	12	2
Outside central cities	79	8	10	3
East	58	25	14	3
Midwest	67	14	13	6
South	69	20	10	1
West	72	20	7	1
Under 30 years	61	21	14	4
30 to 49 years	67	19	11	3
50 years and over	68	21	10	1

Housing Conditions Now Compared with Previous Housing

(Base: Been living in building/house 10 years or less)

	Total Occupants				Total 235 Mortgage Subsidy				Total 236 Rent Subsidy				Total Public Housing			
	Better Now %	Worse Now %	About the Same %	Not Sure %	Better Now %	Worse Now %	About the Same %	Not Sure %	Better Now %	Worse Now %	About the Same %	Not Sure %	Better Now %	Worse Now %	About the Same %	Not Sure %
Majority/Plurality Better Now																
Heating	65	9	25	1	65	10	25	—	56	8	34	2	66	9	24	1
Number of electrical outlets	64	7	28	1	76	7	16	1	61	3	35	1	63	7	29	1
Overall quality of the house/apartment	64	14	21	1	77	10	12	1	59	17	24	*	63	14	23	*
Condition of walls and ceilings	63	15	21	1	71	12	17	—	51	15	34	—	64	15	20	1
Condition of floors	63	12	24	1	71	11	18	*	55	14	31	*	63	12	24	1
Number of rooms	62	13	25	*	81	6	13	*	62	15	23	*	59	14	27	—
Kitchen counter and storage space	57	20	23	—	67	17	15	1	56	22	22	*	56	20	24	*
Number of bedrooms	54	16	29	1	75	6	19	—	48	14	37	1	51	19	30	*
View	49	22	27	2	65	12	22	1	42	31	26	1	48	23	28	1
Privacy	48	22	29	1	71	11	17	1	43	27	30	*	45	24	31	*
Availability of washer and dryer	47	16	37	*	61	6	32	1	43	28	28	1	44	15	40	1
Rats or mice	45	10	40	5	38	10	41	11	35	5	54	6	48	11	37	4
Plurality Worse Now																
Lack of noise	32	35	33	*	59	16	24	1	32	38	30	*	27	38	35	*
Majority/Plurality About the Same Now																
Police protection	28	13	56	3	32	11	54	3	27	9	58	6	28	14	56	2
Transportation in general	31	17	51	1	28	24	46	2	27	22	48	3	33	14	52	1
Air conditioning	24	12	50	14	37	9	41	13	44	10	37	9	16	12	55	17
Access to jobs	27	12	47	14	34	15	47	4	30	15	43	12	24	11	48	17
Kind of neighbors you have	31	18	47	4	45	16	36	3	31	22	43	4	29	17	49	5
Commuting to work	24	11	45	20	37	15	43	5	30	15	42	13	20	9	46	25
Shopping	32	22	44	2	39	19	42	*	35	21	44	*	30	23	44	3

* Less than 0.5 percent.

Whether Had Certain Facilities in Previous Apartment/House

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %	Length of Time in Public Housing: Less Than 3 Years %	Length of Time in Public Housing: Three Years or More %
Complete Kitchen Facilities						
Had	91	96	92	90	95	86
Did not have	9	4	8	10	5	14
Both Hot and Cold Piped Water						
Had	92	97	98	90	96	86
Did not have	8	3	2	10	4	14
A Flush Toilet						
Had	96	98	99	94	97	92
Did not have	4	2	1	6	3	8
A Bathtub or Shower						
Had	94	98	98	93	97	89
Did not have	6	2	2	7	3	11

Number of Persons Per Room Now, Compared with Previous Apartment/House

	Mean Number of Persons Per Room in Previous Apartment/House	Mean Number of Persons Per Room Now	Increase/Decrease in Number of Persons Per Room
Total Occupants	1.0	.7	−.3
Total 235 Mortgage Subsidy	1.0	.8	−.2
235 new	.9	.7	−.2
235 existing	1.1	.8	−.3
Total 236 Rent Subsidy	.8	.6	−.2
236 limited dividend	.8	.6	−.2
236 nonprofit	.8	.7	−.1
Total Public Housing	1.0	.7	−.3
Conventional public	1.0	.7	−.3
Leased public	.8	.7	−.1
Length of Time in Public Housing			
Less than 3 years	1.1	.7	−.4
Three years or more	1.0	.8	−.2
Under $3,000	1.0	.6	−.4
$3,000 to $5,999	1.0	.8	−.2
$6,000 and over	.9	.8	−.1
$4,000 to $6,999			
235	1.0	.8	−.2
236	.7	.6	−.1
Public housing	1.0	.9	−.1
White	.8	.6	−.2
Black	1.0	.8	−.2
Black			
235	1.2	.9	−.3
236	.8	.7	−.1
Public housing	1.0	.7	−.3
1–2 family members	.8	.5	−.3
3–4 family members	.7	.6	−.1
5 or more family members	1.4	1.2	−.2
Inside central cities	1.0	.7	−.3
Outside central cities	.9	.7	−.2
East	1.0	.8	−.2
Midwest	.9	.7	−.2
South	1.0	.7	−.3
West	1.1	.8	−.3
Under 30 years	1.0	.7	−.3
30 to 49 years	1.1	.9	−.2
50 years and over	.8	.6	−.2

How Long It Takes Head of Household to Get to Work Now, Compared with Previous Home

	Mean Number of Minutes Now	Mean Number of Minutes From Previous Home	Change in commuting time (in minutes)
Total Occupants	29	26	+3
Total 235 Mortgage Subsidy	21	21	—
235 new	20	18	+2
235 existing	21	22	+2
Total 236 Rent Subsidy	20	21	−1
236 limited dividend	20	21	−1
236 nonprofit	20	20	—
Total Public Housing	35	29	+6
Conventional public	36	30	+6
Leased public	22	24	−2
Length of Time in Public Housing			
Less than 3 years	31	29	+2
Three years or more	36	29	+7
Under $3,000	32	27	+5
$3,000 to $5,999	28	27	+1
$6,000 and over	29	22	+7
$4,000 to $6,999			
235	20	21	−1
236	19	19	—
Public housing	34	29	+5
White	21	20	+1
Black	36	31	+5
Black			
235	23	25	−2
236	24	21	+3
Public housing	39	33	+6
1-2 family members	24	24	—
3-4 family members	27	26	+1
5 or more family members	34	27	+7
Inside central cities	31	27	+4
Outside central cities	21	20	+1
East	34	31	+3
Midwest	31	25	+6
South	27	24	+3
West	22	20	+2
Under 30 years	24	23	+1
30 to 49 years	33	29	+4
50 years and over	29	25	+4

How to Get to Work Now, Compared with Previous Home

	Walking	Mass Transit	Car	Other	Not Sure
Total Occupants					
Previous home	11	35	45	5	4
Now	4	33	59	3	1
Change	−7	−2	+14	−2	−3
235 Mortgage Subsidy					
Previous home	5	10	82	2	1
Now	1	8	89	2	—
Change	−4	−2	+7	—	−1
236 Rent Subsidy					
Previous home	7	10	75	3	5
Now	4	7	84	2	3
Change	−3	−3	+9	−1	−2
Public Housing					
Previous home	14	47	28	7	4
Now	5	52	40	3	—
Change	−9	+5	+12	−4	−4

Two or Three Biggest Problems or Complaints About Living in this House

(Base: 235 housing occupants only)

	Total 235 Mortgage Subsidy %	235 New %	235 Existing %
House poorly built; built too fast, bad construction	21	29	16
Plumbing problems, leaks, broken pipes	13	11	14
Repairs not made	12	13	11
Need more, bigger rooms, house	12	9	14
Hole in ceiling, roof; leaks	8	5	10
House is rundown, needs repair work	5	2	7
Needs paint	5	3	6
Don't like neighbors, problems with neighbors	5	5	5
Not enough closet, storage space	3	4	3
No top soil	2	3	1
No storm windows	1	—	2
Traffic problems	1	1	2
Don't like, too many minorities	*	1	—
All other complaints	24	28	21
Have no complaints	31	30	32
Don't know	*	—	1

* Less than 0.5 percent.

Whether Apartment Building/House Has Improved or Gotten Worse Since You've Lived Here

(Base: Occupants of 236 and public housing only)

	Improved %	Gotten Worse %	Stayed About the Same %	Not Sure %
Total Occupants	19	28	51	2
Total 236 Rent Subsidy	14	19	65	2
236 limited dividend	15	17	67	1
236 nonprofit	13	26	59	2
Total Public Housing	19	30	49	2
Conventional public	19	31	48	2
Leased public	19	19	60	2
Length of Time in Public Housing				
Less than 3 years	9	22	65	4
Three years or more	25	35	39	1
Under $3,000	18	21	59	2
$3,000 to $5,999	23	36	40	1
$6,000 and over	11	39	44	6
$4,000 to $6,999				
236	17	17	65	1
Public housing	29	43	28	—
White	21	21	57	1
Black	16	33	48	3
Black				
236	15	26	57	2
Public housing	16	34	47	3
1-2 family members	20	23	54	3
3-4 family members	13	29	56	2
5 or more family members	21	35	43	1
Inside central cities	18	28	52	2
Outside central cities	20	30	49	1
East	15	44	37	4
Midwest	6	31	61	2
South	27	13	60	*
West	27	13	59	–

* Less than 0.5 percent.

Why Apartment Building/House Has Improved or Gotten Worse

(Base: Occupants of 236 and public housing only)

	Total Occupants %	Total 236 Rent Subsidy %	Total Public Housing %
Why Improved			
Better maintenance, kept cleaner	20	24	20
Remodeling (kitchen, bathroom, cabinets, doors)	15	*	17
Walls, roof fixed, painted	5	*	6

(Continued above)

Why Apartment Building/House Has Improved or Gotten Worse—Continued

Improved grounds, surroundings	4	12	3
Better, quieter tenants	3	3	3
Painted, made improvements myself	2	4	2
Safer place to live; protected by police, guards	1	3	1
Provide recreational facilities	1	2	1
All other answers	4	10	4
Why Gotten Worse			
Slower, less maintenance service	14	19	13
More rundown; deteriorated	14	14	14
People aren't nice, don't get along	12	6	13
Premises dirty, not clean enough	11	7	11
Children behave badly	10	14	9
People dirty, destructive	9	8	9
Many robberies	6	5	6
No remodeling; kitchen, bathroom, cabinets not fixed	3	2	3
Drug addicts	3	2	3
Grounds, landscaping not maintained	2	4	2
Infested with roaches, mice	1	1	1
All other answers	9	15	8
Don't know	1	—	2

* Less than 0.5 percent.

Two or Three Biggest Problems or Complaints About Living in this Apartment Building/House

(Base: 236 and public housing occupants only)

	Total 236 Rent Subsidy %	Total Public Housing %
Inside maintenance problems, they don't make repairs they're supposed to	25	29
Noisy neighbors, don't like neighbors	16	13
Noisy children	12	12
No place, playground for children to play	11	2
No privacy	7	2
Unkempt grounds, don't maintain yard	6	9
Poor, cheap construction	6	*
Parking problems	4	*
Rents too high	4	2
Too much noise	4	3
Too hot in summer, no air conditioning	3	2

(Continued on p. 1406.)

Two or Three Biggest Problems or Complaints About Living in this Apartment Building/House

(Continued from p. 1405.)

Roaches, rodents, bugs	3	6
Need more room, space	3	6
Furnace, heating problems	2	2
Stealing, breaking into apartments	2	8
Unsafe neighborhood	2	1
Don't want, can't afford rent increases	2	1
Garbage problems, no one picks up	2	3
Tenants destroy, don't take care of apartments	2	3
No fire escapes	2	*
Need more street lights	1	*
All other complaints	21	16
Have no complaints	23	25
Don't know	1	1

* Less than 0.5 percent.

Rating of Job Done in Maintaining and Making Repairs and Improvements in this Building/House

(Base: 236 and public housing occupants only)

	Excellent %	Pretty Good %	Only Fair %	Poor %	Not Sure %	Positive %	Negative %
Total Occupants	20	37	18	22	3	57	40
Total 236 Rent Subsidy	27	29	19	21	4	56	40
236 limited dividend	28	30	18	21	3	58	39
236 nonprofit	22	32	21	20	5	54	41
Total Public Housing	19	38	18	22	3	57	40
Conventional public	19	38	18	22	3	57	40
Leased public	15	33	21	23	8	48	44
East	13	30	24	30	3	43	54
Midwest	21	50	16	12	1	71	28
South	25	39	12	20	4	64	32
West	25	31	21	15	8	56	36

Whether Landlord is Concerned About the Quality of Housing Provided for Tenants

(Base: 236 and public housing occupants only)

	Very Concerned %	Only Somewhat Concerned %	Not Concerned at All %	Not Sure %
Total Occupants	36	36	21	7
Total 236 Rent Subsidy	43	38	15	4
236 limited dividend	42	41	13	4
236 nonprofit	46	30	20	4
Total Public Housing	35	35	22	8
Conventional public	35	36	22	7
Leased public	35	30	24	11
East	24	35	34	7
Midwest	38	42	14	6
South	48	33	12	7
West	42	32	16	10

How Hard Tenants in Building Really Try to Keep the Building Clean and in Good Condition

(Base: Apartment building residents only)

	Very Hard %	Only Somewhat Hard %	Not Hard at All %	It Depends (vol.) %	Not Sure %
Total Occupants	23	32	33	7	5
Total 236 Rent Subsidy	25	42	26	4	3
236 limited dividend	25	45	25	3	2
236 nonprofit	28	34	28	4	6
Total Public Housing	23	29	35	7	6
Conventional public	22	29	35	8	6
Leased public	35	30	24	3	8
East	16	31	47	4	2
Midwest	33	34	20	5	8
South	29	31	23	9	8
West	22	31	32	9	6

Rating of Apartment Building/House as a Place to Live

	Excellent %	Pretty Good %	Only Fair %	Poor %	Not Sure %	Positive %	Negative %
Total Occupants	19	43	27	11	*	62	38
Total 235 Mortgage Subsidy	28	47	20	5	—	75	25
235 new	36	43	17	4	—	79	21
235 existing	22	50	22	6	—	72	28
Total 236 Rent Subsidy	22	50	23	5	*	72	28
236 limited dividend	22	51	23	4	*	73	27
236 nonprofit	21	48	24	7	—	69	31
Total Public Housing	16	42	29	13	—	58	42
Conventional public	16	42	29	13	—	58	42
Leased public	23	43	25	9	—	66	34
Length of Time in Public Housing							
Less than 3 years	25	25	33	17	—	50	50
Three years or more	12	50	27	11	—	62	38
Under $3,000	17	47	25	11	—	64	36
$3,000 to $5,999	18	42	28	12	—	60	40
$6,000 and over	19	42	29	10	*	61	39
$4,000 to $6,999							
235	27	51	18	4	—	78	22
236	18	55	22	4	1	73	26
Public housing	15	38	32	15	—	53	47
White	25	46	18	11	—	71	29
Black	15	44	31	10	*	59	41
Black							
235	20	48	22	10	—	68	32
236	18	51	27	3	1	69	30
Public housing	14	43	32	11	—	57	43
1-2 family members	23	50	19	8	—	73	27
3-4 family members	14	44	29	13	*	58	42
5 or more family members	17	37	34	12	—	54	46
Inside central cities	17	46	26	11	*	63	37
Outside central cities	26	34	30	10	—	60	40
East	11	36	37	16	—	47	53
Midwest	29	38	21	12	—	67	33
South	19	56	20	5	*	75	25
West	21	43	26	10	—	64	36
Under 30 years	17	41	29	13	—	58	42
30 to 49 years	16	39	31	14	*	55	45
50 years and over	22	49	22	7	—	71	29

*Less than 0.5 percent.

How Much Longer Expect to Live in This Building/House

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Less than 1 year	10	4	26	9
1 to 2 years	9	4	24	7
3 to 4 years	4	4	7	3
5 to 9 years	2	4	2	2
10 years or more	4	11	3	3
The rest of my life	30	46	13	30
Not sure	41	27	25	46

What Expect Next Home To Be, When You Move

(Base: Expect to live in building/house 2 years or less)

	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
A rented apartment	—	16	18
A cooperative apartment	—	1	—
A public housing project	—	3	12
A rented house	13	26	23
A house that you will own	61	46	39
Other	17	3	1
Not sure	9	5	7

Whether Would Rather Live in a House or an Apartment, All Other Things Being Equal

	House %	Apartment %	Not Sure %
Total Occupants	69	28	3
Total 235 Mortgage Subsidy	98	1	1
235 new	97	2	1
235 existing	98	1	1
Total 236 Rent Subsidy	77	21	2
236 limited dividend	78	20	2
236 nonprofit	73	25	2
Total Public Housing	64	33	3
Conventional public	63	34	3
Leased public	69	28	3
Length of Time in Public Housing			
Less than 3 years	64	34	2
Three years or more	63	33	4

(Continued on p. 1408.)

Whether Would Rather Live in a House or an Apartment, All Other Things Being Equal

(Continued from p. 1407.)

Under $3,000	58	40	2
$3,000 to $5,999	76	21	3
$6,000 and over	86	10	4
$4,000 to $6,999			
235	98	—	2
236	81	18	1
Public housing	74	19	7
White	66	33	1
Black	70	26	4
Black			
235	98	1	1
236	76	20	4
Public housing	66	29	5
1-2 family members	46	51	3
3-4 family members	85	14	1
5 or more family members	85	11	4
Inside central cities	68	29	3
Outside central cities	77	23	*
East	61	37	2
Midwest	73	23	4
South	71	25	4
West	83	16	1
Under 30 years	85	9	6
30 to 49 years	84	15	1
50 years and over	46	51	3

*Less than 0.5 percent.

Things Hoping to Find When You Move That Don't Have Now (Volunteered)

(Base: Expect to live in building/house 2 years or less)

	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
More room, larger housing, living space	35	25	11
Yard, garden, trees, land, country living	22	36	25
Lower payments, rent	21	1	3
Better, quieter neighborhod, place to live	17	20	35
Own my own house	13	23	13
Privacy	12	37	15
Closer to better schools	3	3	3
Better place for children to play	—	12	20
Friends	—	4	*
Washer, dryer	—	6	*
Less crime	—	3	8
Closer to work, less commuting time	—	1	1
Swimming pool	—	3	—
Pets	—	3	—

(Continued above)

Things Hoping to Find When You Move That Don't Have Now (Volunteered)

(Continued)

Same thing as here	—	2	3
Parking, garage	—	3	*
All other answers	26	18	22
Don't know	—	4	6

* Less than .5 percent.

Main Reasons for Planning to Move (Volunteered)

(Base: Expect to live in building/house 2 years or less)

	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
House needs repairs, too many things need fixing, fire hazard	27	5	9
High payments, rents	26	4	8
Need more room, space; bigger house	23	14	13
Want cleaner, better neighborhood	13	10	31
Change in personal circumstance; graduated, new job, school	10	27	9
Want a yard, place for children to play	9	20	16
Problems with schools	9	1	*
Want my own home, private house	5	35	14
No privacy here	5	15	3
Want something better	5	2	3
Prefer to be closer to work	—	4	*
Crime	—	1	11
All other answers	13	12	18
Don't know	—	1	3

* Less than 0.5 percent.

Section III: How Urban Subsidized Housing Occupants See Their Surrounding Neighborhoods

Most occupants of federally subsidized housing moved into their present neighborhoods at the same time that they moved into their current homes. Those surveyed average 5.2 years in their present neighborhood, not much longer than the average 4.4 years that they have lived in their current apartment or house. Conventional public housing tenants have lived in their

neighborhood the longest (an average of 6.5 years), while leased public housing tenants have lived in their current environs for an average of 3.2 years, 236 rent subsidy tenants for an average of 2.0 years, and 235 mortgage subsidy homeowners for an average of 2.9 years. (Again, length of time in the neighborhood reflects the different ages of these programs.)

Most occupants of subsidized housing did not have far to go to move into their current buildings. While 25 percent of them moved into the neighborhood from another city or State, 75 percent moved from another section of town or another building in the same area. Larger proportions of 235 homeowners (36 percent) and 236 rent subsidy tenants (43 percent) moved to the neighborhood from out-of-town, while public housing tenants were more likely than the others to have moved into their housing from another part of the same city or town.

The subsidized housing to have absorbed the most newcomers is that which is located outside central cities. Fifty-one percent of occupants of subsidized housing outside central cities moved there from another city or State, compared with only 20 percent of residents of central city housing.

Observation: Federally subsidized housing (and particularly public housing) serves its immediate, surrounding community. In the same way, however, it effectively keeps the less privileged members of society in their same central city neighborhoods (84 percent of all occupants of urban subsidized housing live in central cities) with no opportunity to move to less crowded, crime-ridden, urban surroundings. Sections 235 and 236 have been somewhat more successful than public housing in providing people with new living environments.

Reasons for Moving to This Neighborhood

Few occupants of subsidized housing were attracted to their present neighborhood by anything that the neighborhood itself had to offer. Instead, people moved there to benefit from the subsidized housing programs.

Asked to volunteer their main reasons for moving to this neighborhood, 235 homeowners mentioned that they wanted to own, buy their own house (36 percent), that they needed more rooms, a larger place (16 percent), that they wanted better, nicer housing (15 percent), and that this was the only neighborhood available, the only place they could get 235 loans (14 percent).

Occupants of 236 subsidized housing moved into the neighborhood because of the lower, cheaper rent; included subsidies (40 percent), they wanted better, nicer housing (18 percent) and they needed more rooms, larger place (12 percent). An additional 17 percent did say that they moved there to be closer to their job, or because they were transferred here.

Public housing tenants' reasons for moving to the neighborhood were the following: lower, cheaper rent; included subsidies (27 percent), wanted better, nicer housing (21 percent), had to move; building was sold, torn down, condemned (16 percent) or needed more rooms, larger place (15 percent).

Observation: In most cases, neighborhood was at best a minor consideration when people decided to move into their present housing. Instead, people moved where subsidized housing was available to them, regardless of the location.

Whether Neighborhood Has Improved or Declined

While the neighborhood was not an important consideration in moving into their present homes, subsidized housing occupants are well aware of changes in their neighborhood. While large majorities of 235 homeowners (81 percent) and 236 rent subsidy occupants (77 percent) feel that their neighborhood has stayed the same or improved since they've lived there, only a slim majority of public housing tenants (53 percent) agree. Instead, 45 percent of public housing tenants feel that their neighborhood has gotten worse since they have lived there, compared with only 18 percent of 235 homeowners and 20 percent of 235 occupants who feel that way.

Whether the Neighborhood Has Improved or Gotten Worse as a Place to Live Since You've Lived Here

	Total Occupants %	235 Mortgage Subsidy %	236 Rent Subsidy %	Public Housing %
Improved	16	26	16	14
Gotten worse	37	18	20	45
Stayed about the same	45	55	61	39
Not sure	2	1	3	2

The decline of the neighborhood may be directly related to how long people have lived there. A full 52 percent of people who have lived in public housing for 3 years or more feel the neighborhood has gotten worse, compared with only 29 percent of those who have been there for less than 3 years.

Residents of conventional public housing complain more of the decline of the neighborhood than do those in leased public housing. In fact, a substantial 46 percent of the former feel their neighborhood has gotten worse, compared with only 19 percent of the latter. (It should be noted again, however, that residents of leased public housing have lived in their neighborhood for shorter periods of time and thus are less conscious of decline.)

Occupants of subsidized housing explained why they feel their neighborhood has improved or declined. Homeowners who feel that their neighborhood has improved explained that people work hard, take pride in their homes, property (24 percent), that landscaping, grounds, yards are improved, well-maintained (19 percent), that the whole area is improved by building, construction, modernizing (18 percent) and that more, friendly, good people are moving into the area (15 percent). Those who feel that the neighborhood has gotten worse blame the decline on poor maintenance, upkeep; people don't take care of their property (18 percent), kids don't respect property, cause trouble (13 percent), on robberies, vandalism, lack of security (11 percent), quality of people deteriorating (8 percent), and vacant, abandoned homes (7 percent).

Section 236 renters who feel the neighborhood has improved point to improved landscaping, grounds, yards well-maintained (19 percent), and that the whole area is improved by building, construction, modernizing (16 percent). Those who notice decline blame it on poor maintenance, upkeep; people don't take care of their property (25 percent), kids don't respect property, cause trouble (18 percent), robberies, vandalism, lack of security (14 percent), quality of people deteriorating (14 percent), and poor, uncooperative management (11 percent).

Public housing tenants who feel that their neighborhood has improved give these reasons: the whole area is improved by building, construction, modernizing (11 percent) and improved landscaping, grounds, yards well maintained (6 percent). Decline in the neighborhood is blamed on robberies, vandalism, lack of security (33 percent), kids don't respect property, cause trouble (25 per cent), poor maintenance, upkeep, people don't take care of property (23 percent) and the quality of people deteriorating (18 percent).

Serious Problems in the Neighborhood

Neighborhood problems were brought into clearer focus when occupants were asked to evaluate the seriousness of a list of possible neighborhood problems. By comparing responses here with those of the total Nation, one can identify not only the most pressing problems in urban subsidized housing neighborhoods but also those problems that differentiate subsidized housing neighborhoods from other neighborhoods around the country. The problems are arranged below according to their felt seriousness in subsidized housing neighborhoods. The last column on the table indicates the gap between serious problems in subsidized housing neighborhoods and in neighborhoods nationwide.

Compared with the Nation as a whole, certain problems afflict neighborhoods of subsidized housing with greater seriousness; they include noisy people in the streets (serious for 47 percent of occupants and only 20 percent of the Nation), not enough good stores and shopping areas (serious for 46 percent of occupants and only 21 percent of total Americans), dirty streets and sidewalks (serious for 44 percent of occupants and only 25 percent of the country), cheating and overcharging by stores (serious for 40 percent of occupants, 23 percent of the public), lack of recreation for adults (serious for 48 percent of occupants and 31 percent of the country), lack of parks and recreation for children (serious for 47 percent of the occupants and 35 percent of the Nation), and crime in the streets (serious for 48 percent of occupants and 37 percent of the public). Compared with other problems, poor housing conditions are not much more serious in the neighborhoods surveyed than in the Nation as a whole (serious for 28 percent of subsidized housing occupants and 22 percent of the Nation).

Moreover, eight of these neighborhood problems seem to have far more serious effects on public housing tenants than on either 235 homeowners or 236 renters; crime in the street, noisy people in the streets, not enough good stores and shopping areas, drug addiction, dirty streets and sidewalks, dirty air and pollution, cheating and overcharging by stores, and poor housing conditions. Compared with public housing neighborhoods, these problems are felt to be relatively minor in Section 235 and 236 neighbor-

How Serious are Neighborhood Problems: Gap Between Occupants of Subsidized Housing and Total Nation

	Total Occupants of Subsidized Housing			Total Nation			
	Serious %	Not Serious %	Not Sure %	Serious %	Not Serious %	Not Sure %	Gap %
Lack of recreation for teenagers	51	36	13	47	46	7	+4
Crime in the streets	48	46	6	37	62	1	+11
Lack of recreation for adults	48	43	9	31	64	5	+17
Noisy people in the streets	47	52	1	20	78	2	+27
Lack of parks and playgrounds for children	47	48	5	35	61	4	+12
Not enough good stores and shopping areas	46	53	1	21	78	1	+25
Drug addiction	45	35	20	53	39	8	−8
Dirty streets and sidewalks	44	55	1	25	74	1	+19
Dirty air and pollution	40	58	2	34	65	1	+6
Cheating and overcharging by stores	40	54	6	23	73	4	+17
Inadequate child care for working parents *	31	38	31				
Poor street lighting	30	69	1	26	73	1	+4
Lack of transportation	30	69	1	38	60	2	−8
Dirty vacant lots	29	69	2	24	75	1	+5
Poor housing conditions	28	70	2	22	76	2	+6
Poor schools	25	59	16	24	68	8	+1
Lack of good medical care	22	72	6	30	66	4	−8
Vacant or abandoned houses	17	80	3	18	80	2	−1
Garbage collection	17	82	1	16	72	2	+1
Fires	15	83	2	12	85	3	+3

Note: serious = "very serious" + "somewhat serious"; not serious = "not very serious" + "not serious at all."
* Not asked in national study.

hoods. On the other hand, Section 235 and 236 neighborhoods are more troubled by a lack of parks and playgrounds for children and lack of transportation than are public housing neighborhoods.

Among the 20 neighborhood problems listed, poor housing conditions fell to 15th place in seriousness, considered to be a serious neighborhood problem by 28 percent of those surveyed. Somewhat larger minorities of public housing tenants (31 percent), blacks (36 percent), large families (38 percent), occupants in the East (39 percent), and the 30 to 49 year-olds (36 percent) consider housing problems serious in their neighborhoods, but still not nearly so serious as other neighborhood problems.

When asked to single out the two or three most serious problems in their neighborhood, the real differences between Section 235 and 236 neighborhoods and public housing neighborhoods emerged. For Section 235 homeowners and 236 renters, the most pressing problems were lack of parks and playgrounds for children (mentioned by 21 percent of homeowners and 27 percent of renters) and lack of recreation for teenagers (mentioned by 22 percent of homeowners and 21 percent of renters). For public housing tenants, two very different and far more serious problems took the lead: crime in the streets (selected by 37 percent) and drug addiction (selected by 35 percent).

Observation: These findings sharply underline the need for a community approach to housing. For the problems of crime in the streets, drug addiction, lack of recreation, noise, poor shopping, and pollution overshadow improvements made in heating, electrical outlets, condition of floors, ceilings and walls. While there is an apparent lack of recreation facilities near Section 235 and 236 housing, neighborhood problems are far more serious in the area of public housing. Until the social problems of crime and drug addiction are dealt with, public housing projects can be expected to decline as quickly as they are constructed.

On the whole, black occupants of urban subsidized housing find most neighborhood problems more serious than do white occupants. Fifty-six percent of blacks consider lack of recreation for teenagers to be a serious problem, for example, compared with 48 percent of whites. Fifty-four percent of black occupants find crime in the streets serious, compared with only 36 percent of whites. Fifty percent of blacks complain of noisy people in the streets, com-

Serious Neighborhood Problems:
Gap Between Black Occupants of Subsidized Housing and Blacks Nationwide

	Total Nation %	Blacks				Gap Between Blacks Nationwide and Black Occupants of Subsidized Housing %
		Subsidized Housing Occupants %	235 Mortgage Subsidy %	236 Rent Subsidy %	Public Housing %	
Lack of recreation for teenagers	63	56	65	61	54	−7
Crime in the streets	63	54	36	27	58	−9
Lack of recreation for adults	61	53	50	58	52	−8
Noisy people in the streets	52	50	35	26	53	−2
Lack of parks and playgrounds for children	58	47	59	60	45	−11
Not enough good stores and shopping areas	59	58	46	51	60	−1
Drug addiction	71	54	28	26	59	−17
Dirty streets and sidewalks	60	51	40	30	54	−9
Dirty air and pollution	69	49	39	36	51	−20
Cheating and overcharging by stores	47	52	42	40	55	−5
Inadequate child care for working parents *		36	45	41	34	
Poor street lighting	55	36	40	26	36	−19
Lack of transportation	52	28	31	34	26	−24
Dirty vacant lots	51	36	43	22	36	−15
Poor housing conditions	51	36	35	26	37	−15
Poor schools	63	29	32	27	27	−34
Lack of good medical care	55	28	30	25	28	−27
Vacant or abandoned houses	49	22	29	17	21	−27
Garbage collection	35	21	31	19	20	−14
Fires	27	14	23	12	14	−13

Note: "Serious" = "very serious + "somewhat serious".
* Not asked nationwide.

pared with 40 percent of whites. Fifty-eight percent of blacks—but only 29 percent of whites—find not enough good stores and shopping areas to be a serious neighborhood problem. Fifty-four percent of blacks—but only 29 percent of whites—feel that drug addiction is serious. These findings can be largely explained, however, by the heavy concentration of blacks in public housing, rather than in Section 235 or 236 housing.

While black occupants of subsidized housing seem to suffer more serious neighborhood problems than do white subsidized housing residents, they nevertheless appear to be better off in their neighborhoods than are blacks nationwide. The following table compares responses of blacks across the Nation with those of black occupants of subsidized housing. The last column (entitled "Gap") indicates the extent to which neighborhood problems are considered to be more serious among blacks nationwide than among black subsidized housing tenants.

In the following areas, blacks in subsidized housing appear to be substantially better off than blacks nationwide: poor schools (by 34 points), vacant or abandoned houses (by 27 points), lack of good medical care (by 27 points), lack of transportation (by 24 points), dirty air and pollution (by 20 points), poor street lighting (by 19 points), and drug addiction (by 17 points). In every area, however, blacks nationwide consider their neighborhood problems to be more serious than do blacks in subsidized housing.

A further breakdown of the data, however, shows that the benefits of subsidized housing are not shared equally by all black occupants. While black tenants of public housing seem much better off than black occupants of 235 and 236 housing in the areas of recreation, parks and playgrounds, and child care, the following neighborhood problems seem much more serious for black public housing tenants than for blacks in 235 and 236 housing: crime in the streets (serious for 58 percent of black public housing ten-

ants, but only 36 percent of 235 homeowners and 27 percent of 236 tenants), noisy people in the streets (serious for 53 percent of public housing blacks, but only 35 percent of 235 homeowners and 26 percent of 236 renters), and drug addiction (serious for 59 percent of blacks in public housing, but only 28 percent of 235 homeowners and 26 percent of blacks in 236 housing). This same pattern also holds true for not enough good stores and shopping areas, dirty streets and sidewalks, dirty air and pollution, and cheating and overcharging by stores.

Observation: As serious as their neighborhood problems may be compared with those of whites, black occupants of subsidized housing seem much better off than blacks nationwide.

The findings for black occupants as a group, however, cloak some critical differences among blacks living in different types of subsidized housing. In the key areas of neighborhood concerns—crime in the streets, noisy neighbors, drug addiction, shopping, visual and air pollution—black homeowners and 236 renters are considerably better off than black tenants of public housing. The neighborhood problems surrounding public housing projects demand immediate attention from planners and policymakers.

While the problems in public housing neighborhoods are more serious than in 235 and 236 housing areas, they are still less serious than the problems crippling black neighborhoods across the country. The gap between blacks nationwide and black occupants of all three types of subsidized housing is as strong an endorsement as any of the valuable role that subsidized housing can play in improving the living environment of low income families. These findings might also be considered an indication that there are large numbers of blacks in the United States, currently not being served by federally subsidized housing, that are at least as needy of assistance as those being served.

That housing is among the less serious neighborhood problems was documented by additional results. Asked to rate the availability in this neighborhood of "housing that would meet the needs of a family like yours," 68 percent of occupants of subsidized housing felt the availability of such housing was "adequate," while 13 percent said "barely adequate" and 16 percent "not adequate." These results are comparable to those of the Nation as a whole:

Availability in this Neighborhood of Housing That Would Meet the Needs of a Family Like Yours

	Total Occupants of Subsidized Housing %	Total Nation %
Adequate	68	65
Barely adequate	13	15
Not adequate	16	17
Not sure	3	3

Not surprisingly, the larger the family size, the less likely were occupants to think that the neighborhood had adequate housing to accommodate a family like theirs. Compared with other regions, occupants in the East were less likely to consider housing in their neighborhood adequate. (Yet even in the East, a 59 percent majority felt enough housing was available in their neighborhood.)

Two out of three Americans (67 percent) felt that their own housing was comparable to most buildings and houses nearby, while 5 percent felt that their home was worse than most and 25 percent felt theirs was better than most. While 43 percent of subsidized housing occupants feel their housing is about the same as most housing nearby, 36 percent felt their home was better than most. (Only 25 percent of 235 homeowners feel this way, compared with 35 percent of 236 renters and 38 percent of public housing tenants.)

How Own Apartment Building/House Compares with Buildings/Houses Near Here

	Total Occupants of Subsidized Housing %	Total Nation %
Better than most	36	25
About the same	43	67
Worse than most	10	5
It depends (vol.)	3	2
Not sure	8	1

Occupants Rate Government Services in the Neighborhood

In rating government services in the neighborhood, majorities of occupants of subsidized housing gave positive ratings ("excellent" or

"pretty good") to eight services: fire protection (79 percent positive), garbage collection (75 percent positive), street lighting (64 percent positive), public schools (55 percent positive), public transportation (54 percent positive), police protection (54 percent positive), street repairs (51 percent positive), and health clinics (51 percent positive). Streetlighting, police protection, and street repairs received higher scores outside central cities than inside them, while public transportation finished with a higher positive rating inside central cities than outside them.

By 48–38 percent, occupants of subsidized housing gave public housing projects a positive rating. (Another 5 percent said public housing was "not available", while 9 percent were not sure.) Occupants of public housing themselves gave public housing projects a 50–43 percent positive rating, while Section 236 tenants give them a 54–31 percent positive rating. Public housing projects received a 31–19 percent positive rating from 235 homeowners, with 26 percent answering that public housing was not available in their neighborhood and 24 percent not sure.

On the remaining government services, ratings by subsidized housing occupants were more negative than positive. (Negative ratings include those who felt that individual services were "only fair" or "poor", or who said that the services were simply "not available"):

- By 59–27 percent, recreation for young people received a negative rating. Similarly, parks and playgrounds received a 58–37 negative rating. (These negative evaluations are not surprising in light of earlier findings.) Complaints about poor recreational facilities are loudest among 235 homeowners and renters.
- Housing inspection and code enforcement received a 43–38 percent negative rating. A comparable split prevailed among occupants of all three types of subsidized housing.
- Programs for the elderly received a 42–26 percent negative rating. Ratings were most negative here among public housing tenants, where the concentration of the elderly is highest. (The mean age of public housing tenants is 51 years, compared with 37 years for 235 homeowners and 36 years for 236 renters.)
- By 40–28 percent, welfare centers were scored negatively. One out of three occupants (32 percent) were not sure, however, how to rate welfare centers.
- Child care centers also received a predominantly negative score (by 40–26 percent). Again, one in three occupants (34 percent) were not able to rate these centers.
- By 37–29 percent, occupants gave city social services a negative evaluation. Ratings here were lower, however, inside central cities (39–29 percent negative) than outside them (31–29 percent positive).
- Ratings for drug addict treatment services (36–14 percent) and narcotics control (37–14 percent) were also negative. While majorities of people in 235 mortgage subsidy and 236 rent subsidy neighborhoods were unable to rate these services, negative ratings were even higher in public housing neighborhoods (38–15 percent negative for drug addict treatment services and 42–13 percent negative for narcotics control). Public housing neighborhoods are unfortunately the areas where the drug problem was considered most serious.

Observation: Parks and playgrounds, recreation for young people, narcotics control, drug addict treatment centers, child care centers, and city social services, all received negative ratings from those people who were able to rate them. Not coincidentally, those are the services that occupants might look to most to deal with these neighborhood problems that they consider most serious: crime in the streets, drug addiction, noisy people in the streets, and lack of recreation for teenagers. In addition, the elderly in these neighborhoods seem to suffer from serious neglect. In the minds of occupants of subsidized housing, the government could clearly be playing a larger role in helping to tackle the major neighborhood problems.

All in all, residents' perceptions of neighborhoods of subsidized housing compare unfavorably with those of Americans nationwide. The problem is unquestionably most serious in public housing neighborhoods:

Rating of Neighborhood as a Place to Live

	Total Nation %	235 Mortgage Subsidy %	236 Rent Subsidy %	Public Housing %
Excellent	48	21	16	9
Pretty good	36	51	50	36
Only fair	12	23	28	40
Poor	4	5	6	15
Not sure	*	—	—	—
Positive	84	72	66	45
Negative	16	28	34	55

*Less than 0.5 percent.

While neighborhoods of Section 235 and 236 housing received positive ratings (by 72–28 percent and 66–34 percent, respectively), neighborhoods of public housing received a 55–45 percent negative rating. This negative rating applies only to conventional public housing (56–44 percent negative), however, since leased public housing received a 57–43 percent positive rating. Neighborhoods of new and existing 235 housing received nearly identical ratings, as did neighborhoods of limited dividend and nonprofit 236 housing.

Observation: Until ways are found to take an integrated neighborhood approach to public housing projects—which would attach as high a priority to drug treatment, recreational facilities, police protection, and other social services as it does to the construction of dwelling units—leased housing may prove to be the most successful way of offering the public low rent public housing.

White occupants of subsidized housing are somewhat happier with their neighborhood than are black occupants: while white occupants gave their neighborhoods a 58–42 percent positive rating, blacks were evenly divided 50–50 percent. (Again, this can be explained by the relatively high concentration of blacks in public housing, compared with 235 and 236 housing.)

Black occupants of section 235 and 236 housing are substantially more satisfied with their neighborhoods than are blacks across the country; however, black section 235 homeowners gave their neighborhoods a strong 65–35 percent positive score and black 236 renters gave their neighborhoods a comparable 66–34 percent positive score. On the evaluation of their neighborhood as a place to live, black tenants of public housing are not much more positive than blacks nationwide: black tenants gave their neighborhood a 54–46 percent negative rating, similar to the 55–45 percent negative rating from blacks across the country.

Observation: Neighborhood problems for blacks are clearly more serious around public housing projects than around 235 and 236 housing. This may be because such housing projects are often located in the heart of an already black neighborhood. In specific problem areas, earlier findings show, conditions in urban public housing neighborhoods are indeed better than in black neighborhoods nationwide. Yet, by and large, public housing projects with heavy concentrations of blacks do not offer their residents substantially improved living environments.

Rating of Neighborhood as a Place to Live

	Black Occupants of Subsidized Housing			Public Housing	Blacks Nationwide
	Total %	235 %	236 %	%	%
Positive	50	65	66	46	45
Negative	50	35	34	54	55

Note: Positive = "excellent" and "pretty good;" negative = "only fair" and "poor".

How Long Been Living in this Neighborhood

	Total Occupants %	Total 235 Mortgage Subsidy %	235 New %	235 Existing %	Total 236 Rent Subsidy %	236 Limited Dividend %	236 Nonprofit %	Total Public Housing %	Conventional Public %	Leased Public %
Less than 1 year	16	10	9	11	35	37	30	14	13	34
1 to 2 years	21	36	53	24	45	41	51	14	13	23
3 to 4 years	22	46	34	53	12	13	10	20	19	17
5 to 6 years	9	3	2	4	2	2	1	11	11	12
7 to 8 years	7	1	—	1	*	*	*	9	9	5
9 to 10 years	7	1	—	2	1	1	2	9	9	1
More than 10 years	14	2	1	3	2	2	3	18	21	6
All my life	4	1	1	2	3	4	3	5	5	2
Mean number of years	5.2	2.9	2.3	3.3	2.0	2.0	2.0	6.3	6.5	3.2

* Less than 0.5 percent.

Where Lived Just Before Moved into this Neighborhood

(Base: Everyone except "lived in neighborhood all my life")

	Another Apartment, House in Same Neighborhood %	Another Section, Street in Same Town, City %	Another Town, City in Same State %	Another State %	Barracks, Armed Forces %	Another Country %	At School, College %	All Other Answers %
Total Occupants	9	66	20	4	1	*	*	*
Total 235 Mortgage Subsidy	9	54	31	3	1	1	—	1
235 new	9	47	40	2	1	—	—	1
235 existing	8	61	24	3	1	2	—	1
Total 236 Rent Subsidy	17	40	29	10	2	1	1	*
236 limited dividend	17	36	31	12	2	1	1	—
236 nonprofit	16	49	24	6	2	2	*	1
Total Public Housing	8	72	16	3	1	*	—	—
Conventional public	7	73	16	3	1	—	—	—
Leased public	16	52	25	6	*	1	—	—
White	10	53	30	4	2	1	*	*
Black	7	75	13	4	1	*	—	*
Inside central cities	9	71	16	3	1	*	*	*
Outside central cities	10	39	40	7	3	1	*	—
East	6	69	21	3	1	*	—	—
Midwest	12	64	14	8	2	*	—	*
South	7	70	19	3	1	*	*	*
West	21	45	28	5	*	1	*	—

* Less than 0.5 percent.

Main Reasons Volunteered for Moving to this Neighborhood

(Base: Everyone except "lived in neighborhood all my life")

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Lower, cheaper rent; includes subsidies	26	7	40	27
Wanted better, nicer housing; old place run down	20	15	18	21
Needed more rooms, larger place	15	16	12	15
Had to move; building was sold, torn down, condemned	13	7	5	16
Nicer, quieter neighborhood	8	15	7	6
Only neighborhood available, where could get 235 loans	7	14	5	5
Health reasons	6	*	4	8
Wanted to own, buy own house	5	36	—	—
Closer to job; transferred here	5	8	17	3
Wanted a place of my own	4	2	4	4
Wanted to be near family, relatives, friends	4	3	7	3
Was divorced, separated; spouse died	3	1	3	3
On social security	2	*	2	2
Safer area; less crime	2	1	1	2
Wanted a smaller place	2	—	1	3
Got married	2	1	4	2
On welfare	1	*	*	2
Less crowded area; more space, suburban, rural	1	4	1	1
Landlord was terrible; wouldn't fix things	1	1	1	1
Playgrounds, places for children	1	1	2	*
Schools nearby	1	4	2	1
More convenient to everything	1	2	3	1
Any other answer	10	8	11	10

* Less than 0.5 percent.

Whether Neighborhood Has Improved or Gotten Worse as a Place to Live Since You've Lived There

	Improved %	Gotten Worse %	Stayed About the Same %	Not Sure %
Total Occupants	16	37	45	2
Total 235 Mortgage Subsidy	26	18	55	1
235 new	36	17	46	1
235 existing	20	19	59	2
Total 236 Rent Subsidy	16	20	61	3
236 limited dividend	14	19	64	3
236 nonprofit	19	23	55	3
Total Public Housing	14	45	39	2
Conventional public	15	46	37	2
Leased public	11	19	65	5
Length of Time in Public Housing				
Less than 3 years	15	29	52	4
Three years or more	14	52	33	1
Under $3,000	15	36	47	2
$3,000 to $5,999	18	40	39	3
$6,000 and over	17	39	42	2
$4,000 to $6,999				
235	24	17	57	2
236	17	17	63	3
Public housing	17	57	26	—
White	21	33	43	3
Black	11	40	47	2
Black				
235	22	21	56	1
236	18	22	56	4
Public housing	9	44	45	2
1–2 family members	13	37	46	4
3–4 family members	16	40	43	1
5 or more family members	19	36	44	1
Inside central cities	14	40	44	2
Outside central cities	29	24	45	2
East	11	57	30	2
Midwest	16	42	39	3
South	19	20	59	2
West	23	24	51	2
Under 30 years	19	29	50	2
30 to 49 years	19	43	36	2
50 years and over	12	37	48	3

Why Feel Neighborhood Has Improved or Gotten Worse

(Base: Feel neighborhood has "improved" or "gotten worse" since they've lived there)

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Why improved				
Whole area improved by building, construction; modernizing	13	18	16	11
Improved landscaping, grounds; yards well maintained	8	19	19	6

(Continued on p. 1418)

Why Feel Neighborhood Has Improved or Gotten Worse

(Continued from p. 1417.)

More, friendly, good people moving into area	5	15	6	3
People work hard; take pride in their homes, property	5	24	7	2
People, bad neighbors have moved out	4	4	4	4
Completed, paved streets	3	3	1	3
Improved lighting (e.g., street, traffic)	1	4	2	—
Good schools	*	1	4	—
More places to shop	*	1	3	—
All other answers	5	6	9	5
Why Gotten Worse				
Dangerous; robberies, vandalism, lack of security	28	11	14	33
Kids don't respect property, cause trouble	23	13	18	25
Poor maintenance, upkeep; people don't take care of property	22	18	25	23
Quality of people deteriorating	16	8	14	18
Management poor, uncooperative	8	*	11	9
Neighborhood too noisy	6	3	6	6
People of other races have moved in	3	2	3	3
Vacant, abandoned homes	1	7	—	—
All other answers	4	6	9	3
Don't know	3	—	—	4

* Less than 0.5 percent.

Serious Neighborhood Problems

	Total Occupants %	Total 235 Subsidy Mortgage %	Total 236 Rent Subsidy %	Total Public Housing %	White %	Black %	Inside Central Cities %	Outside Central Cities %
Lack of recreation for teenagers	51	57	52	51	48	56	52	51
Crime in the streets	48	25	26	56	36	54	55	18
Lack of recreation for adults	48	40	49	49	42	53	47	50
Noisy people in the streets	47	27	27	53	40	50	49	33
Lack of parks and playgrounds for children	47	55	50	44	45	47	45	51
Not enough good stores and shopping areas	46	31	30	52	29	58	46	49
Drug addiction	45	20	25	53	29	54	49	27
Dirty streets and sidewalks	44	27	24	50	29	51	46	30
Dirty air and pollution	40	25	27	45	26	49	43	28
Cheating and overcharging by stores	40	24	25	46	20	52	43	24
Inadequate child care for working parents	31	31	34	31	24	36	33	23
Poor street lighting	30	33	21	32	24	36	33	19
Lack of transportation	30	39	34	28	30	28	27	42
Dirty vacant lots	29	31	20	30	17	36	30	19
Poor housing conditions	28	19	17	31	15	36	29	30
Poor schools	25	25	16	25	19	29	26	17
Lack of good medical care	22	22	19	23	14	28	22	21
Vacant or abandoned houses	17	26	11	18	11	22	19	11
Garbage collection	17	19	15	18	10	21	19	12
Fires	15	15	11	16	17	14	16	13

Note: Serious = "very serious" and "somewhat serious."

How Serious a Problem is Poor Housing Conditions

	Very Serious %	Somewhat Serious %	Not Very Serious %	Not Serious at All %	Not Sure %	Serious %	Not Serious %
Total Occupants	14	14	25	45	2	28	70
Total 235 Mortgage Subsidy	8	11	21	57	3	19	78
235 new	8	10	20	59	3	18	79
235 existing	8	11	22	56	3	19	78
Total 236 Rent Subsidy	6	11	19	61	3	17	80
236 limited dividend	4	10	20	63	3	14	83
236 nonprofit	12	15	15	56	2	27	71
Total Public Housing	16	15	26	41	2	31	67
Conventional public	16	15	27	40	2	31	67
Leased public	10	16	22	46	6	26	68
Length of Time in Public Housing							
Less than 3 years	21	10	23	44	2	31	67
Three years or more	13	18	28	39	2	31	67
Under $3,000	12	14	24	47	3	26	71
$3,000–$5,999	16	14	27	41	2	30	68
$6,000 and over	12	14	22	50	2	26	72
$4,000 to $6,999							
235	7	13	25	53	2	20	78
236	7	9	24	58	2	16	82
Public housing	20	21	25	32	2	41	57
White	7	8	17	64	4	15	81
Black	18	18	30	33	1	36	63
Black							
235	17	18	29	34	2	35	63
236	10	16	20	50	4	26	70
Public housing	19	18	31	31	1	37	62
1–2 family members	10	12	27	48	3	22	75
3–4 family members	10	14	26	48	2	24	74
5 or more family members	21	17	20	41	1	38	61
Inside central cities	14	15	26	43	2	29	69
Outside central cities	12	8	16	62	2	20	78
East	20	19	31	27	3	39	58
Midwest	5	12	23	58	2	17	81
South	13	12	20	54	1	25	74
West	13	9	21	53	4	22	74

Two or Three Most Serious Problems in this Neighborhood

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Crime in the streets	30	9	14	37
Drug addiction	29	10	12	35
Noisy people in the streets	18	11	7	4
Lack of recreation for teenagers	15	22	21	12
Not enough good stores and shopping areas	15	10	14	16
Lack of parks and playgrounds for children	13	21	27	9
Dirty streets and sidewalks	11	7	3	13
Poor housing conditions	9	4	5	10
Lack of transportation	8	14	16	5
Lack of recreation for adults	7	6	14	6
Cheating and overcharging by stores	7	4	8	8
Inadequate child care				
Poor street lighting	7	11	5	6
for working parents	7	10	13	5
Poor schools	6	10	4	5
Lack of good medical care	6	5	10	5
Vacant or abandoned houses	4	11	1	3
Dirty air and pollution	4	5	7	4
Dirty vacant lots	3	10	2	2
Garbage collection	3	3	3	3
Fires	3	6	3	3
None not sure	7	10	10	6

Availability in this Neighborhood of Housing That Would Meet the Needs of a Family Like Yours

	Total Occupants %	1-2 Family Members %	3-4 Family Members %	5 or More Family Members %	East %	Midwest %	South %	West %
Adequate	68	76	69	57	59	78	75	57
Barely adequate	13	9	12	20	11	15	13	19
Not adequate	16	13	15	20	27	5	10	18
Not sure	3	2	4	3	3	2	2	6

How Own Apartment Building/House Compares with Buildings/Houses Near Here

	Better Than Most %	About the Same %	Worse Than Most %	It Depends (vol.) %	Not Sure %
Total Occupants	36	43	10	3	8
Total 235 Mortgage Subsidy	25	66	7	1	1
235 new	25	67	7	—	1
235 existing	25	64	7	2	2
Total 236 Rent Subsidy	35	41	12	2	10
236 limited dividend	34	41	12	2	11
236 nonprofit	38	37	13	3	9
Total Public Housing	38	41	10	3	8
Conventional public	39	41	9	3	8
Leased public	27	45	14	3	11

Rating of Neighborhood as a Place to Live

	Excellent %	Pretty Good %	Only Fair %	Poor %	Positive %	Negative %
Total Occupants	11	41	36	12	52	48
Total 235 Mortgage Subsidy	21	51	23	5	72	28
235 new	22	51	22	5	73	27
235 existing	20	52	23	5	72	28
Total 236 Rent Subsidy	16	50	28	6	66	34
236 limited dividend	16	52	27	5	68	32
236 nonprofit	17	46	30	7	63	37
Total Public Housing	9	36	40	15	45	55
Conventional public	9	35	41	15	44	56
Leased public	14	43	33	10	57	43
Lenth of Time in Public Housing						
Less than 3 years	11	24	47	18	35	65
Three years or more	8	42	37	13	50	50
Under $3,000	8	43	35	14	51	49
$3,000 to $5,999	14	37	36	13	51	49
$6,000 and over	13	38	41	8	51	49
$4,000 to $6,999						
235	22	52	24	2	74	26
236	14	59	23	4	73	27
Public housing	10	28	47	15	38	62
White	18	40	31	11	58	42
Black	8	42	38	12	50	50
Black						
235	22	43	27	8	65	35
236	15	51	31	3	66	34
Public housing	6	40	40	14	46	54
1-2 family members	15	45	31	9	60	40
3-4 family members	8	37	38	17	45	55
5 or more family members	10	35	42	13	45	55
Inside central cities	10	40	38	12	50	50
Outside central cities	18	40	27	15	58	42
East	9	24	48	19	33	67
Midwest	18	36	34	12	54	46
South	11	57	28	4	68	32
West	10	42	29	19	52	48
Under 30 years	11	41	35	13	52	48
30 to 49 years	10	36	39	15	46	54
50 years and over	13	44	34	9	57	43

Rating of Government Services in this Neighborhood

	Total Occupants				Total 235 Mortgage Subsidy				Total 236 Rent Subsidy				Total Public Housing				Inside Central Cities				Outside Central Cities			
	Positive %	Negative %	Not Available %	Not Sure %	Positive %	Negative %	Not Available %	Not Sure %	Positive %	Negative %	Not Available %	Not Sure %	Positive %	Negative %	Not Available %	Not Sure %	Positive %	Negative %	Not Available %	Not Sure %	Positive %	Negative %	Not Available %	Not Sure %
Fire protection	79	16	1	4	74	16	1	9	80	13	1	6	81	16	*	3	78	17	4	1	81	14	1	4
Garbage collection	75	21	2	2	75	21	3	1	83	16	—	1	75	21	2	2	76	21	2	1	77	16	1	6
Street lighting	64	34	2	*	60	34	6	*	77	22	1	*	61	37	1	1	60	37	2	1	76	22	2	*
Public schools	55	29	*	16	66	28	1	5	56	22	*	22	54	30	*	16	55	30	*	15	62	20	*	18
Public transportation	54	37	5	4	37	37	21	5	44	40	12	4	59	36	2	3	58	35	4	3	36	47	12	5
Police protection	54	41	4	1	66	30	1	3	68	25	1	6	46	50	4	*	52	43	1	4	66	29	*	5
Street repairs	51	44	1	4	50	44	1	5	56	38	1	5	51	44	1	4	49	46	1	4	60	34	1	5
Health services and clinics	51	29	10	10	43	22	20	15	43	28	13	16	55	30	7	8	52	29	9	10	52	26	12	10
Public housing projects	48	38	5	9	31	19	26	24	54	31	4	11	50	43	1	6	47	41	4	8	50	26	10	14
Housing inspection and code enforcement	38	38	5	19	33	34	6	27	40	31	5	24	39	40	5	16	39	38	5	18	39	35	4	22
Parks and playgrounds	37	50	8	5	32	41	23	4	32	53	10	5	38	51	5	6	38	50	7	5	30	49	12	9
City social services	29	25	12	34	20	16	19	45	20	20	13	47	32	29	10	29	29	28	11	32	31	13	16	40
Welfare centers	28	27	13	32	18	20	23	39	22	19	17	42	32	30	10	28	29	29	11	31	28	15	22	35
Recreation for young people	27	49	10	14	21	50	20	9	23	51	13	13	29	49	7	15	28	50	13	9	22	43	12	23
Programs for the elderly	26	26	16	32	14	13	21	52	19	21	17	43	30	29	15	26	27	26	15	32	22	24	17	37
Child care centers	26	28	12	34	20	22	23	35	30	26	15	29	27	29	9	35	28	30	11	31	22	16	17	45
Drug addict treatment services	14	22	14	50	14	13	14	59	15	14	17	54	15	25	13	47	13	24	14	49	20	7	14	59
Narcotics control	14	26	11	49	19	12	9	60	20	19	10	51	13	30	12	45	13	30	11	46	18	9	11	62

* Less than 0.5 percent.
Note: Positive = "excellent" + "pretty good," negative = "only fair" + "poor."

Section IV: What the Occupants Think About the Programs

Monthly rents paid by public housing occupants are considerably lower than the national norm for apartment renters. The mean gross rent paid by public housing tenants is $60 monthly, compared with $134 nationwide. The average monthly rent paid in leased public housing is somewhat higher ($75), compared with $59 for conventional public housing.

Gross rents for Section 236 rent subsidy occupants is somewhat higher: $122 per month. Occupants of limited dividend 236 housing pay somewhat more per month ($125), compared with $111 in nonprofit 236 housing.

Monthly payments for 235 mortgage subsidy houses average $153 (including utilities). Payments are slightly higher for new houses ($157) than for existing ones ($150).

Average rent or mortgage payment figures conceal substantial differences in rents or payments made by different groups of people. In most cases, however, these rent or payment differences are related to the type of housing lived in by these groups. The under-$3,000 income group averages monthly rents or payments of only $47, compared with $139 for the $6,000 and over group. The less affluent are likely to be concentrated in public housing (where the average annual income is $3,200), while the more affluent have a better chance of living in 235 or 236 housing (where the mean incomes are $6,700 and $5,600, respectively).

White occupants average a higher monthly housing expense ($90) than do blacks. Again, however, rents and payments are directly related to the type of housing these groups live in. While majorities of 235 and 236 housing occupants (where rents and payments are higher) are white, majorities of public housing tenants are black. Similarly, rents tend to be lower inside central cities, in the East and in the South, where the ratio of public housing tenants to 235 and 236 occupants in highest.

While the absolute dollar amounts paid in rents and mortgage payments vary substantially from one type of subsidized housing to another, the rent burden (that is, the relationship of gross rent or payments to total income) assumed by different groups does not vary significantly. While public housing tenants pay substantially less per month than 236 occupants and 235 homeowners, their rent burden (26 percent) is not much lower than that assumed by 235 homeowners (29 percent) and 236 occupants (29 percent).

Rent burden tends to vary somewhat by total income, however, with the poor paying a larger portion of their income on rent than the more affluent. The under $3,000 group pays an average of 32 percent of its income on housing, while the $6,000 and over group expends 21 percent of its income on living accommodations.

All in all, subsidized housing occupants are satisfied with their current expenditures on housing. Nearly three out of four occupants surveyed (73 percent) feel that the rent or mortgage payments they pay are "about right" for what they get, while another 6 percent went so far as to say that their housing costs were too low for what they get. Only one in five occupants felt that their rent or mortgage payments were "too high" (7 percent said "much too high," 13 percent "a little too high").

Observation: Few areas emerge in Harris surveys these days where people are convinced that they are getting a good buy for their money. In terms of value, subsidized housing occupants recognize that they are getting a good deal.

Are the Owners Making Money from These Buildings?

The results revealed some real ignorance on the part of some people about who owns their apartment building or house. While 52 percent of 236 rent subsidy occupants said that they know who owns their building, 40 percent did not know and 8 percent were not sure. Seventy percent of public housing tenants said they knew who owned their building, while 22 percent did not know and 8 percent were not sure.

When asked specifically who owns their building, those who professed knowledge of ownership were not always right.

- Fifty-five percent of 236 limited dividend occupants attributed ownership to a profitmaking organization and 17 percent to an individual, while 11 percent said the Federal Government, 5 percent a nonprofit organization, 1 percent some other owner, and 11 percent turned out to be unsure.

- Thirty-four percent of 236 nonprofit occupants said their building was owned by a nonprofit organization, while 22 percent said a profitmaking organization, 16 percent the Federal Government, 4 percent the city or city housing authority, 1 percent an individual, 9 percent some other owner, and 14 percent unsure.

• Forty-two percent of conventional public housing tenants said their building was owned by the Federal Government and another 42 percent said it was owned by the city or city housing authority. Another 6 percent of those surveyed, however, felt it was owned by a profitmaking organization, 1 percent by an individual, 1 percent by a nonprofit organization, 4 percent by some other owner, and 4 percent were not sure.

• Sixty-eight percent of leased public housing occupants said that their building was owned by an individual, while 12 percent said a profitmaking organization. Nine percent felt that their building was owned by the city or city housing authority, however, while 1 percent said a nonprofit organization, 2 percent the Federal Government, 5 percent some other owner, and 3 percent were not sure.

Sixty-five percent of 236 limited dividend occupants feel that the owner of their building is making money by owning their building (30 percent said "making a lot of money," 35 percent "making some, but not a lot"), while 8 percent felt the owner was "breaking even," 4 percent felt he was "losing money" and 23 percent were not sure.

Forty-three percent of 236 nonprofit housing occupants feel that the owner of their building is making money (18 percent "making a lot of money," 25 percent "making some, but not a lot"), while 21 percent feel that he is "breaking even," 8 percent that he is "losing money," and 28 percent are "not sure."

Two out of five tenants of leased public housing (39 percent) said that their landlord was making money by owning their building (18 percent felt he was "making a lot of money," 21 percent "making some, but not a lot"). Twelve percent felt that their owner was "breaking even," 11 percent "losing money," while 38 percent were "not sure."

Interestingly enough, tenants of conventional public housing share the feelings of leased public housing occupants on whether or not the owner of their building is making money: 40 percent of conventional housing tenants feel that their owner is in the black (18 percent said "making a lot of money," 22 percent "making some, but not a lot"), while 12 percent feel that he is "breaking even," 10 percent that he is "losing money" and 38 percent "not sure."

While tenants of subsidized housing feel that they get good value now for their money, they are reluctant to accept any increase in rent, even if it is just to cover increasing maintenance costs. "With the cost of living rising," tenants were reminded, "the cost of maintaining housing is going up too. Do you think it is fair or unfair for tenants' rents to go up to cover the increase in the costs of maintaining the housing?" Occupants of 236 rent subsidy housing (45–37 percent) and public housing tenants (by 50–26 percent) felt that such rent increases were "unfair".

Experience with the Subsidy Program

Subsidized housing occupants have good things to say about the subsidized housing program. By 79–13 percent, their own experience with the subsidy program has been satisfactory (a 52 percent majority said "very satisfactory," while 27 percent said "somewhat satisfactory"). Satisfaction with the program is slightly higher among 235 homeowners (86–11 percent satisfactory) and 235 rent subsidy occupants (84–11 percent satisfactory) than among public housing tenants, although the latter give the subsidy program a strong 77–14 percent endorsement.

Tenants of leased public housing are even more satisfied with the subsidy program than conventional public housing tenants. An overwhelming 90 percent of leased housing tenants have had satisfactory experience with the subsidy program, compared with 76 percent of conventional housing renters. Once again, satisfaction within specific groups largely reflects the kind of housing they tend to occupy; for this reason, satisfaction is slightly lower among those groups with heavy concentration in public housing: blacks, people inside central cities, people in the East and the South. Moreover, the under-30 group tend to be somewhat less satisfied with the program than their elders.

Observation: While tenants of all public housing are by and large pleased with the subsidy program, leased public housing—which deghettoizes public housing tenants—is the preferred approach.

Subsidized housing occupants explained why their experience has been satisfactory or unsatisfactory:

Section 235 homeowners who are satisfied with the program gave the following reasons: "You pay what you can afford, according to your income; the government pays the rest; I couldn't own house without the subsidy" (40 percent of 235 homeowners), "I like it; it has helped us" (20 percent), "good program management; gov-

ernment doesn't hassle us" (9 percent), "the government pays promptly" (3 percent) and "larger space, more rooms" (2 percent). The minority who were dissatisfied complained that "payments increase with income; you can't get ahead" (11 percent), "bad, slow maintenance; can't afford repairs ourselves" (7 percent), "poor construction, quality" (4 percent), and "too much government interference" (4 percent).

Satisfied 236 rent subsidy occupants explained that "you pay what you can afford, according to your income; government pays the rest; I couldn't live here without the subsidy" (25 percent); living there is "inexpensive, cheap for what you get" (20 percent); "nice, decent, comfortable apartment" (17 percent); and "I like it; it has helped us" (16 percent). The minority whose experience has been unsatisfactory complained of "rent too high" (10 percent), "bad maintenance service" (8 percent) and "inequitable, confusing rent requirement" (4 percent).

Public housing tenants who have had satisfactory experience with the program gave reasons similar to those of 235 occupants: "you pay what you can afford, according to your income; government pays the rest; I couldn't live here without the subsidy" (27 percent); "inexpensive, cheap for what you get" (19 percent); "nice, decent, comfortable apartment" (12 percent); and "I like it; it has helped us" (11 percent). The minority less satisfied mentioned "bad maintenance service" (9 percent), "rent too high" (6 percent), and "crime" (3 percent).

Observation: The economics of subsidized housing are clearly its strongest selling point among all groups of occupants. Without the subsidies, large numbers of people feel, they would not be able to afford comparable housing.

By 64–17 percent, occupants of subsidized housing agree that the subsidy program is well run. Again, leased public housing tenants (by 77–14 percent) are more favorable about the way the program is run than are conventional tenants (by 61–18 percent). The way the program is run is criticized most in the East, although subsidized housing occupants in the East (by 52–27 percent) still feel that the program is basically well run.

By 79–11 percent, occupants of federally subsidized housing feel that the subsidy program "really helps meet the housing needs of the people in the program." An overwhelming 89 percent of leased public housing tenants feel this way, compared with 76 percent of conventional public housing occupants. Once again, while the vast majority of people in all regions feel the program really helps, Easterners are slightly more skeptical. (By 71–17 percent, people in the East feel the program really meets occupants' housing needs.)

Not only do occupants feel that the subsidy program really helps; moreover, they are satisfied with the amount of subsidy they received. While 8 percent feel that the subsidy is "too low," 66 percent feel it is "about right." One in 10 occupants (10 percent) went so far as to say that their amount of subsidy was "too high."

There is some uncertainty on the part of occupants as to who actually pays their subsidy. Eighty percent of 235 mortgage subsidy homeowners said that the Federal Government helps keep their mortgage payments down, while 2 percent said State and 18 percent were not sure. Sixty-eight percent of 236 occupants feel their subsidy comes from the Federal Government, while 5 percent said State, 1 percent local and, 26 percent were not sure. Uncertainty was greatest among public housing tenants: while 48 percent said the Federal Government helps keep their rent down, 9 percent said State, and 7 percent local, 36 percent of the tenants did not know who paid their subsidies.

While subsidized housing occupants apparently see themselves as the principal beneficiaries of the program, when asked to volunteer "other people who benefit from the program," few people were able to respond (5 percent said landlord, 4 percent local merchants, 4 percent the retired or elderly, 4 percent the poor, low income groups). When presented with a structured question suggesting certain people who might benefit, occupants were more able to recognize that the programs had other beneficiaries as well:

- Among 235 homeowners, 74 percent felt that builders benefit, 71 percent that rental agencies benefit, and 62 percent that banks and other lenders benefit from the subsidy program.
- Among 236 rent subsidy occupants, 61 percent felt that builders gain from the program, 45 percent felt that landlords benefit, 43 percent that banks and other lenders benefit, and 36 percent that rental agencies benefit.
- Public housing tenants were less likely to see the benefits of others in their subsidy program. Thirty-one percent of these tenants felt that builders benefit, 24 percent banks and other lenders, 22 percent landlords, and 20 percent rental agencies.

Support for Housing Allowances

By 74–25 percent, State and local government officials approved the introduction of housing allowances for low income families. The American public was somewhat more divided on the subject of housing allowances, although they favored such a program by 50–35 percent. The likely recipients of housing allowances have different thoughts on the matter, however. "Suppose that, instead of subsidizing this housing, the government made a direct payment of the same amount to you," subsidized housing occupants were asked. "You would have to spend it on housing, but would be able to spend it on any housing you chose that met minimum housing code standards. Would you prefer such an arrangement or not?" By 50–35 percent (an exact flip-flop of public opinion), occupants of subsidized housing would not prefer such an arrangement. Those most opposed are the lowest income group and the elderly: by 56–29 percent, the under-$3,000 group would not prefer housing allowances while the 50 years of age and older group opposed it by 64–21 percent.

Reasons for preferring the current subsidy program include: "I'm satisfied with the way it is; like the place, arrangement I have" (20 percent); "I couldn't find any place as nice, better for same money now paid" (17 percent); "it would be too much responsibility for me; it's easier to let the government, housing authority handle it" (9 percent); "money might be spent unwisely; people might not use it for housing" (9 percent); "I'm afraid my rent, payments would go up" (4 percent); and "this way I know I can live within my budget" (1 percent).

The 35 percent of occupants who favored housing allowances gave these reasons: "I would have a choice; could live wherever I wanted, find better housing, move when I liked" (25 percent); "I could live in another, better neighborhood" (7 percent); "I could live in a house instead of an apartment" (4 percent); "I could get a better place for the children, have a yard to play in" (3 percent); "find nicer, different neighbors" (2 percent); "would get larger house, apartment" (2 percent); "would pay less, have better deal" (2 percent); "could own instead of rent" (1 percent); and "could live in the country, on the land" (1 percent).

Observation: While direct housing allowances may be a popular idea among State and local government officials, those who would receive the payments are largely opposed to this arrangement. Satisfied with their present housing deal, they are afraid to rock the boat in any way.

Possible Changes in the Subsidy Program

Finally, occupants of subsidized housing were asked whether the subsidy program should be changed in any way. While 49 percent felt that no change was necessary and 25 percent were not sure, 26 percent felt that the program should be changed. Suggestions for change were most plentiful among 235 homeowners (35 percent felt the program should be changed) and 236 rent subsidy occupants (36 percent said it should be changed).

Those who favored change in the program suggested possible changes to make:

Section 235 homeowners felt that they "shouldn't raise payments so fast, should consider individual needs first" (16 percent); that they should have "more control over builders, contractors" (14 percent); that there should be "closer supervision, restrictions on who gets subsidies" (14 percent); that they should "make repairs or loans to maintain the property" (13 percent); that they should "help more poor, unemployed people who need it" (10 percent); and that there should be "lower payments, higher subsidies" (9 percent).

Section 236 occupants feel primarily that there should be "lower rents, higher subsidies" (17 percent); that they should "make repairs, loans to maintain the property" (14 percent); that there should be "closer supervision, restriction on who gets subsidies" (14 percent); that they "should pay more attention to individual needs when setting rents" (13 percent); that they should "change the management, people in rental office" (13 percent); that they should "help more poor, unemployed people who need it" (11 percent); that they should not "raise rents so fast; should consider individual needs first" (7 percent); and that they should have "more control over builders, contractors" (7 percent).

Public housing tenants made two important requests: that they "make repairs, loans to maintain the property" (25 percent) and that they have "lower rents, higher subsidies" (20 percent). In addition, they would like to have "closer supervision, restrictions on who gets subsidies" (8 percent); that they should "pay more attention to individual needs when setting rents" (6 percent); and that they "change management, people in rental office" (6 percent).

Observation: By and large, subsidized housing occupants feel that no changes are necessary in the subsidy program. Those who would welcome change are largely interested in lower rents or payments or slower increase in costs. That majorities (as noted earlier in this section) approved the amount of the subsidies suggests that this is not a very serious problem.

As documented by earlier findings, maintenance remains a problem for many subsidized housing occupants. Section 235 homeowners might welcome loans to maintain their property and ask that there be more control over contractors and builders. These requests only document their earlier complaints about the quality of construction. Maintenance problems seem to afflict public housing most of all. Provisions for good maintenance service should be built into any planning for public housing.

All in all, subsidized housing occupants see the subsidy program in a very favorable light. As far as it has gone, the program appears to have been very successful in providing low cost housing to low income families. The problem as seen by the occupants is largely one of not having gone far enough.

Gross Monthly Rent/Payments

	Mean $
Total Nation (Base: Rent house/apartment)	134
Total Occupants	80
Total 235 Mortgage Subsidy	153
235 new	157
235 existing	150
Total 236 Rent Subsidy	122
236 limited dividend	125
236 nonprofit	111
Total Public Housing	60
Conventional public	59
Leased public	75
Length of Time in Public Housing	
Less than 3 years	60
Three years or more	60
Under $3,000	47
$3,000 to $5,999	91
$6,000 and over	139
$4,000 to $6,999	
235	144
236	125
Public housing	84
White	90
Black	73
Black	
235	149
236	125
Public housing	61
1–2 family members	55
3–4 family members	95
5 or more family members	98
Inside central cities	76
Outside central cities	101
East	72
Midwest	96
South	72
West	99
Under 30 years	106
30 to 49 years	93
50 years and over	53

Rent Burden (Gross Rent/Payments as a Percentage of Annual Income)

	Mean %
Total Occupants	27
Total 235 Mortgage Subsidy	29
235 new	28
235 existing	30
Total 236 Rent Subsidy	29
236 limited dividend	29
236 nonprofit	29
Total Public Housing	26
Conventional public	26
Leased public	29
Length of Time in Public Housing	
Less than 3 years	27
Three years or more	30
Under $3,000	32
$3,000 to $5,999	25
$6,000 and over	21
$4,000 to $6,999	
235	32
236	27
Public housing	19
White	26
Black	28
Black	
235	33
236	29
Public housing	27
1–2 family members	29
3–4 family members	26
5 or more family members	26
Inside central cities	27
Outside central cities	26
East	23
Midwest	29
South	30
West	28
Under 30 years	28
30 to 49 years	26
50 years and over	27

Whether Rent/Mortgage is Too High for What You Get Here

	Much Too High %	A Little Too High %	About Right %	Low %	Not Sure %
Total Occupants	7	13	73	6	1
Total 235 Mortgage Subsidy	10	15	67	1	1
235 new	8	14	70	7	1
235 existing	12	16	62	8	2
Total 236 Rent Subsidy	9	14	68	9	*
236 limited dividend	8	14	69	9	—
236 nonprofit	11	15	64	9	1
Total Public Housing	7	13	73	5	2
Conventional public	7	13	73	5	2
Leased public	4	10	76	8	2
Under $3,000	5	11	76	7	1
$3,000 to $5,999	10	15	69	5	1
$6,000 and over	11	17	65	6	1

* Less than 0.5 percent.

Whether Know Who Owns This Apartment Building/House

(Base: 236 and public housing occupants only)

	Total Occupants %	Total 236 Rent Subsidy %	Total Public Housing %
Know who owns this building/house	67	52	70
Don't know	25	40	22
Not sure	8	8	8

Who Owns This Building/House

(Base: 236 and public housing occupants who said they "know who owns this building/house")

	236 Rent Subsidy 236 Limited Dividend %	236 Non-profit %	Public Housing Conventional Public %	Leased Public %
Individual	17	1	1	68
Profit making organization	55	22	6	12
Nonprofit organization	5	34	1	1
Federal government	11	16	42	2
The city or city housing authority	—	4	42	9
Other	1	9	4	5
Not sure	11	14	4	3

Whether the Owner is Making Money by Owning This Building/House

(Base: 236 and public housing occupants only)

	236 Rent Subsidy 236 Limited Dividend %	236 Non-profit %	Public Housing Conventional Public %	Leased Public %
Making a lot of money	30	18	18	18
Making some, but not a lot	35	25	22	21
Breaking even	8	21	12	12
Losing money	4	8	10	11
Not sure	23	28	38	38

Whether It's Fair for Tenants' Rents to Go up to Cover Increase in Maintenance Costs

(Base: 236 and public housing occupants only)

	Total Occupants %	Total 236 Rent Subsidy %	Total Public Housing %
Fair	27	37	26
Unfair	50	45	50
It depends (vol.)	16	14	16
Not sure	7	4	8

Whether Subsidy Program is Well Run or Not

	Well Run %	Not Well Run %	Not Sure %
Total Occupants	64	17	19
Total 235 Mortgage Subsidy	68	16	16
235 new	71	14	15
235 existing	66	17	17
Total 236 Rent Subsidy	69	18	13
236 limited dividend	69	18	13
236 nonprofit	68	18	14
Total Public Housing	63	17	20
Conventional public	61	18	21
Leased public	77	14	9
East	52	27	21
Midwest	68	12	20
South	70	11	19
West	73	18	9

Own Experience with the Subsidy Program

	Very Satis-factory %	Somewhat Satis-factory %	Only Slightly Satis-factory %	Not At All Satis-factory %	Not Sure %	Satis-factory %	Not Satis-factory %
Total Occupants	52	27	7	6	8	79	13
Total 235 Mortgage Subsidy	61	25	6	5	3	86	11
235 new	60	27	5	4	4	87	9
235 existing	62	24	7	5	2	86	12
Total 236 Rent Subsidy	55	29	7	4	5	84	11
236 limited dividend	54	30	7	4	5	84	11
236 nonprofit	55	27	7	6	5	82	13
Total Public Housing	50	27	7	7	9	77	14
Conventional public	49	27	8	7	9	76	15
Leased public	64	26	5	4	1	90	9
Length of Time in Public Housing							
Less than 3 years	52	26	6	8	8	78	14
Three years or more	50	27	8	6	9	77	14
Under $3,000	57	22	6	5	10	79	11
$3,000 to $5,999	52	30	8	7	3	82	15
$6,000 and over	41	31	10	8	10	72	18
$4,000 to $6,999							
235	61	26	5	3	5	87	8
236	55	29	7	4	5	84	11
Public housing	41	32	11	9	7	73	20
White	62	24	6	4	4	86	10
Black	45	30	8	7	10	75	15
Black							
235	53	29	6	6	6	82	12
236	41	38	9	5	7	79	14
Public housing	44	30	8	7	11	74	15
1–2 family members	61	23	6	3	7	84	9
3–4 family members	45	31	6	8	10	76	14
5 or more family members	48	29	9	8	6	77	17
Inside central cities	51	27	7	7	8	78	14
Outside central cities	58	28	7	3	4	86	10
East	42	28	12	10	8	70	22
Midwest	59	31	3	3	4	90	6
South	56	22	6	5	11	78	11
West	56	33	5	5	1	89	10
Under 30 years	48	27	7	12	6	75	19
30 to 49 years	45	33	8	6	8	78	14
50 years and over	62	21	7	2	8	83	9

Reasons Behind Experience with the Subsidy Program

	Total 235 Mortgage Subsidy %
Satisfactory Experience	
Pay what you can afford, according to your income; government pays the rest; couldn't own house without subsidy	40
Like it, it has helped us	20
Good program management; government doesn't hassle us	9
Government pays promptly	3
Larger space, more rooms	2
All other answers	2
Unsatisfactory Experience	
Payments increase with income; can't get ahead	11
Bad, slow maintenance; can't afford repairs ourselves	7
Poor construction, quality	4
Too much government interference, red tape, forms	4
Government should screen applicants more effectively	1
Too restrictive on choice of house	1
All other answers	2
Don't know	3

Note: Total comes to more than 100 percent, since some occupants volunteered more than one reason. Percentages are based on the total number of people who reported either satisfactory or unsatisfactory experiences.

Whether Subsidy Program Really Helps Meet the Housing Needs of People in the Program

	Really Helps %	Does Not Help %	Not Sure %
Total Occupants	79	11	10
Total 235 Mortgage Subsidy	86	6	8
235 new	86	3	11
235 existing	86	8	6
Total 236 Rent Subsidy	85	8	7
236 limited dividend	86	7	7
236 nonprofit	84	11	5
Total Public Housing	77	12	11
Conventional public	76	12	12
Leased public	89	6	5
East	71	17	12
Midwest	89	5	6
South	79	8	13
West	88	8	4

Reasons Behind Experience with the Subsidy Program

	Total Occupants %	Total 236 Rent Subsidy %	Total Public Housing %
Satisfactory Experience			
You pay what you can afford, according to your income; government pays the rest; couldn't live here without subsidy	23	25	27
Inexpensive; cheap for what you get	17	20	19
Nice, decent, comfortable apartment	11	17	12
Like it; has helped us	10	16	11
Good maintenance service	4	5	5
Larger space, more rooms	2	4	1
Rent includes utilities, everything	2	5	2
Good, quiet neighborhood	1	3	1
Good for children	1	2	1
Good management	1	2	2
Good, convenient location	1	1	1
Get apartment quickly, no wait	*	1	*
All other answers	2	3	2
Unsatisfactory Experience			
Bad maintenance service	8	8	9
Rent too high	6	10	6
Inequitable, confusing rent requirement	2	4	1
Crime	2	*	3
Poor construction, quality	1	2	1
Not enough room, space	1	*	1
Unfriendly neighbors	1	1	1
No place for kids to play	*	1	*
Trouble getting apartment, waiting list	*	1	*
All other answers	7	9	8
Don't know	11	7	13

* Less than 0.5 percent.

Whether Amount of the Subsidy for this Housing is Too High or Too Low

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Too high	10	9	11	10
Too low	8	12	11	6
About right	66	72	68	66
Not sure	16	7	10	18

Extent to Which Others Benefit from Subsidy Programs

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Banks and Other Lenders				
Benefit	31	62	43	24
Don't benefit	16	12	18	15
Not sure	53	26	39	61
Builders				
Benefit	40	74	61	31
Don't benefit	12	9	11	13
Not sure	48	17	28	56
Rental Agencies				
Benefit	28	71	36	20
Don't benefit	24	11	32	25
Not sure	48	18	32	55
Landlords (Base: 236 and public housing occupants only)				
Benefit	26		45	22
Don't benefit	24		25	24
Not sure	50		30	54

Note: Benefit = benefits "a great deal" + "some but not a great deal," don't benefit = benefits "only a little" + "not at all."

Which Level of Government Helps Keep Your Mortgage Payments/Rent Down?

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Federal	56	80	68	48
State	7	2	5	9
Local	5	*	1	7
Not sure	32	18	26	36

*Less than 0.5 percent.

Other People who Benefit from Subsidy Program Aside from People Who Live in the Subsidized Housing

(Volunteered)

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 235 Rent Subsidy %	Total Public Housing %
Landlord, owner	5	4	8	5
Merchants, local stores	4	4	7	3
Retired, elderly	4	3	4	5
Poor, low income, welfare people	4	5	3	4
Workers—construction, plumbers, maintenance	3	4	3	2
Mortgage companies	2	6	1	1
Realtors	2	11	1	—
Builders, contractors, supply companies	2	11	4	*
Government	1	3	3	*
People with children, families	1	1	1	*
Young people, newlyweds	1	1	1	1
Everyone else in community	2	7	4	1
No one	12	7	15	13
All the people who live there	4	3	6	4
All other answers	4	3	6	4
Don't know	57	46	47	61

*Less than 0.5 percent.

Reasons Behind Preferences for Housing Allowance or Subsidy

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Would Prefer Direct Payments				
Would have a choice; could live wherever wanted, find better housing, move when liked	25	22	28	24
Could live in another, better neighborhood, location	7	7	4	7
Could live in a house instead of an apartment	4	1	8	4
Could get place better for children, have yard to play in	3	*	2	3
Could find nicer, different neighbors	2	2	1	2
Could get larger house, apartment	2	1	2	2
Could pay less, have better deal	2	3	5	1
Could own instead of renting	1	1	1	1
Could live in the country, on the land	1	2	1	1
All other answers	4	4	4	3
Would Not Prefer Direct Payments				
Satisfied with way it is; like the place, arrangement I have	20	20	16	21
Couldn't find any place as nice, better for same money I pay now	17	7	10	21
Would be too much responsibility for me; It's easier to let government, housing authority handle it	9	14	14	7
Money might be spent unwisely; people might not use it for housing	9	19	15	7
Afraid my rent, payments would go up	4	2	3	5
This way I know I can live within my budget, pay all my bills	1	2	2	1
All other answers	3	4	5	3
Don't know	9	8	4	11

* Less than 0.5 percent.

Preference for Housing Allowance or Subsidies

	Would Prefer Direct Payment of Same Amount as Subsidy, To be Spent On Any Housing You Chose That Met Minimum Housing Code %	Would Not Prefer Such An Arrangement %	Not Sure %
Total Occupants	35	50	15
Total 235 Mortgage Subsidy	31	54	15
Total Rent Subsidy	42	48	10
Total Public Housing	35	49	16
Under $3,000	29	56	15
$3,000 to $5,999	41	48	11
$6,000 and over	39	41	20
1-2 family members	23	65	12
3-4 family members	41	44	15
5 or more family members	45	37	18
East	35	54	11
Midwest	36	56	8
South	32	45	23
West	44	43	13
Under 30 years	42	43	15
30 to 49 years	46	39	15
50 years and over	21	64	15

Whether Subsidy Program Should Be Changed in Any Way

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Should be changed	26	35	36	23
No change necessary	49	49	52	48
Not sure	25	16	12	29

Ways in Which Subsidy Program Should Be Changed

(Base: Feel program "should be changed")

	Total Occupants %	Total 235 Mortgage Subsidy %	Total 236 Rent Subsidy %	Total Public Housing %
Should make repairs, loans to maintain property	21	13	14	25
Lower payments, rents; higher subsidies	18	9	17	20
Closer supervision of, restrictions on, who get subsidies	11	14	14	8
Should pay more attention to individual needs when setting rents, payments	9	12	13	6
Shouldn't raise costs, payments so fast; should consider individual needs first	7	16	7	4
Have more control over builders, contractors	7	14	7	5
Change management, people in rental office	7	3	13	6
Should help more poor, unemployed people who need it	6	10	11	3
Should equalize rents; unfair to pay different rents on same apartment	3	2	3	4
All other answers	32	23	30	36
Don't know	1	1	3	*

*Less than 0.5 percent.

A Study of Public Attitudes Toward Federal Government Assistance for Housing for Low Income and Moderate Income Families

By *Louis Harris and Associates, Inc.*
Project Director: Carolyn E. Setlow

Introduction: Purpose and Methodology

This is the final report of a survey of the American public submitted to the Department of Housing and Urban Development by Louis Harris and Associates, Inc. Between June 11 and 18, 1973, trained Harris interviewers conducted interviews among a national cross-section of 1,511 Americans 18 years of age and older on a door-to-door basis.

On January 5, 1973, HUD announced a moratorium on subsidized housing programs in order to evaluate their effectiveness prior to developing recommendations on the Federal role for housing. The objective of this survey was to obtain data on the attitudes of the American public toward Federal Government housing policies and programs. These attitudes are among the important factors to be taken into consideration as part of this evaluation.

Interviews were conducted in households in 100 different locations throughout the country, utilizing a random start in each location. Interviewers contacted approximately 15 households at each location. At each household the respondent was chosen by means of a random selection pattern, geared to the number of adults of each sex who lived in the household.

The sampling procedure produced a national cross-section that accurately reflects the actual population of the country who are 18 years of age and older and living in private households. The national sample can therefore be projected as representative of the country's adult civilian population.

For this sample, selected as described above, the sampling error at the 95-percent confidence level for the total (1,511), and for smaller subgroups at three different response levels is shown in the following table.

Sampling Error at 95 Percent Confidence Level

		Response Level	
		30% Or	10% Or
Sample size #	50% %	70% %	90% %
1500	3	2	2
1000	3	3	2
500	4	4	3
250	6	6	4
100	10	9	6

The methodology employed in conducting this survey of the American public (the sample design, conduct of interviewing, data processing, and analysis) is described below.

The Sample Design

The national cross-section of 1,511 Americans (the same sample design used for the Harris Survey) was based on a carefully stratified national sample of the civilian population of the mainland United States. The precise technique by which the sample was drawn is multistage random probability cluster sampling, a method that assures every household a statistically equal chance of being drawn into the survey.

In drawing the national cross-section, the national population was first stratified in two dimensions: by geographical region (East, Midwest, South, and West) and by size of place within each region (city, suburb, town, and rural area). This stratification ensures that the ultimate selection of interviews will reflect within one percentage point the actual proportions of U.S. residents living in different regions and community types.

Within each stratum, the selection of the ultimate sampling unit (a cluster of adjacent households) was achieved by a series of steps. The cities, suburbs, towns, and rural areas were listed according to population size from biggest to smallest within a region and then a precise location was selected by a random pattern that guarantees a probability proportional to census estimates of the given location's respective household populations. The next step was to

construct detailed maps of the selected locations that contain approximately 30 households each. This process was done in the New York office of Louis Harris and Associates.

Conduct of Interviews

All field work was assigned from the New York office through a group of 15 area supervisors, who in turn assigned as many interviewers as were needed in their region. Upon approval of the questionnaire, field kits were mailed special delivery to the area supervisors for distribution to their local staffs. These kits contained, in addition to the basic questionnaire, a full written explanation of the substance and purpose of the survey with detailed instructions covering any complex or unusual requirements.

Before interviewing commenced, the written instructions were supplemented by a briefing (in person or by telephone) from either the New York field department or area supervisor. As the work progressed, it was monitored to assure that schedules and quotas were being met and that all results conformed to the specified sampling design. Interviews were conducted throughout the day and evening to insure that working men and women were represented in the sample. Returns were sent back to the New York office as they were completed, and checked again for quality and completeness. Before the completed questionnaires were processed, they were turned over to an independent validating service which rechecked 20 percent of each interviewer's respondents to guarantee that the work had been properly conducted and completed in accordance with our specified procedures. In general this validation was done by telephone, but where the interviewer had a high proportion of respondents without telephones the validation was conducted in person. If the 20 percent check turned up any questionable interviews, the interviewer's full quota was invalidated.

Data Processing

Once validation was completed and editing checks made, open-ended (unstructured) questions were coded to permit computer processing. The full questionnaire was then key punched, key verified, and put on to magnetic tapes. The data was tabulated by basic cross-tabulation programs and presented in the form of annotated tables showing cross tabulations (frequencies and percentages) of questions by independent variables agreed upon in advance by the Department of Housing and Urban Development and Louis Harris and Associates.

Analysis

In addition to totals, many responses throughout the study are reported by key variables. A definition of these variables and their distribution in the sample are shown below:

	Percentage of sample %
Geographic Region	
East (Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, and West Virginia)	28
Midwest (Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin)	28
South (Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and Virginia)	28
West (Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming)	16
Size of Place	
Cities (central cities in urbanized areas, generally 50,000 or more population)	32
Suburbs (urbanized areas outside central cities)	27
Towns (other urban places of 2,500 or more population)	17
Rural (anything not included above)	24
Age	
18 to 29 years old	29
30 to 49 years old	36
50 years old and over	35
Education	
Less than high school graduate	32
High school graduate (may have completed some college including community college)	52
College graduate (completed 4 or more years of college)	16
Sex	
Men	50
Women	50

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	Percentage of sample %
Race	
White	88
Black	8
Income	
Under $5,000*	19
$5,000–$9,999	28
$10,000–$14,999	25
$15,000 and over	28
Awareness of Government-Subsidized Housing Nearby	
Subsidized housing nearby	20
No subsidized housing nearby	80
Knowledge of Federal Government Housing Programs	
Know a great deal	32
Know a little	37
Know almost nothing	31

* A prime target for subsidized housing, the under $5,000 group is looked at in greater detail in the final table of this report.

The following report includes statistical tables drawn from the annotated tabulations. In addition, the report includes a description of the main findings and a discussion of the signification of the study results, including clearly identifiable "Observation" sections discussing the policy implication of the findings.

The questionnaire administered in this survey was developed by Louis Harris and Associates in close consultation with HUD personnel. A copy of the questionnaire is available from Louis Harris and Associates, Inc., 1270 Avenue of the Americas, New York, N.Y. 10023.

Section I: Summary of Key Findings

The following conclusions can be reached about the views and experience of the American people on the subject of housing and the perceived role and performance of the Federal Government in the past, present, and future:

1. In a period marked by much public disenchantment with the quality of life, a substantial 82 percent report that they are satisfied with their housing, with 52 percent claiming their housing has improved in the past 5 years, and 59 percent believing that they get better value from their present housing than they did from their previous residence. Nonetheless, 18 percent are not well satisfied nationwide, rising to 22 percent in the South, 26 percent in the big cities, 23 percent of the under 30 age group, 26 percent of those with the least education, 32 percent of people with incomes of under $5,000, 26 percent of people with incomes of $5,000–$9,999, and 44 percent of all blacks. (See Section II.)

2. In addition to the dwelling unit in which they live, the state of the neighborhood in which these people live is a matter of deep concern, with people reporting they are beset with drug abuse, lack of recreational facilities for young teenagers, lack of transportation, crime on the streets, lack of parks and playgrounds for children, dirty air and pollution, lack of recreation for adults, lack of good medical care, poor street lighting, dirty streets and sidewalks, dirty vacant lots, poor schools, cheating and overcharging by stores, a roster of concerns which in the aggregate indicates that the quality of the neighborhood in many cases is as important or more important than the specific housing people live in. (See Section II.)

3. The period during which this survey was conducted, the early summer of 1973, was notably lacking in public euphoria or optimism. By 66–24 percent, the American people have come to the conclusion that the country is "pretty seriously on the wrong track" and is not going in the right direction. People are beset with concern over high prices, disenchantment with politics and politicians, and a decline in moral values. (See Section III.) When viewed against this context, housing does not emerge as a high priority issue on the minds of the public. Out of a list of 18 key issues, Federal assistance for housing for low income people emerged in a tie for 13th place, while Federal help for housing for moderate income families finished in last place. (See Section III.)

Nonetheless, on an absolute basis, housing is not considered unimportant. In its own right, 79 percent view "housing for low income people" an important area, 67 percent feel the same about preventing discrimination in housing, 56 percent see taking steps to achieve a racial balance in housing as important, and 55 percent believe housing assistance for moderate income families is important. Housing today is fighting for attention with top survival issues in the minds of the American people. (See Section III.)

4. The job done by the Federal Government in housing gets a negative rating from the public, but not by as much as the job done in the area of crime control, for instance. While by 46–35

percent Federal assistance for low-income housing is rated negatively, reducing crime is rated 69–24 percent negative. Federal help for moderate income housing is looked on most negatively: 44–22 percent on the debit side. (See Section IV.)

5. The public is very clear about its priorities for who should be served by Federal housing programs. It favors governmental help for housing for the elderly by 88–7 percent, for the handicapped by 88–6 percent, for low income families by 68–12 percent, but rejects similar assistance in housing for moderate income families by a decisive 59–27 percent. (See Section IV.)

6. The American people see the Federal role in housing as far more important and indispensable than that of State or local governments. (See Section IV.)

7. However, there is a mandate for the Government to give a higher priority to providing existing housing to the elderly and low income families than to building new housing. If housing for moderate income families is to be provided, the same pattern of preference for existing over new housing prevails. (See Section IV.)

8. By a substantial 64–24 percent, a majority of the people nationwide favor the use of Federal subsidies for those who cannot afford decent, safe housing. (See Section IV.) Despite a preference for developing existing housing, by 66–25 percent most support a program of "Federal projects for low income families". By 66–23 percent, a comparable majority support "mortgage subsidies to low income families to allow them to buy their own homes." By a lower 50–35 percent, the public favors "a housing allowance for low income families which must be spent on housing which meets minimum standards." By 49–35 percent, people support "rent supplements to allow low income families to live in moderate income projects." (See Section IV.)

9. By a surprising 40–35 percent, a plurality backs a policy of building new housing for low income families outside the inner city areas instead of in the inner cities. Even suburban families favor such a policy by a narrow margin. In fact, when asked directly about locating low income housing in the suburbs versus the cities, by 2 to 1 (52–26 percent), a majority of the public favors building in the suburbs. Even suburban residents favor such programs by 44–28 percent. (See Section IV.)

10. While agreeing in principle as to its rightness, the American people are quite a distance from being prepared to achieve racial balance in housing in reality. The public does favor "strict enforcement of laws against racial discrimination in housing" by a 47–43 percent margin. Those most in favor of ending discrimination in housing are residents of big cities, the young, college graduates, and blacks. Least in favor of laws against racial discrimination in housing are people in the South, lower income whites, and those with less education. (See Section IV.)

However, when asked directly about a "Federal policy which would build housing for low income families, including minorities, in areas where they might otherwise not be able to afford to live," the result was a close 46–44 percent rejection of such a policy. People in the suburbs are particularly worried about the enforcement of such a policy. (See Section IV.)

11. The public is deeply concerned that there simply is not enough space in their own neighborhood for much expansion of housing, indicating a real resistance to large-scale growth from federally sponsored housing. (See Section IV.)

Section II: How America Lives

What People Live In

Despite talk in recent years that the country was becoming more restless and the traditionally adhered-to virtue of aspiring to own one's home was giving way to a surge toward rental dwellings, a substantial 71 percent of the Nation's families in 1973 lived in single, detached houses. An additional 2 percent occupied single, attached, or row houses. Thus, nearly three in every four people were living in single family houses. Another 2 percent lived in housing that could be transported nearly anywhere: mobile homes or trailers. The remaining 25 percent occupied multiple dwellings: 10 percent in two-unit structures, 3 percent in structures with three units, 4 percent in structures with four units, and 8 percent in larger apartments with five or more dwelling units.[1]

[1] These findings agree closely with the 1970 census data, which show that 69.7 percent of all families were living in single family houses, 2.9 percent in mobile homes, and 27.1 percent in multiple dwellings.

There were, of course, variations to the dominant pattern, and these were found in the big cities of the country and more particularly among blacks. Only a minority of 46 percent of people in big cities lived in single family attached housing, with a substantial 22 percent who occupied structures with 5 or more units. Blacks fitted the urban pattern even more: only 32 percent in single detached houses, 9 percent in row housing, and 1 percent in mobile homes; but a high 30 percent in multiple dwelling units of 5 or more apartments, and 28 percent more living in structures with two to four units in them.

In sharp contrast to the lower income and black families in the big cities, the most affluent people—those earning $15,000 and more a year—lived almost exclusively in single family, detached houses, a condition reported by 84 percent of this highest income bracket. Only 4 percent of the most affluent people lived in structures with 5 or more dwelling units.

It is true, however, that nearly one in three families (32 percent) live in rented houses or apartments.[2] This rises to 54 percent of the people who live in big cities, 51 percent of the young people under 30, 51 percent of the people with incomes of under $5,000, 44 percent of those with incomes of $5,000–$9,999, and 66 percent of all blacks. By contrast, 81 percent of the people in the suburbs own their homes or are in the process of buying them, a status shared by 79 percent of rural residents, 71 percent of all whites, and a high 87 percent of people with incomes of $15,000 and more.

The average family has lived in its present home 5.7 years. Interestingly, those who have been in their current residences longest are people at either end of the economic scale: those with incomes under $5,000 (7.6 years) and those with incomes of $15,000 and over (7.2 years). People in the East (7.3 years), rural residents (7.2 years), people 50 years of age and over (10+ years), those with less than a high school education (7.6 years), all tend to be among the most settled and least mobile sectors of the population. In contrast stand people in the West (3.3 years), the young (1.4 years), college graduates (3.7 years), the $5,000–$9,999 income group (3.7 years), all of whom have been in their current residences the shortest period of time and must be viewed as the moving or most mobile parts of the American population.

The one-third who are renters pay an average gross rent of $134 a month nationwide. However, this overall average cloaks a rather wide range of rentals paid by people. By region, the Midwest is most expensive for renters at $157, followed by the East at $148, the West $145, but with the South a much lower $96 per month rent. Renters in the suburbs pay the highest rent ($159), followed by big city dwellers ($137), with rents in towns at $124 and in rural areas at $106. Although they have been in their homes the least time, the young pay the most in rent ($148), with middle-aged people at $139, and older people (50 and over) paying $105 per month. As might be expected, rents paid go up sharply as affluence rises: from those with less than a high school education ($97) and those with incomes of under $5,000 ($92), high school graduates ($143) and people with incomes of $5,000–$9,999 ($134), to college graduates ($181), those with incomes of $10,000–$14,999 ($165), and those with incomes of $15,000 and over ($204 monthly rental) at the top of the scale. Those who are in private residences in the neighborhood of subsidized housing pay a lower $113, compared with a higher $138 average for the rest of the country. Finally, the disparity in rentals between whites and blacks is not nearly so much as their income disparity (on income $11,600) for whites and $6,700 for blacks, but on rentals $136 per month for whites and $117 for blacks).

In the case of homeowners, the average estimated selling value of their current residence is $26,800.[3] The highest values are to be found in the East, where the given price is $32,800, while the lowest again is in the South, where homeowners believe their houses would bring an average $21,100 in today's market. On the high side are suburban residents (an average of $34,000), college graduates ($35,900), and those with incomes of $15,000 and over ($34,000). In addition to people who live in the South, the lowest estimated values of their houses by homeowners are rural residents ($21,300), those with the least education ($19,300), people earning under $5,000 a year ($17,100), and those with incomes of $5,000–$9,999 ($21,900).

[2] Again, these findings correspond closely with 1970 census data; according to the census, 37 percent rent their homes while 63 percent own.

[3] Homeowners surveyed by the Harris firm report higher values than are reported in the 1970 census: the *median* value for homewoners surveyed was $23,200, compared with $17,000 in the 1970 census. Inflation over the past three years may help to explain this difference.

How Americans Assess Their Living Conditions

In terms of value, most Americans feel they are living in better homes now than they did previously. A sizable 59 percent believe where they now live is a better value than their last residence, while no more than 10 percent see a deterioration in value, with 26 percent reporting no change.

Observation: At a time when the press of inflation was never felt to be greater, the fact that housing is one area where value is believed to have increased, compared with previous residences, is significant. One of the reasons, of course, is that many people have indeed realized handsome profits on the sale of residences, and word of these gains has spread far and wide in the country.

Basically, however, most people feel that the places they live in are about on a par with other residences in the neighborhood, a view shared by 6 percent of the public. However, 25 percent feel where they live is better than the rest of their neighborhood, and only 5 percent feel it is worse. Essentially, most Americans are satisfied with their housing. Just over 4 in 10 (43 percent) rate the place they live in as "excellent" and another 39 percent say it is "pretty good," adding up to a high 82 percent who assess their current home in positive terms. The remaining 18 percent believe their housing is "only fair" or "poor." This rises to 22 percent in the South, to 26 percent in the big cities, 23 percent among the under 30 age group, 26 percent among those with the least education, 32 percent of those with incomes under $5,000, 26 percent among those with incomes of $5,000–$9,999, and to 44 percent of all blacks.

Observation: Although 82 percent certainly is a substantial number who express satisfaction with their current housing, nonetheless the 18 percent, representing 9.4 million families, is a significant backlog of unfinished business in the housing field. And where 20 percent or more of the population rates its housing as negative ("only fair" or "poor"), the urgencies obviously rise. However, the conclusion still remains that, for most families in America, housing is a source of satisfaction rather than discomfort.

Given the better than 8 in 10 who feel their own housing is satisfactory, it is little wonder that 52 percent of the people report that "housing for most people" is "better now than it was 5 years" ago, compared with only 8 percent who say it is "worse," although nearly 1 in 3 (32 percent) report no change as their estimate.

The thrust in preferences on homes is still toward living in a house rather than an apartment. The following table points up the gaps between people who live in single family attached or detached houses and the number who express a desire to live in a house instead of an apartment.

Gap Between Current Living in a House and Desire to Live in One

	Live in a House %	Want to Live in a House %	Gap %
Nationwide	73	90	−17
By Region			
East	69	93	−24
Midwest	75	91	−16
South	72	88	−16
West	74	92	−18
By Place of Residence			
Cities	46	82	−36
Suburbs	85	95	−10
Towns	78	93	−15
Rural	85	97	−12
By Age			
18–29	61	91	−30
30–49	81	94	−13
50 and over	73	87	−14
By Education			
Less than high school graduate	70	88	−18
High school graduate	74	92	−18
College graduate	69	91	−22
By Sex			
Men	74	92	−18
Women	72	89	−17
By Race			
White	75	93	−18
Black	41	72	−31
By Income			
Under $5,000	55	80	−25
$5,000–$9,999	64	90	−26
$10,000–$14,999	80	94	−14
$15,000 and over	86	96	−10

The results show clearly where the pressures of the homeseeking market are in America today. The East has more people aspiring to live in single-family houses than any other region. Residents of cities are far more frustrated at not being able to live in a house of their own than people who live in any other type of community, undoubtedly explaining the continued exodus of people from the central cities of the country. Young people, despite claims to the contrary, are heavily committed to living in a house.

Blacks, a majority of whom today live in apartments, show one of the biggest gaps between where they live and where they would like to in the entire population. To a lesser extent, this frustration of not living in a house and wanting to is shared by people with incomes under $10,000.

Observation: Although it is patently clear from these results that the American dream is still largely one of owning your own house, there are obvious limitations in the possibilities for achieving this for many families. The heart of the limitation lies in the cities of the country, where space traditionally has been at a premium, and, as a consequence, building has always been believed to have to go upward, thus necessitating apartment rather than house units. The challenge, of course, is to work out much better ways to provide single family housing in the cities of the country, at costs within the means of people to afford them. It is far less certain just how much effort has gone into addressing housing planning toward this objective than automatically assuming that housing in cities must of necessity be new apartment dwellings.

Of course, having proper housing is integrally tied up with the kind of neighborhood one lives in. The basic elements of a decent house or apartment internally must be viewed in the context of the immediate area people live in. When asked directly about it, a substantial 84 percent of the public rate their own neighborhood as "excellent" (48 percent) or "pretty good" (36 percent). No more than 16 percent nationwide give their neighborhoods a negative rating.

Much as in the case of assessing their own living quarters, important minorities of 20 percent complained about their neighborhood: 22 percent in the South, 31 percent in the big cities, 20 percent among young people, 23 percent whose education was less than finishing high school, 21 percent in the $5,000–$9,999 income group, and a sizable 55 percent of blacks.

Observation: The problem neighborhoods obviously center on the places where lower and lower middle income people live, particularly in the big cities, and especially among blacks, who clearly are more disenchanted with their living conditions than any other segment of the population.

There is somewhat less satisfaction with the availability of housing in their own neighborhoods "to meet the needs of a family such as yours." A flat 17 percent reported the availability of decent housing where they live was simply "inadequate." Another 15 percent said it was "barely adequate." Taken together, 32 percent, or nearly 1 in 3, see real deficiencies in available housing nearby. Again, the South leads the way in dissatisfaction, with 38 percent voicing the inadequacy of housing openings where they live. Others with a higher than average complaint rate are the West (37 percent), towns (42 percent), rural areas (42 percent), those under 30 years of age (38 percent), people who are less well educated (37 percent), people with incomes under $5,000 (39 percent), those with incomes of $5,000–$9,999 (38 percent). Once more, blacks expressed the most dissatisfaction (48 percent).

When probed to find out what were the two or three most serious problems in their own neighborhoods, 35 percent singled out drug addiction, 22 percent crime in the streets, 21 percent lack of recreation for teenagers, 19 percent lack of transportation, 13 percent dirty air or pollution, 13 percent lack of good medical care, 10 percent lack of parks and playgrounds, 8 percent poor schools, 6 percent overcharging by stores, 6 percent lack of recreation for adults, 6 percent not enough good stores or shopping, 5 percent poor street lighting, 5 percent noisy people in the streets, and 4 percent dirty streets and sidewalks. On this roster of serious problems in their neighborhood, no more than 6 percent mentioned "poor housing conditions" as one of the most serious problems.

Observation: Viewed against the total array of neighborhood problems, poor housing ranks in a four-way tie for ninth place out of 20 specific problem areas probed by the survey. Certainly no case can be made that, on a roster of neighborhood problems, housing finishes in a commanding position. But, perhaps there is another message that emerges from these results: housing cannot be viewed just as a matter of how many rooms are being provided, what kind of internal plumbing, heating, light, ventilation, security, and plumbing exists inside a house or apartment. Rather, a person's satisfaction with a home is intimately connected with the larger environment in which he is living, particularly the neighborhood problems that impinge on the daily living in a particular kind of housing. Any planning for housing that failed to take into account this larger neighborhood environment would be seriously overlooking an essential and critical dimension.

Simply obtaining a reading on the two or three most serious neighborhood problems, how-

How Serious are Neighborhood Problems?

	Total Nation			Cities			Subsidized Housing Nearby			Blacks			Under $5,000			South		
	Serious %	Not Serious %	Not Sure %	Serious %	Not Serious %	Not Sure %	Serious %	Not Serious %	Not Sure %	Serious %	Not Serious %	Not Sure %	Serious %	Not Serious %	Not Sure %	Serious %	Not Serious %	Not Sure %
Drug addiction	53	39	8	57	35	8	59	34	7	71	23	6	57	33	10	59	34	7
Lack of recreation for teenagers	47	46	7	49	43	8	52	43	5	63	31	6	42	46	12	52	42	6
Lack of transportation	38	60	2	38	60	2	41	58	1	52	47	1	41	56	3	41	56	3
Crime in the streets	37	62	1	55	44	2	42	58	—	61	37	2	50	48	2	44	55	1
Lack of parks and playgrounds for children	35	61	4	41	55	4	32	66	2	58	40	2	38	55	7	49	46	5
Dirty air or pollution	34	65	1	49	50	1	36	63	1	69	27	4	40	58	2	36	63	1
Lack of recreation for adults	31	64	5	36	59	5	32	66	2	61	35	4	38	55	7	40	52	8
Lack of good medical care	30	66	4	34	62	4	29	68	3	55	40	5	41	53	6	38	58	4
Poor street lighting	26	73	1	33	66	1	29	70	1	55	44	1	31	67	2	32	66	2
Dirty streets and sidewalks	25	74	1	41	58	1	24	76	—	60	38	2	38	60	2	38	61	1
Dirty vacant lots	24	75	1	35	63	2	22	78	—	51	47	2	32	65	3	34	63	3
Poor schools	24	68	8	40	49	11	26	68	6	63	30	7	26	61	13	33	58	9
Cheating or overcharging by stores	23	73	4	27	67	6	23	72	5	47	49	4	33	60	7	28	66	6
Poor housing conditions	22	76	2	32	67	1	21	78	1	51	47	2	35	63	2	33	64	3
Not enough good stores and shopping areas	21	78	1	24	75	1	20	79	1	59	40	1	26	72	2	26	73	1
Noisy people on the streets	20	78	2	29	70	1	21	79	—	52	47	1	32	67	1	24	74	2
Vacant or abandoned houses	18	80	2	27	71	2	16	84	—	49	48	3	25	72	3	25	71	4
Garbage collection	16	72	2	20	78	2	13	86	1	35	63	2	23	74	3	27	71	2
Fires	12	85	3	14	83	3	9	89	2	27	68	5	13	84	3	15	81	4
Vacant stores	12	85	3	19	77	4	8	91	1	46	52	2	14	80	6	14	81	5

Note: Serious = "very serious" & "somewhat serious"; Not serious = "not very serious" & "not serious at all."

ever, does not adequately measure the degree of concern people might have about each of the 20 potential problem areas asked about. The following table indicates the degree of seriousness of each problem for the Nation and how the problem impacts upon key groups in the population.

By and large, the top areas of concern remain unchanged in their rank order, with drug addiction still at the top of the list, followed by lack of recreation for teenagers, lack of transportation, crime in the streets, lack of parks and playgrounds for children, and dirty air or pollution. Along with lack of recreation for adults and lack of good medical care, each of these top eight items was named a "serious" problem by 30 percent or more of the public across the Nation.

In the case of "poor housing conditions," 22 percent complained that this was a serious problem, although 76 percent did not. But the focus of just where housing is a problem began to emerge clearly. Among people who live in the big cities, 32 percent singled out housing as a problem of serious concern; among those with incomes of less than $5,000 housing is a serious problem for 35 percent; for residents of the South this condition prevailed for 33 percent. But by far the most acute situation in housing exists among blacks: a majority of 51 percent said in their neighborhood "poor housing conditions" is a "serious problem."

In fact, housing is not the only source of trouble in black neighborhoods. As the above table indicates, blacks feel much more acutely than any other segment of the population the full impact of neighborhood social problems. In the case of drug addiction, 53 percent of the total public might worry about this problem in their neighborhood, but a much higher 71 percent of all blacks feel beset by the drug problem; lack of teenage recreational facilities is felt by 47 percent of the country but 63 percent of blacks where they live; lack of transportation is a problem for 38 percent of the entire Nation in their

neighborhood, but a much higher 52 percent of the blacks; crime in the streets is a serious question faced by 37 percent of the total public, but by a higher 61 percent of the blacks; lack of parks and playgrounds for children is a believed deficiency of their neighborhood by 35 percent of the American people, but 58 percent of blacks feel the same way; dirty air is felt to beset 34 percent of the neighborhoods of the country, but a much more substantial 69 percent of blacks worry about foul air where they live.

If the gap between the country as a whole and blacks was found to be substantial for the top items on the serious problem list, then it was found to be even greater in the items toward the middle and the bottom of the list: lack of recreation for adults is a serious problem for 31 percent of the Nation, but for 61 percent of the blacks; lack of good medical care is a problem for 30 percent of the country, but for 55 percent of the blacks; poor street lighting besets 26 percent of the neighborhoods generally, but a much higher 55 percent of black neighborhoods; dirty streets and sidewalks are a problem for 25 percent of the neighborhoods of the country, but are reported to beset 60 percent of black neighborhoods; poor schools are a problem for 24 percent of the country, but 63 percent of blacks; cheating or overcharging by stores is believed to go on in 23 percent of the neighborhoods, but is a condition of life in 47 percent of black areas; the lack of enough good stores and shopping areas is a felt deficiency by 21 percent of all the people about where they live, but by a much higher 59 percent of all blacks.

Observation: By any measure, the plight of blacks, as reported by them in this survey, is acute and even desperate in terms of not only their immediate housing, but even more when cast in the context of the neighborhoods in which they live. It is apparent that any approach to housing for blacks must take into account a total neighborhood approach. By the same token, the situation among blacks would appear to indicate that a high priority must be given to this segment of the population if America's housing and neighborhood needs in the 1970's are to be met.

How Long Lived in Present Residence

	Less than 1 Year %	1-2 Years %	3-4 Years %	5-6 Years %	7-8 Years %	9-10 Years %	More than 10 Years %	All My Life %	Not Sure %	Median Number of Years %
Total	18	13	12	10	9	8	28	2	*	5.7
East	14	11	11	11	10	10	29	3	1	7.3
Midwest	17	15	11	7	8	7	34	1	*	6.0
South	16	13	11	11	9	10	30	*	*	5.9
West	31	15	15	10	7	5	16	1	*	3.3
Cities	22	13	10	10	9	8	25	3	–	5.5
Suburbs	18	14	10	12	8	8	28	1	1	5.7
Towns	17	14	14	8	9	5	31	*	2	5.6
Rural	14	12	13	9	9	11	31	1	–	7.2
18 to 29	37	23	11	9	4	4	10	2	*	1.4
30 to 49	12	12	16	13	14	12	20	1	–	5.8
50 and over	8	6	8	7	7	8	53	2	1	10+
Less than high school grad	14	11	11	9	8	10	36	*	1	7.6
High school grad	19	14	11	9	10	8	27	2	*	5.7
College grad	23	17	14	11	6	6	21	2	–	3.7
Men	19	14	10	7	9	8	30	2	1	6.0
Women	17	13	13	12	8	9	27	1	*	5.6
White	18	14	11	10	9	8	28	2	*	5.7
Black	20	11	14	12	9	7	26	1	–	5.4
Under $5,000	18	10	11	8	5	8	38	1	1	7.6
$5,000 to $9,999	26	15	11	8	6	7	26	1	*	3.7
$10,000 to $14,999	18	18	11	9	13	8	21	2	–	5.3
$15,000 and over	9	11	14	14	10	11	28	2	1	7.2
Subsidized housing nearby	14	13	14	9	13	10	26	1	*	6.0
No subsidized housing nearby	19	14	11	10	8	8	28	2	*	5.6

* Less than 0.5 percent.

Rent or Own Residence

	Rent %	Own or Buying %	Neither %
Total	32	67	1
East	25	74	1
Midwest	30	68	2
South	35	63	2
West	41	59	–
Cities	54	45	1
Suburbs	18	81	1
Towns	30	70	–
Rural	19	79	2
18 to 29	51	48	1
30 to 49	23	76	1
50 and over	25	74	1
Less than high school grad	36	63	1
High school grad	28	71	1
College grad	37	62	1
Men	30	69	1
Women	34	65	1
White	28	71	1
Black	66	33	1
Under $5,000	51	47	2
$5,000 to $9,999	44	54	2
$10,000 to $14,999	24	75	1
$15,000 and over	13	87	–
Subsidized housing nearby	28	71	1
No subsidized housing nearby	33	66	1

Monthly Gross Rent

(Base: Rent house/apartment)

	Mean $
Total	134
East	148
Midwest	157
South	96
West	145
Cities	137
Suburbs	159
Towns	124
Rural	106
18 to 29	148
30 to 49	139
50 and over	105
Less than high school grad	97
High school grad	143
College grad	181
Men	136
Women	132
White	136
Black	117
Under $5,000	92
$5,000 to $9,999	134
$10,000 to $14,999	165
$15,000 and over	204
Subsidized housing nearby	113
No subsidized housing nearby	138
Knowledge of Government Housing Programs	
Know a great deal	148
Know a little	141
Know almost nothing	117

Type of Dwelling Unit Live In

	Total %	East %	Midwest %	South %	West %	Cities %	Suburbs %	Towns %	Rural %	18 to 29 %	30 to 49 %	50 and Over %	Less than H.S. Grad %	H.S. Grad %	College Grad %	Men %	Women %	White %	Black %	Under $5,000 %	$5,000 to $9,999 %	$10,000 to $14,999 %	$15,000 and Over %	Subsidized Housing Nearby %	No Subsidized Housing Nearby %
Single family detached house	71	65	75	72	70	42	82	78	85	58	79	71	68	72	67	71	70	74	32	54	62	79	84	76	70
Single family attached house (row)	2	4	*	—	4	4	3	—	1	3	2	2	2	2	2	3	1	1	9	1	2	1	2	1	2
Two-unit structure	10	14	7	11	6	13	10	15	4	15	6	11	11	10	10	9	11	10	13	15	13	9	5	9	11
Structure with three dwelling units	3	5	2	2	3	7	1	1	3	3	1	5	6	2	2	3	4	3	6	10	3	1	1	2	3
Structure with four dwelling units	4	3	4	5	7	10	1	4	1	7	3	3	4	3	7	4	5	4	9	5	6	3	3	4	4
Structure with five or more dwelling units	8	7	10	8	8	22	3	1	—	11	7	7	7	8	10	8	8	6	30	13	11	5	4	7	8
Mobile house or trailer	2	2	1	2	2	1	—	1	6	2	2	1	2	2	—	2	1	2	1	1	3	2	1	1	2

*Less than 0.5 percent.

Estimate of Selling Worth of House or Other Residence Owned

(Base: Own or buying house/apartment)

	Mean $ (in thousands)
Total homeowners	26.8
East	32.8
Midwest	24.9
South	21.1
West	28.1
Cities	25.6
Suburbs	34.0
Towns	23.3
Rural	21.3
18 to 29	27.3
30 to 49	28.5
50 and over	24.6
Less than high school grad	19.3
High school grad	27.9
College grad	35.9
Men	26.8
Women	26.8
White	27.2
Black	21.4
Under $5,000	17.1
$5,000 to $9,999	21.9
$10,000 to $14,999	25.0
$15,000 and over	34.0
Subsidized housing nearby	25.6
No subsidized housing nearby	27.1

How Present Residence Compare with Previous Residence, Considering Value for the Money

	Total %
Better	59
Same	26
Worse	10
Not sure	5

How Own House/Apartment Building Compares With Others in Neighborhood

	Total %
Better	25
About the same	67
Worse	5
Not sure	3

Housing for Most People in America Compared with Five Years Ago

	Total %
Better	52
Worse	8
Not much different	32
Not sure	8

All Things Equal, Would You Rather Live in a House or Apartment ?

	House %	Apartment %	Not Sure %
Total	90	8	2
East	93	6	1
Midwest	91	8	1
South	88	9	3
West	92	6	2
Cities	82	16	2
Suburbs	95	4	1
Towns	93	6	1
Rural	97	2	1
18 to 29	91	6	3
30 to 49	94	6	—
50 and over	87	11	2
Less than high school grad	88	10	2
High school grad	92	6	2
College grad	91	8	1
Men	92	7	1
Women	89	9	2
White	93	6	1
Black	72	23	5
Under $5,000	80	15	5
$5,000 to $9,999	90	9	1
$10,000 to $14,999	94	5	1
$15,000 and over	96	4	—
Subsidized housing nearby	92	7	1
No subsidized housing nearby	90	8	2

Perceived Availability of Housing in this Neighborhood to Meet the Needs of a Family Such as Yours

	Adequate %	Barely Adequate %	Not Adequate %	Not Sure %
Total	65	15	17	3
East	68	13	15	4
Midwest	70	14	14	2
South	58	18	20	4
West	61	16	21	2
Cities	61	17	17	5
Suburbs	84	9	6	1
Towns	54	24	18	4
Rural	56	13	29	2
18–29	59	21	17	3
30–49	65	13	18	4
50 and over	67	13	17	3
Less than high school grad	58	17	20	5
High school grad	66	16	15	3
College grad	70	11	17	2
Men	67	13	17	3
Women	63	17	17	3
White	67	14	16	3
Black	44	25	23	8
Under $5,000	56	20	19	5
$5,000–$9,999	59	18	20	3
$10,000–$14,999	68	12	17	3
$15,000 and over	72	13	13	2
Subsidized housing nearby	66	16	17	1
No subsidized housing nearby	64	15	17	4
Knowledge of Government Housing Programs				
Know a great deal	64	16	18	2
Know only a little	68	14	15	3
Know almost nothing	62	15	19	4

Rating of House/Apartment Building as Place to Live

	Excellent %	Pretty Good %	Only Fair %	Poor %	Not Sure %	Positive %	Negative %	Not Sure %
Total	43	39	15	3	*	32	18	—
East	50	34	14	2	—	84	16	—
Midwest	43	40	13	4	—	83	17	—
South	38	40	18	4	—	78	22	—
West	38	43	16	3	*	81	19	—
Cities	33	41	21	5	—	74	26	—
Suburbs	52	37	9	2	*	89	11	—
Towns	42	45	11	2	—	87	13	—
Rural	46	35	17	2	—	81	19	—
18 to 29	34	43	19	4	—	77	23	—
30 to 49	47	38	12	3	—	85	15	—
50 and over	46	37	15	2	*	83	17	—
Less than high school grad	34	40	20	6	—	74	26	—
High school grad	44	40	14	2	*	84	16	—
College grad	53	36	9	2	—	89	11	—
Men	41	40	16	3	—	81	19	—
Women	44	38	15	3	*	82	18	*
White	47	38	13	2	*	85	15	*
Black	15	41	33	11	—	56	44	—
Under $5,000	31	37	26	6	*	68	32	—
$5,000 to $9,999	34	40	21	5	—	74	26	—
$10,000 to $14,999	49	39	10	2	—	88	12	—
$15,000 and over	54	39	7	*	*	93	7	*
Subsidized housing nearby	46	41	11	2	—	87	13	—
No subsidized housing nearby	42	38	16	4	*	80	20	*
Knowledge of Government Housing Programs								
Know a great deal	48	38	11	3	—	86	14	—
Know only a little	42	40	15	3	*	82	18	*
Know almost nothing	38	40	19	3	—	78	22	—

* Less than 0.5 percent.

Rating of Neighborhood Live In

	Excellent %	Pretty Good %	Only Fair %	Poor %	Not Sure %	Positive %	Negative %	Not Sure %
Total	48	36	12	4	*	84	16	*
East	44	42	11	3	—	86	14	—
Midwest	56	31	7	5	1	87	12	1
South	44	33	17	5	1	77	22	1
West	42	39	14	5	*	81	19	*
Cities	30	39	21	10	*	69	31	*
Suburbs	54	36	8	2	*	90	10	*
Towns	58	31	9	2	*	89	11	*
Rural	56	35	7	1	1	91	8	1
18-29	36	44	15	5	*	80	20	*
30-49	54	32	10	3	1	86	13	1
50 and over	49	35	11	5	*	84	16	*
Less than high school grad	38	38	16	7	1	76	23	1
High school grad	51	35	11	3	*	86	14	*
College grad	56	34	8	2	*	90	10	*
Men	48	35	12	5	—	83	17	—
Women	46	37	12	4	1	83	16	1
White	52	36	9	2	1	88	11	1
Black	8	37	33	22	—	45	55	—
Under $5,000	32	40	18	9	1	72	27	1
$5,000–$9,999	42	37	16	5	—	79	21	—
$10,000–$14,999	53	34	10	2	1	87	12	1
$15,000 and over	58	34	6	2	—	92	8	—
Subsidized housing nearby	43	41	13	3	—	84	16	—
No subsidized housing nearby	48	35	12	4	1	83	16	1
Knowledge of Government Housing Programs								
Know a great deal	54	32	10	4	*	86	14	*
Know only a little	47	37	13	3	*	84	16	*
Know almost nothing	44	39	12	5	*	83	17	*

* Less than 0.5 percent.

Section III: The Size and Nature of the Public Mandate for Assistance Housing

The Prevailing Mood

The spring and early summer of 1973 was a time of deep national concern, notably lacking in euphoria or optimism. Much of the enthusiasm for the settling of the war in Vietnam had dimmed. Instead, the press was filled with reports of rising prices and the Watergate hearings.

By a substantial 66–24 percent, two in every three Americans had come to the conclusion that the country was "pretty seriously on the wrong track" and was not going in the right direction. Discouragement was most to be found among blacks (83 percent) and those with the least education (73 percent) who also had the most sizable grievances about the state of their housing and of their own neighborhoods.

When asked why they felt the country was "going in the wrong direction," 32 percent singled out inflation and high prices, 18 percent mentioned Watergate, 15 percent named "politicians and government officials who are corrupt," 10 percent volunteered a "moral decline in values," 7 percent said a "distrust of politicians," 6 percent cited "too much crime," and 5 percent said "everything is a mess." Notably, poor housing did not make the top list at all.

Observation: The pocketbook woes of the public were now being added to by a host of concerns that obviously stemmed from the Watergate investigation. By 1973, Harris surveys had shown that respect for leadership of the establishment had already fallen to new lows. Now the crisis of confidence in political leadership had reached an acute point. In turn, this could presage even less support for Federal programs of any kind. The problem for housing could be ex-

Two or Three Most Serious Problems in Own Neighborhood

	Drug Addiction %	Crime In Streets %	Lack Of Recreation For Teenagers %	Lack Of Transportation %	Dirty Air Or Pollution %	Lack Of Good Medical Care %	Lack Of Parks and Playgrounds For Children %	Poor Schools %	Cheating, Over Charging By Stores %	Poor Housing Conditions %	Lack Of Recreation For Adults %	Not Enough Good Stores, Shopping Areas %	Poor Street Lighting %	Noisy People In The Streets %	Dirty Streets and Sidewalks %	Garbage Collection %	Vacant Or Abandoned Houses %	Dirty Vacant Lots %	Fires %	Vacant Stores %
Total	35	22	21	19	13	13	10	8	6	6	6	6	5	5	4	4	3	3	2	2
East	37	23	19	22	13	11	9	8	4	3	8	6	4	5	2	1	2	1	2	1
Midwest	35	18	23	16	9	16	9	6	7	5	5	6	4	8	6	5	5	4	1	3
South	36	27	21	18	10	14	14	11	7	11	6	6	5	5	5	8	1	2	2	1
West	32	19	22	20	26	10	6	9	6	5	6	6	11	2	5	4	1	6	2	—
Cities	38	39	18	14	17	7	11	13	7	8	5	5	5	5	7	5	5	3	1	1
Suburbs	33	17	24	23	15	6	9	7	6	3	6	2	8	3	2	2	1	1	1	1
Towns	37	15	20	24	7	21	9	4	6	8	8	8	6	9	4	4	2	5	1	3
Rural	33	11	23	17	10	23	10	7	4	5	6	11	2	6	5	6	1	4	5	2
18–29	37	19	22	16	19	11	14	11	8	8	9	5	6	5	3	6	3	1	2	2
30–49	40	20	25	16	11	13	10	10	4	5	5	5	5	5	4	3	2	1	2	1
50 and over	33	27	12	24	10	15	6	4	6	6	5	7	5	6	6	4	2	6	1	2
Less than high school grad	39	32	18	16	12	16	10	6	6	8	5	6	5	5	5	6	4	4	2	1
High school grad	34	18	25	20	13	11	11	9	5	5	7	6	5	5	7	4	2	2	2	2
College grad	32	16	15	20	17	13	7	10	6	6	6	4	6	5	6	3	2	3	2	2
Men	33	21	19	19	13	12	8	8	7	6	6	5	5	6	4	4	2	3	2	2
Women	37	24	23	19	13	14	12	9	5	7	6	6	6	4	5	5	3	3	1	1
White	34	20	22	20	13	13	9	8	5	6	6	6	6	6	4	4	2	3	2	2
Black	43	40	12	14	18	10	14	16	12	13	4	11	4	4	9	2	13	2	—	1
Under $5,000	38	32	14	18	14	13	10	6	9	8	6	6	3	8	5	7	4	4	1	1
$5,000–$9,999	35	23	23	18	13	14	10	7	7	8	7	5	7	5	5	4	3	4	2	2
$10,000–$14,999	37	18	23	22	15	14	10	9	3	6	6	7	4	7	4	4	2	3	2	2
$15,000 and over	33	18	23	19	12	11	9	10	5	3	5	6	6	2	4	3	1	1	1	1
Subsidized housing nearby	37	21	26	18	14	14	10	12	7	6	6	7	7	9	4	4	2	1	2	1
No subsidized housing nearby	35	22	19	19	13	13	10	7	6	6	6	6	5	4	5	5	8	3	2	2
Knowledge of Government Housing Programs																				
Know a great deal	36	21	24	21	14	13	10	10	8	5	6	6	6	5	4	4	4	3	2	2
Know only a little	34	20	21	19	11	13	9	7	5	7	7	5	6	5	5	5	2	3	2	1
Know almost nothing	36	25	18	18	14	14	9	9	5	6	5	7	3	5	3	5	2	3	2	2

acerbated by the fact that housing was far from front and center in the concerns of the American people.

The survey measured in two ways the importance of housing problems compared with other concerns on the minds of Americans: (1) by an unstructured open-end question that asked the public to volunteer "the two or three biggest problems facing the country today," and (2) by a structured closed-end question that asked people how important they considered each area on a predetermined list of areas of concern.

When asked to respond to the open-end question—the two or three biggest problems facing the country today—the national cross-section gave top priority to the "economy, inflation, the high cost of living" cited by 54 percent, then Watergate and the political fallout from it (25 percent), crime (19 percent), drugs (18 percent), taxes (11 percent), pollution and ecology (11 percent), welfare and welfare reform (10 percent), the energy crisis (10 percent), peace in Cambodia (8 percent), schools and education (7 percent), unemployment (7 percent), alienation and a lack of communication (6 percent), discrimination and inequality (5 percent), Federal spending (4 percent), housing (4 percent), health care (3 percent), care for the elderly (2 percent), and problems on the job (1 percent).

Observation: The singular mark of these results by any standard is that America in mid-1973 certainly had a full basket of problems. Not one answer on the list volunteered by the people could be viewed as anything less than of high importance. Given this crowded track of problems, the fact that housing came out toward the bottom of the list bespoke not so much that housing was unimportant, but rather that it was competing with a potent set of other critical events and problems for public attention. Nonetheless, the fact remained that housing did emerge as an area of relatively low national concern.

When asked for their volunteered solutions to these problems, the public poured out a full response. In the case of inflation, people wanted to keep the price freeze beyond the announced 60-day period and to see the Government bring in a system of controls that works better than had been the case for the past 6 months. On Watergate, people wanted to get rid of corruption, dishonesty in Government; on crime, the solution was to get stricter on law enforcement; on drugs, a crackdown on pushers was the main thrust for solution; on taxes, the desire for tax reform and cutting out unnecessary spending was advocated; on pollution, a tougher enforcement of existing laws came out on top; on welfare, the desire was to screen those who qualify for welfare more stringently and also to start work programs for the poor; on the energy crisis, to find more gasoline and to urge the public to use more public transportation; on the war, to stop the bombing of Cambodia; on education, to improve the quality delivered to children of the poor; on unemployment, to find more jobs; on alienation, to turn more to religion and closer family ties; on discrimination, to end inequality; on Federal spending, to cut foreign aid but to use funds appropriated for social programs; on housing, to develop more low income housing; on health, to lower hospital costs; and on help for the elderly, to make this area a distinct province of the Federal Government.

Observation: Despite the disenchantment of the public with politics and politicians, it is patently apparent that the American people still were looking to the Federal Government for answers in most of these areas of concern. Perhaps the frustration was higher because the people sensed that the Federal establishment in mid-1973 was beset with problems of integrity and credibility and yet the solutions were still urgently needed.

The table on page 1448 puts much of the public mandate into focus.

When asked directly in the closed-end question about the importance of each area, the full magnitude of public concern came into full view. Top priority obviously has been given to bread and butter concerns—checking inflation and keeping taxes in line, both believed to be very important by over 8 in 10, and by over 9 in 10, to be areas of legitimate and even urgent Federal governmental concern.

The areas of crime and drug abuse are of high importance to close to 8 in 10, but there is less conviction that they are areas of primary Federal concern. Spending does not draw quite as much attention as inflation and taxes, but nonetheless obviously is an area of top Federal involvement. Seven out of 10 (69 percent) see helping older people as very important, and larger numbers of those who attach importance to this problem feel the Federal Government has a major role to play here. Public education is viewed as important by 63 percent, but only 59 percent feel that the Federal Government should take the lead in helping solve it. It is apparent that this is also a shared decision with the States and localities.

Importance of National Problems, Which Should be Attacked First, and Role of Federal Government in Solving

	Very Important %	Two or Three Attacked First %	Federal Government Should Take Major Role in Solving (Base: Find problem "very" or "somewhat important") %
Checking inflation	89	57	92
Keeping taxes in line	81	22	91
Reducing crime	80	30	76
Curbing drug abuse	79	39	79
Keeping spending in line	78	12	89
Helping older people	69	12	77
Improving public education	63	22	59
Providing better health care for everyone	63	12	76
Cutting down air and water pollution	62	18	74
Reducing unemployment	59	14	68
More help for poverty stricken people	55	3	70
Improving the welfare system	53	12	70
Easing racial tensions	44	5	55
Providing housing assistance for low income families	44	4	63
Preventing racial discrimination in housing	39	2	58
Improving public transportation	38	6	52
Taking steps to achieve racial balance in housing	27	1	59
Providing housing assistance for moderate income families	21	2	50

Health care and environmental control are believed by just under 2 in every 3 as having a high priority, and while the Federal role is viewed as dominant, it is far from exclusive in the minds of the public. Help for poverty stricken people and welfare reform along with reducing unemployment are seen by more than 50 percent as being "very important" and by roughly 7 in 10 as primarily Federal responsibilities.

Easing tensions racially was named as "very important" by 44 percent of the public, the first area on the list that did not achieve a majority who put it in the topmost importance category. But 55 percent of those who saw this problem as important did say the Federal role should be major. Improving public transportation was given highest importance by 38 percent, with 52 percent saying the Federal Government ought to take a major role in solving the problem.

As in the roster of volunteered issues, matters centering on national housing policy finished far down the list of priorities. The most important was believed to be "providing housing assistance for low income families," singled out as "very important" by 44 percent, and with 63 percent of those who feel it is important giving it primarily a Federal responsibility. Two areas dealing with racial aspects of housing, "preventing racial discrimination in housing" (39 percent very important and 58 percent a prime Federal role) and "taking steps to achieve racial balance in housing" (27 percent very important and 59 percent definitely a Federal responsibility) did not achieve a standing nearly so high as many other areas. Nonetheless, the role of the Federal Government as the prime mover to achieve both was clearly articulated. Finally, "housing assistance for moderate income families" brought up the rear, mentioned as "very important" by no more than 21 percent; although an even 50 percent of those who consider this important feel that, if anything is done here, the Federal Government must have a major voice in policymaking and followthrough.

Observation: In not a single area among the issues of concern tested did less than 50 percent of the people who attached importance to a problem area feel that the Federal Government should take a major role in coming up with a solution. Indeed, by any measure, this is a powerful mandate for Federal involvement in these major problems, albeit there are sharp variations by subject area.

Housing obviously is not in the same priority league as inflation, crime, drugs, education, care for the poor, and ecology. In general, low income housing ranks in importance in the same category of urgency as easing racial tensions. And perhaps this is not happenstance. In wanting to give importance to low income housing programs, the public is implying help for racial minorities. (While moderate income housing

emerged as a lower priority, it should be noted that no definition was given for "low" or "moderate" income. It is possible that people defined "moderate" income as considerably higher than "low" and therefore considered it a less urgent area of concern.)

It is fair to conclude that, at the Federal level, there is a rather close identification of the involvement of the Federal Government in racially affected housing that comes to the surface. Given the findings of the previous section that showed blacks most hurting in terms of quality of neighborhood, in effect the public is giving recognition to this felt need by minority groups.

There is, of course, quite another way to look at the results just reported. The criterion used to compare the importance of areas was to single out the "very important" response for each area and then make a comparison. In terms of priorities, this is a fair way to analyze the situation. However, when 44 percent single out low income family housing assistance as "very important," the converse conclusion ought not be reached: that therefore the remaining 56 percent feel that such help is not important. Actually, an additional 35 percent feel that low income housing help is "somewhat important", compared with no more than 18 percent who said it was "not very important" or "not important at all." So when the "very important" and the "somewhat important" are added together, by a convincing 79–18 percent, a sizable majority of Americans would give importance to providing housing assistance to low income families. By the same criterion, the public views as important "preventing racial discrimination in housing" by 67–28 percent, taking steps to achieve racial balance in housing by 56–39 percent, and "providing housing assistance for moderate income families" by 55–41 percent.

Observation: It is evident that the first comparison of the importance of housing with other areas of national concern put housing at a disadvantage, since it is now apparent that people were choosing from among highly important areas of concern. It is not that housing is an area marked by a lack of caring by the American people. To the contrary, all four major thrusts of a Federal housing program are given a position of importance by majorities of the American people, albeit not as urgent as a number of other pressing problems.

A closer look at the importance ranking for the housing areas reveals that in the case of low income housing assistance, the low income themselves (87 percent), the least well educated (84 percent), blacks (97 percent), and residents of big cities (85 percent) see real importance to Federal programs in this field. Interestingly enough, the same groups, along with people who live in the East, give more importance to Federal help for moderate income housing needs than to any others. In the area of taking steps to achieve racial balance in housing, the pattern shifts somewhat, with blacks being joined by people under 30 and the college educated in coming forth with the highest importance ratings. Finally, in the case of preventing racial discrimination in housing, the blacks are joined by the young and the best educated.

Observation: In these four areas of housing, we can find the essential patterns for support both for housing and for racial equality in the country today. Federal assistance for housing cuts along old-time income and racial lines. Those less well off and people from minority groups feel particularly keenly about Federal programs in housing. The more affluent are not nearly so concerned as the people who might be the direct beneficiaries of Federal efforts in the housing area. However, once the racial dimension is added to the housing area, the interest and support of the affluent sectors of society and that of the young are added, along with the self-interest still expressed by minority groups themselves.

By the same token, support for enforcement of nondiscrimination in housing is not felt nearly as strongly by lower middle and lower income groups as a whole, despite the fact that most minorities fall into these categories. The reason: lower income and lower middle income whites are vitally concerned with housing, but are not notably in support of advancing the cause of minorities as such in the housing field.

Thus, in effect, there are two coalitions of interest in the housing field. One is made up almost exclusively of the lower income people affected by Federal programs. Another combines the support of the poorest and the most affluent sectors of society. On the racial aspect, it is obvious that the question is primarily one of how minorities are to be treated. On the housing per se, it is a matter of who can benefit from the additional housing that might otherwise not be available to the less privileged groups. This distinction of constituencies is important, for they are clearly different and they might well require quite different avenues of pursuit.

Having pointed out these important distinctions, nonetheless it must be reported that when asked directly about the Federal role in each of the four areas, no matter what the coalition, 50 percent or more of the entire public give a clear mandate for major Federal involvement in each area:

- 63 percent assign "major role" to the Federal Government in providing assistance for low income families, with 30 percent attaching a "minor role" and only 5 percent "almost no role" for the Federal establishment.
- In the case of "taking steps to achieve racial balance in housing," 59 percent feel the Federal role should be major; 32 percent minor; and only 7 percent, nonexistent.
- On "preventing racial discrimination in housing," 58 percent feel the Federal role should be major, 32 percent minor, and only 7 percent "almost none."

- Even in the case of moderate income family housing assistance, a substantial 50 percent consider the Federal role as major, 37 percent as minor, and only 8 percent as hardly at all.

Observation: So what at the outset appeared to be a rather low priority for Federal housing programs in the end turned into a substantial mandate, indeed. When measured against inflation, crime, drugs, and other higher priority areas, to be sure, housing does not come off as nearly so urgent an area. Yet, people do see real importance in the housing field in its own right, and believe the Federal Government would be remiss to fail to exercise its full responsibilities. Just what these responsibilities are perceived to be will be examined in detail in the rest of this report.

Is Country Going in Right Direction or Pretty Seriously on the Wrong Track?

	Going in Right Direction %	Pretty Seriously On Wrong Track %	Not Sure %
Total	24	66	10
East	22	69	9
Midwest	27	64	9
South	24	65	11
West	22	65	13
18-29	29	62	9
30-49	22	66	12
50 and over	22	68	10
Less than high school grad	14	73	13
High school grad	27	64	9
College grad	31	59	10
Men	27	63	10
Women	21	68	11
White	25	65	10
Black	9	83	8

Behind Views on State of Things in the Country

	Total %
Why Going In Right Direction	
Things better, will straighten out	9
Can't change things anyway	8
War over, now going right	4
Believe in leaders, despite Watergate	3
President Nixon doing good job	2
Why Going In Wrong Direction	
Prices too high, inflation	32
Watergate	18
Politicians, government corrupt	15
Moral decline in values	10
Distrust politicians	7
Too much crime	6
Everything a mess	5
Taxes too high	5
Fuel shortage	4
War still going on	4
Drug abuse	4
Too many people on welfare	3
Unemployment	3
Laws not enforced	2
Nixon involved in scandals	2
Not sure	6

Two or Three Biggest Problems Facing Country Today

(Volunteered)

	Total %	Subsidized Housing Nearby %	No Subsidized Housing Nearby %
Economy, inflation, higher cost of living	54	56	60
Watergate, politics	25	25	28
Crime	19	14	21
Drugs	18	17	18
Taxes	11	14	11
Pollution, ecology	11	7	12
Welfare, welfare reform	10	11	10
Energy crisis	10	10	10
Peace in Cambodia	8	7	8
Schools, education	7	7	8
Unemployment	7	7	7
Alienation, no communication	6	7	6
Discrimination, inequality	5	4	6
Federal spending	4	5	3
Housing	4	3	4
Health care	3	2	4
Care for elderly	2	4	2
Employment problems	1	2	1

Solutions to Problems Facing Country

	Total %
Economy, Inflation	
Keep price freeze	18
Control high cost of living	18
Lower prices, interest rates	10
Raise wages	3
Cut government spending	3
Redistribute the wealth	2
Other	11
Watergate	
Get rid of corruption, dishonesty in government	10
Find out the truth	3
Punish people involved	3
People should be more alert	3
Need better communications	2
Forget it	1
Crime	
Stricter sentences by courts	5
Stricter law enforcement	4
Restore death penalty	3
Have more policemen	3
Cut crime rate	3
Less restrictions on police	1
Gun control	1
Solve social problems causing crime	1
Drugs	
Crack down on pushers	7
Enforce existing laws	3
Educate public about drugs	2
Crack down on addicts	1
Rehabilitate addicts	1
Taxes	
Put in tax reform	3
Cut out unnecessary spending	3
Lower taxes	2
Make rich pay more	1
Pollution	
Make industry stop polluting	4
Stricter enforcement of laws	3
People must cooperate more	2
Welfare	
Get stricter about who qualifies	5
Start work programs	4
Help needy, sick more	2
Energy Crisis	
Find more gasoline	4
Use more public transportation	2
Provide better public transit	1
War	
Stop bombing in Cambodia	3
Jobs for those connected with war	2
Education	
Make more available to poor	2
Better teachers	1
Make curriculum more relevant	1
More classroom facilities	1
Don't bus children	1
Unemployment	
Find more jobs	6
Alienation, Social Breakdown	
More religion	2
Closer family life	2
Learn more about each other	2
Discrimination, Inequality	
End inequality	3
Need better communications	1
Federal Spending	
Cut foreign aid	2
Use funds for social programs	2
Housing	
More low income housing	1
Health Care	
Lower hospital costs	2
National health insurance	1
Elderly	
Take care of by government	1
Not sure	2

Importance of Providing Housing Assistance for Low Income Families

	Very Important %	Somewhat Important %	Not Very Important %	Not Important at All %	Not Sure %	Positive %	Negative %
Total	44	35	13	5	3	79	18
East	44	38	11	4	3	82	15
Midwest	40	35	17	6	2	75	23
South	47	33	10	7	3	80	17
West	41	37	13	3	6	78	16
Cities	55	30	10	3	2	85	13
Suburbs	32	41	16	6	5	73	22
Towns	45	38	10	5	2	83	15
Rural	40	35	15	7	3	75	22
18–29	42	40	11	5	2	82	16
30–49	38	36	16	7	3	74	23
50 and over	50	31	11	4	4	81	15
Less than high school grad	56	28	8	4	4	84	12
High school grad	39	38	15	6	2	77	21
College grad	34	43	14	5	4	77	19
Men	43	35	13	6	3	78	19
Women	45	36	12	4	3	81	16
White	39	38	14	6	3	77	20
Black	87	10	2	—	1	97	2
Under $5,000	57	30	8	2	3	87	10
$5,000–$9,999	50	32	11	4	3	82	15
$10,000–$14,999	33	40	14	9	4	73	23
$15,000 and over	36	39	17	6	2	75	23
Subsidized housing nearby	40	37	14	5	4	77	19
No subsidized housing nearby	44	35	13	5	3	79	18
Knowledge of Government Housing Programs							
Know a great deal	43	36	13	6	2	79	19
Know only a little	44	37	12	4	3	81	16
Know almost nothing	42	35	13	6	4	77	19

Importance of Providing Housing Assistance for Moderate Income Families

	Very Important %	Somewhat Important %	Not Very Important %	Not Important at All %	Not Sure %	Positive %	Negative %
Total	21	34	25	16	4	55	41
East	23	41	22	11	3	64	33
Midwest	17	29	31	19	4	46	50
South	25	33	21	17	4	58	38
West	18	31	29	15	7	49	44
Cities	27	39	19	11	4	66	30
Suburbs	13	37	29	15	6	50	44
Towns	21	30	28	19	2	51	47
Rural	22	26	27	20	5	48	47
18–29	16	39	29	14	2	55	43
30–49	19	28	29	20	4	47	49
50 and over	27	36	19	12	6	63	31
Less than high school grad	31	31	19	11	8	62	30

(Continued on p. 1453)

Importance of Providing Housing Assistance for Moderate Income Families

(Continued from p. 1452.)

High school grad	18	36	26	17	3	54	43
College grad	14	32	32	18	4	46	50
Men	21	32	26	18	3	53	44
Women	21	36	25	13	5	57	38
White	19	34	26	17	4	53	43
Black	50	32	13	3	2	82	16
Under $5,000	32	37	17	9	5	69	26
$5,000–$9,999	24	36	20	15	5	60	35
$10,000–$14,999	16	29	30	20	5	45	50
$15,000 and over	17	33	31	16	3	50	47
Subsidized housing nearby	17	34	27	17	5	51	44
No subsidized housing nearby	23	32	25	16	4	55	41
Knowledge of Government Housing Programs							
Know a great deal	19	34	26	18	3	53	44
Know only a little	22	33	26	15	4	55	41
Know almost nothing	22	33	24	15	6	55	39

Importance of Taking Steps to Achieve Racial Balance in Housing

	Very Important %	Somewhat Important %	Not Very Important %	Not Important at All %	Not Sure %	Positive %	Negative %
Total	27	29	22	17	5	56	39
East	28	29	23	15	5	57	38
Midwest	27	32	21	15	5	59	36
South	25	22	23	25	5	47	48
West	32	30	17	14	7	62	31
Cities	37	28	18	14	3	65	32
Suburbs	23	32	23	16	6	55	39
Towns	20	32	24	20	4	52	44
Rural	26	23	23	21	7	49	44
18-29	32	33	20	14	1	65	34
30-49	24	29	22	19	6	53	41
50 and over	28	25	22	18	7	53	40
Less than high school grad	32	24	18	17	9	56	35
High school grad	25	30	24	18	3	55	42
College grad	25	34	24	14	3	59	38
Men	25	27	23	21	4	52	44
Women	30	30	20	14	6	60	34
White	23	30	23	19	5	53	42
Black	72	18	6	2	2	90	8
Under $5,000	33	24	18	18	7	57	36
$5,000-$9,999	31	27	20	17	5	58	37
$10,000-$14,999	22	27	26	19	6	49	45
$15,000 and over	25	32	22	17	4	57	39
Subsidized housing nearby	23	29	24	18	6	52	42
No subsidized housing nearby	29	28	21	17	5	57	38
Knowledge of Government Housing Programs							
Know a great deal	28	30	20	19	3	58	39
Know only a little	25	32	21	18	4	57	39
Know almost nothing	29	23	24	15	9	52	39

Importance of Preventing Racial Discrimination in Housing

	Very Important %	Somewhat Important %	Not Very Important %	Not Important at All %	Not Sure %	Positive %	Negative %
Total	39	28	16	12	5	67	28
East	41	30	16	8	5	71	24
Midwest	38	31	16	11	4	69	27
South	34	23	18	19	6	57	37
West	42	28	14	10	6	70	24
Cities	46	26	14	10	4	72	24
Suburbs	35	32	17	11	5	67	28
Towns	37	31	13	14	5	68	27
Rural	33	24	21	15	7	57	36
18-29	49	30	13	6	2	79	19
30-49	35	29	18	13	5	64	31
50 and over	33	25	18	16	8	58	34
Less than high school grad	40	23	14	14	9	63	28
High school grad	36	30	18	13	3	66	31
College grad	41	33	17	6	3	74	23
Men	36	27	17	15	5	63	32
Women	41	29	16	9	5	70	25
White	34	30	18	13	5	64	31
Black	84	10	2	2	2	94	4
Under $5,000	42	21	14	13	10	63	27
$5,000-$9,999	42	28	16	11	3	70	27
$10,000-$14,999	36	27	19	13	5	63	32
$15,000 and over	35	35	15	11	4	70	26
Subsidized housing nearby	34	30	15	15	6	64	30
No subsidized housing nearby	38	28	17	12	5	66	29
Knowledge of Government Housing Programs							
Know a great deal	37	31	15	14	3	68	29
Know only a little	40	30	15	11	4	70	26
Know almost nothing	36	24	19	12	9	60	31

Role the Federal Government Should Play in Helping Solve Housing Problems

	% Total	% East	% Midwest	% South	% West	% Cities	% Suburbs	% Towns	% Rural	% 18 to 29	% 30 to 49	% 50 and Over	% Less Than High School Grad	% High School Grad	% College Grad	% Men	% Women	% White	% Black	% Under $5,000	% $5,000 to $9,999	% $10,000 to $14,999	% $15,000 and Over	% Subsidized Housing Nearby	% No Subsidized Housing Nearby	Knowledge of Government Housing Programs: % Know a Great Deal	% Know Only a Little	% Know Almost Nothing
Providing Housing Assistance to Low Income Families																												
Major role	63	65	57	65	63	67	60	63	59	59	62	66	73	58	55	61	64	59	87	76	66	57	52	62	63	65	61	61
Minor role	30	26	35	27	30	27	31	32	31	35	30	25	18	36	34	31	28	33	13	18	27	35	38	31	29	29	33	27
Almost no role	5	6	4	5	3	3	6	4	6	3	5	5	4	4	8	5	4	5	—	—	5	6	7	4	5	4	4	6
Not sure	2	3	4	3	4	3	3	1	4	3	3	4	5	2	3	3	4	3	—	6	2	2	3	3	3	2	2	6
Providing Housing Assistance to Moderate Income Families																												
Major role	50	50	53	50	46	51	45	50	55	46	55	49	57	46	46	49	51	47	66	62	48	50	41	47	51	52	52	45
Minor role	37	39	35	36	39	38	41	37	31	45	33	35	30	42	38	40	35	40	25	24	40	39	45	39	37	37	38	37
Almost no role	8	7	10	9	7	6	9	12	10	7	8	10	6	9	12	8	9	9	4	6	10	8	10	12	7	9	7	11
Not sure	5	4	2	5	8	5	5	1	4	2	4	6	7	3	4	3	5	4	5	8	2	3	4	2	5	2	3	7
Taking Steps to Achieve Racial Balance in Housing																												
Major role	59	66	54	61	51	63	57	47	61	55	59	62	70	54	50	56	61	54	83	67	67	47	53	58	59	54	59	63
Minor role	32	24	36	29	41	27	35	42	29	38	31	26	20	38	38	34	30	35	14	22	26	42	36	33	31	35	33	27
Almost no role	7	8	7	6	5	5	7	10	6	6	8	7	4	8	9	7	6	8	1	5	5	9	9	9	6	9	7	4
Not sure	2	2	3	4	3	5	1	1	4	1	2	5	6	—	3	3	3	3	2	6	2	2	2	—	4	2	1	6
Preventing Racial Discrimination in Housing																												
Major role	58	64	52	58	56	63	58	46	58	59	55	60	68	53	55	55	60	53	87	69	63	47	54	55	59	55	55	63
Minor role	32	26	38	29	34	28	31	43	29	33	33	28	21	38	31	34	30	34	12	19	26	43	36	34	31	37	34	23
Almost no role	7	7	7	8	7	5	9	9	7	7	9	6	5	7	11	7	7	8	1	4	8	6	9	7	7	7	8	7
Not sure	3	3	3	5	3	4	2	2	6	1	3	6	6	2	3	4	3	5	—	8	3	4	1	4	3	1	3	7

Two or Three Problems Which Should Be Attacked First

	Checking Inflation %	Curbing Drug Abuse %	Reducing Crime %	Improving Public Education %	Keeping Taxes in Line %	Cutting Down Air and Water Pollution %	Reducing Unemployment %	Improving Welfare %	Providing Everyone Better Health Care %	Helping Older People %	Keeping Spending in Line %	Improving Public Transportation %	Easing Racial Tensions %	Provide Housing Assistance For Low Income Families %	More Help For Poverty Stricken People %	Discrimination in Housing %	Provide Housing Assistance for Moderate Income Families %	Taking Steps to Achieve Racial Balance in Housing %
Total	57	39	30	22	22	18	14	12	12	12	12	6	5	4	3	2	2	1
East	64	40	27	20	25	16	17	10	13	12	9	6	5	1	3	1	2	1
Midwest	54	36	30	21	25	19	10	12	12	13	18	7	5	5	4	2	1	*
South	57	45	34	25	17	12	14	16	11	11	10	5	3	6	2	2	1	1
West	48	31	31	25	20	28	15	8	12	13	10	10	7	5	5	2	2	1
Cities	57	36	38	24	18	15	15	12	12	12	8	6	5	7	3	2	2	1
Suburbs	59	34	27	23	20	21	13	12	11	10	9	8	6	3	3	2	1	*
Towns	56	40	26	20	26	22	11	11	11	10	16	4	4	5	5	1	2	*
Rural	54	46	26	19	28	14	14	12	13	16	17	6	4	3	2	1	1	1
18–29	54	30	28	28	20	29	16	11	14	6	11	6	9	4	5	3	2	1
30–49	59	42	28	24	24	16	14	12	8	11	13	8	4	4	2	2	1	1
50 and over	56	42	34	15	22	10	12	13	14	18	11	5	2	5	4	1	2	*
Less than high school grad	50	42	29	17	23	9	15	13	12	23	9	4	2	6	3	1	3	1
High school grad	58	40	31	23	24	20	15	11	11	9	11	6	5	4	3	2	1	1
College grad	64	28	31	29	14	27	11	11	14	2	19	12	7	4	3	2	1	1
Men	59	37	30	21	23	17	14	12	12	11	14	7	4	4	3	2	1	1
Women	54	40	31	23	21	18	14	12	12	14	10	5	6	5	3	2	2	1
White	57	39	29	21	24	19	13	11	12	13	13	7	5	4	3	1	2	*
Black	57	30	41	35	11	8	20	14	9	6	2	2	6	10	3	9	2	5
Under $5,000	45	39	30	17	16	12	13	18	18	20	7	7	5	8	4	2	2	1
$5,000–$9,999	57	38	32	19	22	17	17	10	9	14	12	4	5	6	2	1	2	1
$10,000–$14,999	59	40	28	25	26	20	13	8	11	10	13	5	3	1	4	2	2	*
$15,000 and over	62	38	32	22	23	21	13	12	10	7	14	10	7	3	3	2	1	1
Subsidized housing nearby	50	39	27	21	23	18	12	14	11	16	13	7	6	5	2	2	1	1
No subsidized housing nearby	58	39	31	28	22	17	14	11	12	11	12	6	4	4	4	2	2	1
Knowledge of Government Housing Programs																		
Know a great deal	58	37	27	28	22	22	13	13	12	10	13	7	5	4	4	3	2	1
Know only a little	59	37	31	19	21	17	13	12	12	9	13	7	5	4	2	2	1	1
Know almost nothing	53	42	33	19	23	14	16	10	10	18	9	6	3	5	4	1	2	1

*Less than 0.5 percent.

Job Various Levels of Government Have Been Doing in Key Areas

	Federal Government			State Government			Local Government		
	Positive %	Negative %	Not Sure %	Positive %	Negative %	Not Sure %	Positive %	Negative %	Not Sure %
Providing housing assistance for low income families	35	46	19	27	47	26	27	48	35
Taking steps to achieve racial balance in housing	33	43	24	28	44	28	28	41	31
Providing housing assistance for moderate income families	22	44	34	17	44	39	19	44	37
Reducing crime	24	69	7	26	66	8	38	56	6
Improving public transportation	19	59	22	23	59	18	24	62	14

Table repercentaged on total, excluding "not sure's"	Federal Government		State Government		Local Government	
	Positive %	Negative %	Positive %	Negative %	Positive %	Negative %
Providing housing assistance for low income families	43	57	36	64	36	64
Taking steps to achieve racial balance in housing	44	56	39	61	41	59
Providing housing assistance for moderate income families	33	67	28	72	30	70
Reducing crime	26	74	28	72	40	60
Improving public transportation	24	76	28	72	28	72

Section IV: What the Public Specifically Wants the Federal Government To Do in the Housing Field

The Public Assesses the Job Done

Although people feel that the Federal Government should be deeply involved in the housing field, especially where low income and minority groups are concerned, when it comes to the rating of the job done to date, there are reservations down the line.

The survey used as a control the areas of reducing crime and improving public transportation. In neither area does the Federal or State government come off well. To the contrary, there is a feeling by almost 3 to 1 that the Federal Government is failing on the job of reducing crime, and by a comparable margin that it is not improving transportation. State government performance in both areas is hardly viewed as an improvement on the Federal standard. Local government also comes up short on the transportation issue but does considerably better as a force for curbing crime, albeit with 56–38 percent negative (with 6 percent "not sure"). Implicit in this last result is public recognition that crime is essentially a local problem in terms of law enforcement.

On the three housing areas tested, the Federal performance is somewhat better than on either crime or public transportation. Nonetheless, the public still is negative in its opinions in the aggregate. By 44–22 percent (and 34 percent undecided), they feel that the Federal Government has not done the job in providing housing assistance to moderate families. By 43–33 percent, they also feel that the Federal Government has not carried out its mandate to take steps to achieve racial balance in housing (one out of four were "not sure"). And by 46–35 percent (with 19 percent "not sure"), people feel that an inadequate job has been done to provide housing assistance for low income families.

Nonetheless, it must be noted that people also feel that the Federal record on these key housing dimensions has been considerably better than at the State or local level. This means, of course, that on housing matters such as this, Federal credibility is greater than that of either State or local government.

On the pivotal issue of help for low income housing needs, only the South and rural States emerge with a positive rating of Federal performance. Most critical are people who live in the East, those in the big cities, suburban residents, young people, the college educated, and blacks. This pattern is repeated in the case of Federal efforts to provide help for moderate income fam-

ily housing needs, except that neither the South nor rural areas give the Government positive marks on this dimension. On efforts to achieve racial balance in housing, again the South and rural areas laud the Federal effort, but residents of the Midwest, the cities, the young, the blacks, and those who feel most knowledgeable about Federal housing are most critical.

Observation: Negative ratings of the job government is doing in the housing areas may be attributed to three factors: (1) the moratorium on subsidized housing, (2) the job actually done in the housing area, and (3) general public malaise over government domestic performances.

Is the Mandate Really There to Do the Job?

The survey asked directly if people thought government generally had a responsibility to provide housing assistance for low and moderate income families. The question lumped both low income and moderate income families into the same general classification on this question.[4] The result: a thumping 66–25 percent mandate for Federal responsibility. When asked which level of the government should have the main responsibility, the mantle fell onto the Federal Government, singled out by 43 percent, followed by State government at 31 percent, and local government at 19 percent. However, it should be pointed out that, if one were to add the State and local totals, a case could be made that fully 50 percent feel the primary responsibility for such housing does not rest at the Federal level. But given the dominance of the Federal responsibility over either State or local government, it would be a misreading of these results to assume that this last result provided a powerful mandate for passing control of Federal housing programs to the States and localities. The commanding reason cited for Federal responsibility was that Washington collects the most taxes and has the authority in this field. States and localities were cited as being closer to the people and more familiar with their problems.

In the case of a Federal subsidy for those who cannot afford decent, safe housing, a thumping 64–24 percent majority feels they favor a Federal subsidy. When asked why they feel this way, four central reasons were volunteered: "Those who need it should be helped" (30 percent), "help only those who can't help themselves" (15 percent), "everyone must have decent housing" (14 percent), "some people are unfortunate" (10 percent). The main opposition to a subsidy were the 11 percent who said, "People should help themselves."

Finally, people were asked about governmental housing assistance for specific target groups, to determine just how far and wide the governmental responsibility was believed to exist.

There is no doubt whatsoever about the public mandate for housing help to the elderly and handicapped, both favored by an overwhelming 88 percent of the American people. In the case of low income families, by better than 3 to 1 (68–21 percent), the public supports government's providing housing. However, similar help for moderate income families was rejected by a 59–27 percent margin.

Observation: Here, then, in the case of moderate income housing the first break in the almost uniform statement of support for the major tenets of the Federal housing programs takes place. By wide margins, people advocate a Federal housing program for the poor, the elderly, and the handicapped. But the public itself draws the line at assistance to moderate income people. Given this point of view, it becomes more apparent than ever that the American people see the Federal role in housing as one essentially helping the less fortunate, but leaving to the private sector or to the States and localities the task of providing adequate housing for middle and upper income people. In other words, Federal housing is seen as an important specific case of government responsibility for the less fortunate. And on this score, people have rather urgent views.

Measured against the negative ratings of the job being done by the Federal Government in housing, it is apparent that the American people themselves are less than satisfied with what has been done compared to what ought to be done. This gap defines the central public mandate for the Department of Housing and Urban Development in the housing field.

There is one other major qualification the public places on governmental housing programs. In the case of low income people, moderate income families, and elderly persons, the sample was asked if it felt the government should build new housing, or help obtain existing housing for each group. In the case of all three, at least pluralities all favored turning to the route

[4] No definition was given for "low" or "moderate" income. When asked to define "low income," the median was $5,500 for a family of four. The public was not asked, however, to define moderate income.

Government Housing Assistance for Specific Target Groups

	Total %	East %	Mid-west %	South %	West %	Under $5,000 %	$5,000–$9,999 %	$10,000–$14,999 %	$15,000 and Over %	White %	Black %
Elderly Persons											
Government should provide	88	88	89	89	83	90	92	87	82	87	98
Should not provide	7	6	8	6	10	3	5	8	13	8	—
Not sure	5	6	3	5	7	7	3	5	5	5	2
Handicapped Persons											
Government should provide	88	89	88	92	80	89	90	88	86	87	98
Should not provide	6	4	8	3	10	2	6	6	8	6	—
Not sure	6	7	4	5	10	9	4	6	6	7	2
Low Income Families											
Government should provide	68	68	67	69	67	77	73	64	61	66	93
Should not provide	21	18	21	22	23	10	18	25	27	22	3
Not sure	11	14	12	9	10	13	9	11	12	12	4
Moderate Income Families											
Government should provide	27	34	22	27	23	36	30	22	23	25	49
Should not provide	59	51	63	59	64	42	58	66	66	62	30
Not sure	14	15	15	14	13	22	12	12	11	13	21

of obtaining existing housing. People felt most strongly about this for moderate income families, but also opted by 58–26 percent for this route for low income families. In the case of the elderly, the division was closer, with a 49–37 percent plurality still going for obtaining existing rather than building new housing.

Observation: This latter suggestion, of course, suggests important areas of Federal involvement in the housing field, not simply the planning and construction of new housing. Implicit in the feelings of the people is the possibility of Federal assistance in renovating older housing, as well as organization of a marketing service to let people know what housing might be available. Clearly, people do not have an automatic reaction that Federal involvement, or State or local for that matter, means building a new project.

It is one thing, of course, for the public to advocate a Federal role in housing and even to say the Government has the responsibility for seeing to it that people have decent and safe housing. It is quite another to want to see tax monies spent for this purpose. Therefore, the survey asked the cross-section about levels of Federal spending in the housing area, compared to its impression of spending levels over the past few years.

In the case of Federal Government spending for moderate income family housing, although 33 percent said it should remain the same as before, an equal 33 percent thought it should be less and only 14 percent thought it should be more.

Observation: Since people were not told what the actual spending level was, these findings are more an indication of support for Federal spending in this area than an informed evaluation of the adequacy of current spending.

Certainly the thrust of the survey results on moderate income housing confirms the prevailing generalized opinion that the public mandate for Federal involvement in moderate income housing is not as strong as for low income housing.

On the other hand, when people were asked about Federal spending to assist low income people with their housing, the results were reversed. Although 32 percent thought the levels of spending should remain as they have been, only 18 percent opted for less, while 33 percent said "more."

Observation: Once again, on the acid test of spending actual monies, it is apparent that there is a substantial mandate for the Federal Government to provide housing help for low income families.

The Form Assistance in Housing for Low Income Families Should Take

It is one thing, of course, to have a specific mandate for low income housing, but the proof of the pudding must lie in just what specific directions and substance the public really wants to see accomplished.

One major question is whether low income housing should be built within inner city low income areas or outside the low income areas. By

a surprising 40–35 percent, a plurality of the public nationwide believes most should be built outside the inner city areas. Even suburban residents favor this emphasis by a 38–32 percent margin. Blacks want it by 47–33 percent. People in the big cities are divided 40–40 percent on the proposition.

The main reasons people favor building outside the inner city areas are that "if we build them in the slums, then the people will still live in the slums" (volunteered by 23 percent); "low income people should have the chance to live in better neighborhoods" (9 percent); "build in less crowded areas" (6 percent). Those advocating construction in the inner city areas feel that "slums should be torn down and replaced with good housing" (12 percent); "we should keep 'them' in their own area together, not mixed up with us" (10 percent); and "housing should be built near public transportation" (10 percent).

Closely tied to this question is whether low income housing should be built only in the cities or also in the suburbs. By a 52–26 percent margin, exactly 2 to 1, the American people also opted for building some low income projects in the suburbs. Even suburban people favored such a move by 44–28 percent. Blacks are for it by 63–22 percent, but so are whites by a majority of 51–27 percent.

Observation: As a generalized proposition, there is a clear mandate for the Federal Government to move to build low income housing projects in the areas outside the inner city and even outside the central cities themselves, moving into the suburban areas to build such projects.

Of course, a real question that has not yet been clearly answered is just what form new Federal assistance for low income families in housing should take. For this reason, the public was asked about several possible forms that housing assistance could take. An assumption up to now was that low income housing projects were the main form of such help. When asked if the Government should be "building housing projects primarily for low income families", by 66–25 percent, a sizable majority either definitely favored such projects or was leaning in that direction. A clear majority of every major segment of the population felt that way.

The reasons behind this thinking were that "we must help those who cannot otherwise afford decent housing" (21 percent); "the government must insure safe housing for the poor" (10 percent); and "when people need housing, we should give it to them" (8 percent). The major opposition consists of "people should help themselves" (8 percent).

A second form of assistance put before the cross-section was of "providing a mortgage subsidy to help low income families buy their own houses." This was favored by 66–23 percent, who either definitely favored such an idea or who were leaning in that direction. The reasoning behind this affirmative response was "this is the only way low income people can ever own a home" (volunteered by 18 percent); "homeowning fosters better care of property and the neighborhood" (14 percent), "a one shot mortgage provides an incentive for people to maintain their payments in later years" (9 percent); and "owning your own home offers a person better security" (7 percent). Again, the main opposition is centered in the group that said, "People should help themselves," (10 percent on a volunteered basis).

Two other possibilities met with considerably less support, although both had plurality backing. One dealt with "providing a rent supplement to allow low income families to live in government-financed housing projects which are occupied mainly by moderate income families." This proposition was favored by a 49–35 percent margin. It was found to be most appealing to young people, residents of the Midwest and West, blacks, and people with incomes under $5,000.

Reasoning behind support for the rent subsidy or supplement idea centered on "people ought to be able to obtain better housing" (12 percent volunteered); "we must provide low income people who cannot afford it with decent housing" (8 percent); and "we must get people out of the ghettos into decent neighborhoods and to mix with other people" (7 percent). The opposition, however, clustered around the views that "people must learn to take care of themselves" (11 percent); "low income people ought to be kept separate from others" (8 percent); and "it would be unfair to the middle class who would have to pay extra for their housing" (5 percent).

The other alternative tested was to "give a low income family a housing allowance, which would be a certain amount of money, which must be spent on housing, but the people receiving the money could spend it on any housing, just as long as it met minimum standards." This idea met with 50–35 percent agreement. Again, resi-

dents of the Midwest and West favored this notion, as did people who live in big cities and towns, young people, college graduates, blacks, and people with incomes under $10,000. Opposition to this idea was strongest in the South, the suburbs, rural areas, among older people, whites, and those with incomes of $15,000 and over.

The thinking behind public opinion on the housing allowance proposition went this way: In favor of it, people argued, "people ought to be able to live wherever they feel they want to" (volunteered by 15 percent); "we must help the poor raise their living standards" (10 percent); 'a good idea if the money is just used for housing" (4 percent). The opposition crystalized around the views that "they would not spend the money for the intended purpose" (11 percent); "it would remove the incentive to go to work for some people" (10 percent); and "it is too much of a drain on government spending and taxes" (5 percent).

Observation: Certainly the two clear-cut areas of public support for specific Federal programs in the low income housing field are projects built by the Government for these groups —the traditional route—and the offering of mortgage subsidies for low income people—a relatively new idea. Both had two thirds support, and both are viewed as representing a fulfillment of the obligation of the Federal Government to help people with their housing, as well as being practical solutions to the problem. The rent subsidy or supplement idea and the rent allowance suggestion both meet with less support, and would be somewhat more difficult to sell to the American people.

There is little doubt, however, that the public has low income people in mind as the target for Federal assistance in housing. When asked how to define low income, the median was $5,500 for a family of four, with only 18 percent defining low income as $7,000 or more. Nonetheless, people who set a higher limit to low income also tend to favor each of the four basic alternatives for Federal assistance more than those who set a lower limit. For example, the rent supplement ends up in a 44–44 percent stand-off among those who believe low income refers to families with incomes of $3,000 or less. By contrast, among those who define low income as $7,000 or more, 58 percent favor such a rent supplement.

Types of Projects Wanted in Their Own Neighborhoods

Apart from the form of assistance the Federal Government might offer, the study also probed in considerable depth about what specific types of Government-sponsored housing would be acceptable in people's own neighborhoods. The following table reports the overall results.

Reaction to Various Types of Projects in Own Neighborhood

	Favor %	Oppose %	Not sure %
Small housing project of apartments for the elderly	75	22	3
Large housing project of apartments for the elderly	60	36	4
Single family houses or town houses for low income families	59	36	5
Small housing project of apartments for low income families	55	42	3
Single family houses or town houses for moderate income families	51	43	6
Small housing project which had apartments for three groups: low income families, moderate income families, and the elderly	48	45	7
Small housing project of apartments for moderate income families	45	49	6
Large housing project of apartments for low income families	42	54	4
Large housing project of apartments for moderate income families	36	58	6

At the top of the list, backed by 75 percent of the public, would be a "small housing project of apartments for the elderly," followed by "a large housing project of apartments for the elderly," supported by a 60–36 percent margin. In third place came "single family houses or town houses for low income families" favored by 59–36 percent, and a "small housing project of apartments for low income families" backed by 55–42 percent. The final category satisfactory to a majority was "single family houses or town houses for moderate income families", supported by 51–43 percent.

Four other possibilities failed to achieve 50 percent backing, although one, a "small housing project which had apartments for three groups: low income families, moderate income families, and the elderly," was favored by a 48–45 percent plurality. The proposition of a "small housing project of apartments for moderate income families" met with 49–45 percent rejection. A "large housing project of apartments for low income families" was turned down 54–42 percent and a "large housing project of apartments for moderate income families" was opposed by a more substantial 58–36 percent.

Observation: As these nine alternatives are viewed as a whole, certain evident facts about the acceptance of Federal housing begin to emerge clearly. First, it is obvious that housing for the elderly is relatively popular, whether a small or large housing project. The two proposals for the elderly met with decisive acceptance. Second, smaller housing projects are clearly more acceptable than larger ones. For example, a small housing project of apartments for low income families met with 55–42 percent approval, but a large project for the same people was rejected by 54–42 percent, almost a complete turnaround. Third, single family houses are also popular, with such detached units for low income families meeting with 59–36 percent approval and for moderate income families with 51–43 percent acceptance. Third, moderate income family housing is less accepted than that for other groups, a confirmation of earlier findings where a majority of the public opposed Federal programs for these people, Fourth, it is significant that, in three out of four cases, at least a plurality or majority of the entire country expressed willingness to have low income families move into their neighborhood. The only one meeting with disapproval was the case of low income large apartment projects. Finally, a combined or mixed project, albeit a small housing project, which was built for low income, moderate income, and elderly people, met with slight approval.

Overall, these results would indicate a good deal more willingness to have Federal housing of one kind or another in people's own neighborhoods. To be sure, the suburbs appear to be one of the most difficult areas to crack, with strong approval being registered only for housing for the elderly. Even small housing projects of apartments for low income people met with disfavor in the suburbs by 54–42 percent and large projects by a thumping 66–29 percent. But within the parameters of what is acceptable, there is a fair amount of tolerance by the American people of federally sponsored housing projects and homes.

However, when the same people were asked about what they believed to be their neighbors' reactions to the same set of nine proposed Federal housing units, only in the case of a small housing project of apartments for the elderly did people feel their neighbors would welcome them. Here is a comparison between what people said they themselves would accept and what they felt their neighbors would abide.

Comparison of What People Think Their Neighbors Would Accept in Federal Housing in the Neighborhood Compared to what They Would Accept

	Would Accept: People %	Would Accept: Neighbors %
Small housing project of apartments for the elderly	75	48
Large housing project of apartments for the elderly	60	31
Single family houses or town houses for low income families	59	25
Small housing project of apartments for low income families	55	21
Single family houses or town houses for moderate income families	51	25
Small housing project which had apartments for three groups: low income families, moderate income families, and elderly	48	23
Small housing project of apartsments for moderate income families	45	21
Large housing project of apartments for low income families	42	17
Large housing project of apartments for moderate income families	36	16

The difference between what people themselves claim they would welcome and what they say their neighbors would accept in the same neighborhood is wide. In every case, the spread is at least 20 points or more on the down side on what people say their neighbors would take.

Observation: There are two ways these last rather startling results can be read. First, one might argue that the American people are much

more tolerant than they believe their neighbors are. If this were the case, then a firm Federal policy could well establish public acceptance of many variations of types of projects, ranging from those for low income or handicapped people to the elderly. On the other hand, there is another way to read the results: that people are more reluctant to express their own prejudices, and in stating how their neighbors feel they are really expressing their own reluctances.

It is difficult to read the truth between the two sets of results. However, experience has shown that people are perhaps not so courageous nor so tolerant in practice as they will articulate, but it is also probably true that consistently the public has been led to believe the worst of their neighbors in terms of their lack of tolerance and decency. One of the marks of the 1960's and 1970's has been how much both the leadership and the people have misread public opinion, and almost consistently on the side of suspecting the worst. Our judgment would be that the true results are probably closer to the attitudes articulated by the people themselves than their judgments about their neighbors. Indeed, a firmly stated Federal policy and a discreet handling of housing projects in new neighborhoods could probably succeed beyond what most might suspect today, at least in terms of public acceptance.

The Question of Race in Housing

In the 1960's and early 1970's, one of the major areas of confrontation has been over busing of school children to achieve racial balance. It could well be that the rest of the 1970's will see similar confrontations in the housing area. For it is the law of the land that discrimination in housing due to race, creed, or color is illegal.

However, when asked directly about it, only 13 percent of the American people feel that "racially integrated housing should be a goal of government housing programs." Another 22 percent were prepared to say that this should be "an important but not major goal," 19 percent a "minor goal," and 36 percent "not a goal at all." If the division were made in the usual place by splitting the two affirmative answers against the "minor goal" and "not a goal at all," then by 55–35 percent it might be stated that integrated housing is not an objective looked on with favor by a majority of Americans. However, the fuzzy answer is "only a minor goal." If this were viewed as a concession of right, however distasteful, then the results could be read as 54–36 percent in favor of integrated housing. A fairer assessment is to say that the "major goal" and "important but not major" categories can be combined and compared with "not a goal at all," in which case the result turns out to be a standoff of 36–35 percent on integration.

In the free-hand question asking people why they felt this way about integration of housing, the answers volunteered by people suggested that the 55–35 percent opposition figure is perhaps more accurate. The main reasons given for opposing such a policy of integration were that "no one should be forced to integrate," volunteered by 21 percent; "you cannot force integration for it will take time" (16 percent); "opposed to mixing the races" (11 percent); "not the government's business" (7 percent); and "Government has better things to do" (6 percent). On the side favorable to integration, these reasons emerged: "All people should be given equal opportunities," volunteered by 12 percent; "people should be free to live wherever they want to" (9 percent); "would relieve racial tensions" (6 percent); and "must integrate housing" (3 percent).

On a quite different dimension, "strict enforcement of laws against racial discrimination in the sale or rental of housing," the public divides 47–43 percent in favor, a close division indeed, even though such sales or rentals are now illegal. Most in support of strict enforcement of this ban on discrimination are people in the East and West, in the big cities, young people, college graduates, blacks, and people with incomes $15,000 and over. Most opposed are people in the South, rural residents, people 50 years of age and older, those with less than a high school education, whites, those with incomes under $5,000, and those who live nearby subsidized housing.

Observation: As observed earlier on, the coalition on enforcing the ban on discrimination by race in housing is made up of blacks and the young and the most privileged sectors of society. Those most opposed are not only in the South, but the lower income and less well educated nationwide. All in all, the division is a close one, even though the policy is recognized as the law of the land.

The cross-section was also asked about "a Federal policy which would build housing for low income families, including minorities, in areas where they might not otherwise be able to afford to live." The results: 46–44 percent in opposition, another close division. People in the big cities, those under 30, and an overwhelming 80 percent of the blacks favor such a policy. But majorities

of people in the South, in the Nation's suburbs, people over 30, those with incomes above $10,000 are in opposition.

Observation: Most interesting is the turnabout of the people in the higher income brackets, who favored strict enforcement of the principle of nondiscrimination in housing, but who obviously do not want to see Federal housing with low income people and minority groups come into their own home areas.

Another alternative, "a Federal housing policy of providing housing allowances to low income families, including minorities, to live in modest but standard housing where they want," met with more favor by a 49–39 percent margin. All regions except the South favored such an optional proposition, which, of course, has the softener in it that these people would move into "modest but standard housing." The $10,000 and over group turned around again on this one and favored it, presumably because "modest but standard housing" is not a description of their own neighborhoods. An overwhelming 83 percent of blacks favored it, as did 63 percent of the under 30 group and 58 percent of those who have graduated from college.

Observation: This study has shown that the public is reasonably tolerant of low income housing projects in their own neighborhoods and by a substantial margin believes the Federal Government should be in the business of providing housing assistance to the least privileged citizens. However, the results have also shown that the least privileged citizens with the most severe housing and neighborhood problems are the blacks and the other minorities. Yet, when the racial overtones are put on the questioning, the public is far less tolerant of the Federal Government engaging in promoting racial integration in housing. The only obvious conclusion is that having people of another race move into one's neighborhoods is unsettling to most whites. By the same token, however, most whites also know this is wrong and is a violation of the law and the Constitution.

Thus, the American dilemma over race exists in full force in the housing field. The only conclusion to be reached is that people are caught between the knowledge of what they know is right and what their emotions dictate to them. The ultimate answer will not be easily forthcoming. There is every prospect that the pressures for integrated housing will accelerate into the rest of the 1970's, and yet at the same time it is likely that many of the racial tensions now emanating from the school integration problem will be felt in housing. Ironically, it will be easier to defend racial integration in housing on the grounds of providing Federal assistance for low income people than it will on the straight-out basis of providing housing in white neighborhoods for blacks and other colored minorities. The country is split down the middle on the issue and likely will be for some time. If the Federal establishment wants to avoid joining the issue, it will simply delay the inevitable conflict. If the Federal Government forces the issue, then integration will take place, but not without some bitter conflict and confrontation. While people, including suburbanites, say they want Federal housing projects outside the inner city and even located in the suburbs, suburban residents are highly resistant to the idea of integrated housing in their neighborhoods. When the face of race is put on the issue, the initial support for housing for the poor in their areas begins to fade away. Yet it is likely to be those same suburbs that will be the scenes of just such tensions over integrated housing in the not too distant future.

The Problem of Space

One other potential restriction to housing expansion plans is the matter of space: Is there enough room for more people in many communities? When this question was put to people, 58 percent nationwide opted for the choice that "there are the right number of people living here now," although 22 percent estimated there was "room for more people". This latter number was balanced by 17 percent who thought there were "too many people here already." The East and West tend to feel there are too many people in their regions already, with the South and Midwest more tolerant of the idea of new arrivals. Big cities and suburbs feel overcrowded. However, small cities and towns and 46 percent of rural people feel there is plenty of room for people to move out to the country where they live.

Nonetheless, the dominant feeling, expressed by a 58–27 percent margin is that "restrictions should be placed on how much new housing could be built around here." And by an even higher 67–25 percent count, 2 in 3 people who favor restrictions would like to see a law passed that would "prohibit the construction of any new housing around here unless it were to replace existing housing."

Observation: It is apparent that the question of lack of space will be a coming issue in the housing field. People are inclined to want simply

to replace existing housing and not to see the population of their own home areas grow substantially. Although this is the prevailing feeling among suburban residents, it is a safe guess that suburban population will continue to grow apace as it has for the past three decades. However, resistance can be expected to this growth more than has been the case in the recent past.

Mythology and Sentiment Affecting National Housing Policy

The American people have ambivalent feelings about a number of key national problems and housing is clearly one of them. The roots sometimes go back to attitudes toward the poor, people on welfare, and race.

For example, on the subject of welfare, by 88–9 percent, almost universally people believe the proposition that "there are many people who through no fault of their own are handicapped by bad breaks and should be helped by the government." At the same time, the same people also believe that "welfare discourages able-bodied recipients from trying to go out and find a job." Or on another dimension, by 53–35 percent a majority agree that "only the Federal Government has the money to rebuild American cities," but at the same time by 55–37 percent a majority also say "low income housing should not be built in middle or upper income neighborhoods." Or on another dimension: the statement that "high interest rates on mortgages hurt the poor more than the rich; interest rates should therefore be subsidized by the government" is adhered to by a 62–27 percent majority. At the same time, by 65–24 percent, a majority also believe that "housing subsidies discourage able-bodied recipients from trying to go out and find a job."

Observation: This ambivalence may appear to be highly inconsistent, and indeed, in many ways it is. However, it can be sorted out by examining the essential American dilemma. As a people, we have a genuine desire to help the less fortunate in our midst. In fact, we know as a people we will suffer from a bad conscience if we do not engage in activities and support efforts to help the poor and less fortunate. We also know that discrimination against minorities is wrong.

At the same time, most people would prefer that someone else go through the painful experience of social experimentation that will integrate races, will pay for people on welfare, and will see the American dream of equal opportunity and a decent living standard for all realized. People who are having a tough time making ends meet in a highly inflationary period are reluctant to part with their tax dollars to pay for welfare or subsidized housing. The pragmatic instincts of people work against their higher motives. And thus the American dilemma is born. As in the past, it will only be resolved by having a fixed point of authority in society, such as the high court has been over the past two decades, which states clearly that the law requires equality of treatment, and then have the people who are willing to endure the unpopularity of working out progress for the less fortunate do so. In the latter third of the 20th century, such endeavors have turned out to be among the most frustrating and thankless tasks one can undertake. Yet whenever people are asked about the inevitability of integration or progress for the less fortunate, sizable numbers of from 60 to 90 percent admit that it all will happen and probably "in their lifetime."

Part of the reason for this inevitability that progress will be made for the less fortunate can be found in the widespread faith that abounds about the merits of "good housing." For example, by 79–18 percent, people believe that "good housing brings a family closer together"; by 71–26 percent that "good housing helps to prevent juvenile delinquency"; by 89–9 percent that "good housing encourages people to take more pride in themselves"; and by 76–20 percent that "good housing makes people physically healthier." Therefore, conclude the large majority, how can "good housing" be denied to anyone in the country?

Observation: Such is the stuff that dots the American conscience. The resolution of such positive convictions about "good housing" and the opening up of neighborhoods to people of different income and racial backgrounds will not be easy to come by. Yet that is precisely the challenge that lies ahead for a Federal housing policy.

Information About Federal Housing Programs

Only 4 percent of the population feel that they know "a great deal" about the Federal housing programs. Another 28 percent believe they "know some but not a great deal". A sizable majority, 67 percent, feel they know "only a little" or "almost nothing." In no case does anything like a majority feel they know even "some but not a lot," the highest being recorded by those who earn $15,000 and over (with 43 per-

cent falling into the knowledgeable category) and those with subsidized housing nearby (44 percent knowledgeable).

When asked where they obtain information about Government housing programs, people are inclined to name news stories in newspapers (57 percent) and news stories on television (56 percent). Another 26 percent say "word of mouth" and 20 percent cite "news stories on radio."

It is little wonder, therefore, that when asked to rate the job done by Government in keeping the public informed about housing problems, by 62–26 percent, the American people give Government a negative rating.

Observation: It is apparent that the American people have been told little formally about Government housing policy and yet they hold many views rather firmly. Certainly there is a desire for more information on the part of the people themselves. Attitudes about the job the Government is doing in the housing area might well change, were more information about housing programs available.

Those Who Live In or Nearby Subsidized Government Housing

One in five people, an even 20 percent, report that some subsidized housing is nearby to where they live. The kinds of dwelling units nearest them are more likely to be apartments, mentioned by 43 percent; low income projects (19 percent); or projects for the elderly (18 percent).

When people who live nearby public housing were asked if they felt it was "well built and attractive," by 72–17 percent a sizable majority felt that it was. And when those who felt it was attractive were asked in turn if that public housing were the kind of "place you would like to live in", by 55–39 percent a majority also said they would like to live there.

Observation: Government-sponsored housing is a subject with enormous emotional overtones and not a great deal of knowledge. While Government received predominantly negative ratings on the job it has been doing in the housing area, people who know about Federal housing programs appear to believe they work, and that is the basic reason why they want to see the Federal Government give assistance to low income people, the elderly, the handicapped, and other groups in meeting their needs for decent housing.

Job Various Levels of Government Are Doing in Providing Housing Assistance for Low Income Families

	Total	East	Midwest	South	West	Cities	Suburbs	Towns	Rural	18 to 29	30 to 49	50 and Over	Less Than High School Grad	High School Grad	College Grad	Men	Women	White	Black	Under $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 and over	Subsidized Housing Nearby	No Subsidized Housing Nearby	Know a Great Deal	Know Only a Little	Know Almost Nothing
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Federal Government																												
Positive	35	28	35	44	36	33	32	40	40	35	38	33	34	36	30	35	36	37	24	33	32	41	36	41	34	41	35	31
Negative	46	51	48	38	46	51	46	45	39	51	43	45	45	46	52	48	44	43	65	47	52	40	44	43	47	49	50	39
Not sure	19	21	17	18	18	16	22	15	21	14	19	22	21	18	18	17	20	20	11	20	16	19	20	16	19	10	15	30
State Government																												
Positive	27	24	29	28	24	23	24	33	30	30	28	22	26	29	21	24	30	28	14	23	27	27	29	32	26	31	26	23
Negative	47	53	48	42	48	58	41	44	44	53	45	47	48	45	55	51	44	46	73	49	51	45	47	43	48	52	51	41
Not sure	26	23	23	30	28	19	35	23	26	17	27	31	26	26	24	25	26	26	13	28	22	28	24	25	26	17	23	36
Local Government																												
Positive	27	25	31	28	21	29	22	35	27	26	28	28	27	29	23	25	29	29	17	26	27	26	31	33	26	30	29	24
Negative	48	52	45	46	49	55	44	38	46	54	48	42	48	45	54	50	45	45	74	45	53	46	45	45	48	53	48	42
Not sure	25	23	24	26	30	16	34	27	27	20	24	30	25	26	23	25	26	26	9	29	20	28	24	22	26	17	23	34

Note: Positive = "excellent" & "pretty good"; negative = "only fair" & "poor."

Job Various Levels of Government Are Doing in Providing Housing Assistance for Moderate Income Families

	Total %	East %	Midwest %	South %	West %	Cities %	Suburbs %	Towns %	Rural %	18 to 29 %	30 to 49 %	50 and Over %	Less Than High School Grad %	High School Grad %	College Grad %	Men %	Women %	White %	Black %	Under $5,000 %	$5,000 to $9,999 %	$10,000 to $14,999 %	$15,000 and over %	Subsidized Housing Nearby %	No Subsidized Housing Nearby %	Knowledge of Government Housing Programs: Know a Great Deal %	Know Only a Little %	Know Almost Nothing %
Federal Government																												
Positive	22	14	23	27	23	19	20	23	27	21	23	21	21	21	21	22	22	22	19	20	22	21	23	25	21	24	23	18
Negative	44	53	44	37	38	50	39	45	40	50	42	42	42	45	44	46	41	42	59	44	46	44	41	40	44	52	45	35
Not sure	34	33	33	36	39	31	41	32	33	29	35	37	37	34	35	32	37	36	22	36	32	35	36	35	35	24	32	47
State Government																												
Positive	17	15	19	19	15	13	17	21	20	17	19	15	18	18	13	15	19	18	13	14	17	18	17	18	17	19	18	14
Negative	44	52	44	40	40	56	36	39	43	51	41	43	43	46	47	48	42	44	63	48	47	41	44	44	45	52	46	37
Not sure	39	33	37	41	45	31	47	40	37	32	40	42	39	36	40	37	39	38	24	38	36	41	39	38	38	29	36	49
Local Government																												
Positive	19	14	23	21	17	16	17	25	20	18	20	18	19	19	16	18	19	19	17	19	18	18	20	21	18	21	19	16
Negative	44	53	42	41	38	53	39	34	43	51	43	39	42	44	47	46	42	43	62	41	49	42	43	43	44	51	45	37
Not sure	37	33	35	38	45	31	44	41	37	31	37	43	39	37	37	36	39	38	21	40	33	40	37	36	38	28	36	47

Job Various Levels of Government Have Done in Taking Steps to Achieve Racial Balance in Housing

Federal Government																												
Positive	33	30	29	39	38	29	34	34	39	33	37	30	30	34	36	33	34	34	19	31	30	36	38	34	33	36	34	30
Negative	43	46	48	35	41	49	44	42	34	50	41	39	39	45	43	45	40	41	69	39	47	41	43	42	43	49	45	34
Not sure	24	24	23	26	21	22	22	24	27	17	22	31	31	21	21	22	26	25	12	30	23	23	19	24	24	15	21	36
State Government																												
Positive	28	26	26	30	31	24	29	30	30	29	30	25	26	29	28	28	28	29	15	23	27	31	30	27	28	30	30	24
Negative	44	48	47	38	43	53	42	40	37	51	42	41	41	44	49	45	43	42	72	46	47	41	44	43	45	51	45	37
Not sure	28	26	27	32	26	23	29	30	33	20	28	34	33	27	23	27	29	29	13	31	26	28	26	30	27	19	25	39
Local Government																												
Positive	28	25	29	29	27	29	28	30	25	28	31	25	26	29	28	29	27	29	17	27	28	30	28	30	27	30	29	25
Negative	41	44	39	40	40	50	42	26	36	48	39	36	39	40	46	42	39	38	70	36	45	39	41	36	42	45	43	34
Not sure	31	31	32	31	33	21	30	44	39	24	30	39	35	31	26	29	34	33	13	37	27	31	31	34	31	25	28	41

Reasons Back of Level of Government Selected as Having Main Responsibility for Providing Housing Assistance

	Total Who Believe Government Has Responsibility (66%) %
Why Mainly Federal Government	51
Collects most taxes, can best afford it	27
Federal has the authority to do it	10
Is a national problem	8
They spend on everything else (moon, foreign aid), why not on helping the poor?	4
Would result in lower rent	1
We have Federal housing here	1
Why Mainly State Government	37
Closer to the people, know their problems	19
Each State should help its own	8
People pay State taxes, so State should help	4
Easier to manage on State level	4
Better to have State than Federal control	2
Why Mainly Local Government	18
Knows people best of all	17
Other levels have other things to do	1
Not Sure	3

Note: Adds to more than 100 percent, as some respondents mentioned more than one reason.

Does Government Have A Responsibility To Provide Housing Assistance for Low and Moderate Income Families?

	Total %
Has responsibility	66
Does not have	25
Not sure	9

Government Subsidy for Those Who Cannot Afford Decent, Safe Housing

	Total %
Should provide subsidy	64
Shouldn't provide subsidy	24
Not sure	12

Where New Low Income Housing Should Be Built with Government Support

	Inner-City Low Income Areas %	Outside those areas, but still in cities %	Not Sure %
Total	35	40	25
East	35	38	27
Midwest	36	42	22
South	35	40	25
West	30	46	24
Cities	40	40	20
Suburbs	32	38	30
Towns	41	43	16
Rural	27	42	31
18–29	27	51	22
30–49	39	37	24
50 and over	36	36	28
Less than high school grad	32	38	30
High school grad	36	41	23
College grad	33	46	21
Men	34	42	24
Women	35	40	25
White	35	40	25
Black	33	47	20
Under $5,000	37	34	29
$5,000–$9,999	32	43	25
$10,000–$14,999	34	42	24
$15,000 and over	35	44	21
Subsidized housing nearby	37	47	16
No subsidized housing nearby	34	39	27
Knowledge of Government Housing Programs			
Know a great deal	37	46	17
Know only a little	38	42	20
Know almost nothing	29	34	37

Which Level of Government Should Have Main Responsibility for Housing Assistance for Low and Moderate Income Families?

	Total Who Believe Government Has Responsibility (66%) %
Federal	43
State	31
Local	19
Not sure	7

Government Housing Assistance: For New Housing or to Obtain Better Existing Housing

	Total %	East %	Mid-west %	South %	West %	White %	Black %	Under $5,000 %	$5,000-$9,999 %	$10,000-$14,999 %	$15,000 and over %
Low Income Families											
Build new housing	26	27	19	30	31	24	52	29	29	25	24
Obtain existing housing	58	54	69	53	55	61	33	53	56	62	62
Not sure	16	19	12	17	14	15	15	18	15	13	14
Moderate Income Families											
Build new housing	17	19	12	20	20	15	42	18	19	16	17
Obtain existing housing	57	54	66	52	52	59	34	50	54	60	61
Not sure	26	27	22	28	28	26	24	32	27	24	22
Elderly Persons											
Build new houses	37	39	34	41	33	34	62	42	40	34	34
Obtain existing housing	49	42	56	47	53	52	23	39	48	54	54
Not sure	14	19	10	12	14	14	15	19	12	12	12

Would You Still Favor Spending More for Low Income Housing if It Cost Your Family $30 More a Year in Taxes?

(Base: Feel federal government should spend "more")

	Total %	White %	Black %	Under $5,000 %	$5,000-$9,999 %	$10,000-$14,999 %	$15,000 and over %
Still for more	75	76	73	66	69	81	84
Not for more	16	17	12	20	17	15	14
Not sure	9	7	15	14	14	4	2

Behind Views on Government Subsidy for Housing

	Total %
Why Favor Subsidy For Housing	84
Those who need it should be helped	30
Help only those who can't help themselves	15
Everyone must have decent housing	14
Some people are unfortunate	10
Government should use money for poor	7
Landlords don't care about the poor	6
Take care of our people, don't send overseas	2
Why Oppose Subsidy	27
People should help themselves	11
Government gives away too much	4
It's a local, not government, matter	4
Taxes would go up	3
Subsidies destroy incentive	3
No one gave me hand-outs	2
Not Sure	6

Note: Adds to more than 100 percent as some respondents volunteered more than one view.

Would You Still Favor Spending More for Moderate Income Housing if It Meant Housing Needs of Poor Were Not Being Met?

(Base: Feel federal government should spend "more")

	Total * %
Still for more	38
Not favor more	47
Not sure	15

* The base (14 percent of the public) is too small to allow analysis by subgroupings.

Federal Government Spending to Pay for Low Income Housing Compared to Recent Years

	Should Be More %	Should Be Less %	Should Be Same %	Not Sure %
Total	33	18	32	17
East	37	13	32	18
Midwest	31	21	34	14
South	28	21	34	17
West	37	16	30	17
18-29	40	16	30	14
30-49	33	19	32	16
50 and over	26	19	35	20
Less than high school grad	36	12	34	18
High school grad	30	19	35	16
College grad	37	24	23	16
White	29	20	34	17
Black	68	2	18	12
Under $5,000	36	13	31	20
$5,000-$9,999	35	16	35	14
$10,000-$14,999	32	19	33	16
$15,000 and over	28	25	30	17
Subsidized housing nearby	30	18	36	16
No subsidized housing nearby	33	18	32	17
Knowledge of Government Housing Programs				
Know a great deal	38	23	31	8
Know only a little	35	17	32	16
Know almost nothing	25	15	35	25

Behind Preference of Where Government Sponsored Low Income Housing Should Be Built

	Total %
Why Favor Inner City Low Income Areas	39
Tear down slums, replace with good housing	12
Keep "them" in their own area together, don't mix with us	10
Build near public transportation	10
Nearer where they work	4
If build elsewhere, other areas will become slum areas	3
Why Favor Outside Inner City Areas	47
If build them in slums, then people would still live in slums	23
Let low income people live in better neighborhoods	9
Build in less crowded areas	6
Build near better transportation, better shopping	3
Inner city no place for children	2
Less crime, drugs	2
Get people away from pollution	1
More work available in outskirts	1
Depends Where Needed Most	9
Not sure	13

If New Low Income Housing with Government Support Were to Be Built Outside Inner-City Low Income Areas, Where Should It Be Built?

	Only In Cities %	Some Also In Suburbs %	Not Sure %
Total	26	52	22
East	25	50	25
Midwest	30	52	18
South	25	51	24
West	22	57	21
Cities	28	55	17
Suburbs	28	44	28
Towns	31	56	13
Rural	17	56	27
18-29	21	62	17
30-49	24	51	25
50 and over	32	44	24
Less than high school grad	24	51	25
High school grad	25	52	23
College grad	33	54	13
Men	27	52	21
Women	25	52	23
White	27	51	22
Black	22	63	15
Under $5,000	28	47	25
$5,000–$9,999	25	53	22
$10,000–$14,999	23	54	23
$15,000 and over	29	53	18
Subsidized housing nearby	27	56	17
No subsidized housing nearby	26	51	23
Knowledge of Government Housing Programs			
Know a great deal	27	59	14
Know only a little	29	52	19
Know almost nothing	22	46	32

Spending by Federal Government for Moderate Income Housing Compared to Recent Years

	Should Be More %	Should Be Less %	Should Be Same %	Not Sure %
Total	14	33	33	20
East	19	22	36	23
Midwest	11	40	32	17
South	13	38	29	20
West	10	32	37	21
White	12	35	33	20
Black	33	9	36	22
Under $5,000	15	24	33	28
$5,000-$9,999	16	31	37	16
$10,000-$14,999	11	37	35	17
$15,000 and over	13	38	28	21

Attitudes Toward Different Forms of Government Assistance for Housing for Low Income Families

	% Total	East %	Midwest %	South %	West %	Cities %	Suburbs %	Towns %	Rural %	18 to 29 %	30 to 49 %	50 and Over %	Less Than High Shool Grad %	High Shool Grad %	College Grad %	Men %	Women %	White %	Black %	Under $5,000 %	$5,000 to $9,999 %	$10,000 to $14,999 %	$15,000 and Over %	Subsidized Housing Nearby %	No Subsidized Housing %	Knowledge of Government Housing Programs: Know a Great Deal %	Know Only a Little %	Know Almost Nothing %
1. Building Housing Projets primarily for low income families																												
Definitely favor	35	34	31	41	35	46	29	32	30	39	31	37	39	35	29	36	34	32	62	43	39	32	30	39	35	35	38	32
Leaning favorably	31	32	34	25	33	26	28	42	33	34	30	29	29	31	36	28	34	32	22	28	30	33	32	30	31	28	34	32
Leaning unfavorably	9	9	10	6	12	6	12	9	9	7	13	6	7	9	13	8	9	9	3	5	9	11	10	9	9	10	9	7
Definitely against	16	15	20	14	13	17	19	12	13	14	20	14	12	17	20	19	13	17	11	10	14	19	21	15	16	22	15	11
Not sure	9	10	5	14	7	5	12	5	15	6	6	14	13	8	2	9	10	10	2	14	8	5	7	7	9	5	4	18
Positive	66	66	65	66	68	72	57	74	63	73	61	66	68	66	65	64	68	64	84	71	69	65	62	69	66	63	72	64
Negative	25	24	30	20	25	23	31	21	22	21	33	20	19	26	33	27	22	26	14	15	23	30	31	24	25	32	24	18
Not sure	9	10	5	14	7	5	12	5	15	6	6	14	13	8	2	9	10	10	2	14	8	5	7	7	9	5	4	18
2. Providing a rent supplement to allow low income families to live in government-financed housing projects which are occupied mainly by moderate income families																												
Definitely favor	21	23	22	19	22	26	17	19	22	24	20	20	25	19	22	21	22	20	44	26	24	16	21	20	22	24	25	16
Leaning favorably	28	25	33	24	32	31	27	33	23	36	27	23	22	31	32	26	30	28	29	28	29	28	28	32	27	29	28	28
Leaning unfavorably	11	11	12	9	15	11	15	10	10	12	13	10	7	12	16	12	11	12	10	7	11	14	13	13	11	14	13	7
Definitely against	24	25	24	25	20	20	26	26	26	17	27	26	21	26	23	26	22	26	6	14	23	29	27	22	24	27	26	20
Not sure	16	16	9	23	11	12	15	12	19	11	13	21	25	12	7	15	15	14	11	25	13	13	11	13	16	6	8	29
Positive	49	48	55	43	54	57	44	52	45	60	47	43	47	50	54	47	52	48	73	54	53	44	49	52	49	53	53	44
Negative	35	36	36	34	35	31	41	36	36	29	40	36	28	38	39	38	33	38	16	21	34	43	40	35	35	41	39	27
Not sure	16	16	9	23	11	12	15	12	19	11	13	21	25	12	7	15	15	14	11	25	13	13	11	13	16	6	8	29
3. Providing a mortgage subsidy to help low income families buy their own homes																												
Definitely favor	40	36	42	43	38	41	32	47	43	43	42	35	43	38	41	38	42	38	54	44	45	39	34	43	39	43	41	35
Leaning favorably	26	26	27	22	29	27	27	26	22	28	26	23	21	27	32	25	26	25	30	19	25	29	29	23	26	26	28	23
Leaning unfavorably	7	6	7	5	10	6	8	7	6	8	6	6	5	7	6	8	6	7	2	6	6	6	8	8	6	8	7	6
Definitely against	16	19	16	13	14	15	20	11	14	13	15	19	13	18	14	18	14	17	2	11	14	17	18	16	16	17	16	15
Not sure	11	13	8	17	9	11	13	9	15	8	11	17	18	10	7	11	12	13	12	20	10	9	11	10	13	6	8	21
Positive	66	62	69	65	67	68	59	73	65	71	68	58	64	65	73	63	68	63	84	63	70	68	63	66	65	69	69	58
Negative	23	25	23	18	24	21	28	18	20	21	21	25	18	25	20	26	20	24	4	17	20	23	26	24	22	25	23	21
Not sure	11	13	8	17	9	11	13	9	15	8	11	17	18	10	7	11	12	13	12	20	10	9	11	10	13	6	8	21
4. Giving a low income family a "housing allowance," which is a certain amount of money which must be spent on housing but the family could choose any housing as long as it meets minimum standards																												
Definitely favor	28	28	30	25	31	34	23	27	27	34	26	25	32	27	26	28	28	26	48	34	30	27	24	27	28	30	29	25
Leaning favorably	22	23	24	18	24	23	22	27	19	28	23	17	16	23	33	19	25	23	25	19	23	23	24	23	22	22	25	20
Leaning unfavorably	8	7	11	7	9	6	11	9	9	10	8	8	6	9	9	8	8	9	6	5	7	11	11	10	8	9	8	8
Definitely against	27	27	27	27	28	26	29	26	27	21	29	31	23	30	25	30	24	29	5	19	27	29	32	26	28	31	27	24
Not sure	15	15	8	23	8	11	15	11	18	7	14	19	23	11	7	15	15	13	16	23	13	10	9	14	14	8	11	23
Positive	50	51	54	43	55	57	45	54	46	62	49	42	48	50	59	47	53	49	73	53	53	50	48	50	50	52	54	43
Negative	35	34	38	34	37	32	40	35	36	31	37	39	29	39	34	38	32	38	11	24	34	40	43	36	36	40	35	32
Not sure	15	15	8	23	8	11	15	11	18	7	14	19	23	11	7	15	15	13	16	23	13	10	9	14	14	8	11	23

Behind Views on Building Housing Projects for Low Income Families

	Total %
Why Positive	49
Must help those who can't afford decent housing	21
Government must insure safe housing for the poor	10
People need housing	8
It is a good program	4
Elderly and handicapped need it	3
If properly supervised	2
Should segregate low income from rest	1
Why Negative	23
People should help themselves	8
Projects are bad, unsafe	4
Too much a giveaway of tax money	3
Don't segregate low income from rest	3
Keep government out of housing	2
Unfair to middle class who don't qualify	2
No need for such projects	1
Qualified	17
Depends on how it's done	15
Depends on cost	2
Not Sure	13

Behind Views on Giving Low Income Families "Housing Allowance"

	Total %
Why Positive	42
People should live wherever they feel they want to	15
Must help poor raise living standards	10
Good idea	4
If money only used for housing	4
Help people buy a home	3
Good if set up right	3
For those who are working	2
Not just for the poor and minorities	1
Why Negative	38
Wouldn't spend money for intended purpose	11
Would remove incentive to work	10
Too much government spending, taxes	5
People might pick housing that is too expensive	4
Not easily controlled	3
Against it	3
Government shouldn't supply housing	2
Qualified	9
Need to know more about it	8
Depends on cost	1
Not Sure	11

Upper Limit of Annual Income to Qualify as Low Income Family

	Under $3,000 %	$3,000-$4,999 %	$5,000-$6,999 %	$7,000 and Over %	Not Sure %
Total	6	30	37	18	9
East	3	23	45	23	6
Midwest	6	27	37	20	10
South	8	41	30	10	11
West	9	29	32	19	11
Cities	5	28	34	23	10
Suburbs	5	24	42	21	8
Towns	8	34	32	15	11
Rural	9	38	33	11	9
White	6	31	37	17	9
Black	3	20	32	35	10
Under $5,000	10	33	28	14	15
$5,000-$9,999	7	34	33	17	9
$10,000-$14,999	6	29	38	20	7
$15,000 and over	4	26	41	21	8
Subsidized housing nearby	5	30	37	21	7
No subsidized housing nearby	7	30	36	17	10
Knowledge of Government Housing Programs					
Know a great deal	6	29	38	20	7
Know only a little	5	29	38	19	9
Know almost nothing	8	32	31	17	12

Median income limit: $5,500

Behind Views on Rent Subsidy

	Total %
Why Positive	30
People ought to be able to get better housing	12
Must provide for low income who can't afford decent housing	8
Must get people out of ghettos, allow them to mix with others	7
If properly supervised	2
For elderly and handicapped	1
Why Negative	36
People must help themselves	11
Low income should be kept separate	8
Too much a giveaway of tax money	5
Unfair to middle class who must pay	5
Lower class must not expect to live in luxury	3
Government should stay out of housing	2
People use money unwisely	2
Qualified	14
Depends on how it is done	13
Depends on costs	1
Not Sure	19

Behind Views on Mortgage Subsidy to Help Low Income People Buy Own Homes

	Total %
Why Positive	61
Only way low income people can own a home	18
Homeowning fosters better care of property, neighborhood	14
One-shot mortgage provides incentive for people to maintain payments	9
Homeowning offers greater security	7
Good idea	7
If properly supervised	3
For elderly, handicapped	1
Only if no discrimination	1
Need to provide homes for families, children	1
Why Negative	21
People should help themselves	10
Too much a give-away	4
Poor couldn't carry mortgage	4
Government should stay out of housing	2
Poor would ruin houses	1
Qualified	10
Depends on how it is done	9
Depends on cost	1
Not Sure	8

Attitudes Toward Different Forms of Government Housing Assistance According to Own Definition of Low Income Family *

		Definition of Low Income Family			
	Total Nation %	Under $3,000 %	$3,000-$4,999 %	$5,000-$6,999 %	$7,000 and Over %
1. Building housing projects primarily for low income families					
Positive	66	58	66	69	68
Negative	25	31	26	24	26
Not sure	9	11	8	7	6
2. Rent supplement to allow low income families to live in government-sponsored moderate income projects					
Positive	49	44	47	53	58
Negative	35	44	39	34	30
Not sure	16	12	14	13	12
3. Mortgage subsidy to help low income families buy their own homes					
Positive	66	65	63	71	69
Negative	23	25	26	19	21
Not sure	11	10	11	10	10
4. Giving low income families housing allowance to choose their own housing					
Positive	50	56	44	55	58
Negative	35	33	43	32	32
Not sure	15	11	13	13	10

* This table breaks down the public according to their own definition of low income. For example, 58 percent of people who define low income as under $3,000 feel positively about building housing projects primarily for low income families, compared with 68 percent of those who define low income as $7,000 and over.

Reaction to Various Types of Projects in Own Neighborhood

	% Total	% East	% Midwest	% South	% West	% Cities	% Suburbs	% Towns	% Rural	% 18 to 29	% 30 to 49	% 50 and Over	% Less Than High School Grad	% High School Grad	% College Grad	% Men	% Women	% White	% Black	% Under $5,000	% $5,000 to $9,999	% $10,000 to $14,999	% $15,000 and Over	% Subsidized Housing Nearby	% No Subsidized Housing Nearby	Knowledge of Government Housing Programs: % Know a Great Deal	% Know Only a Little	% Know Almost Nothing
Large Housing Project of Apartments for the Elderly																												
Favor	60	54	59	68	60	65	50	65	63	66	56	59	68	60	50	60	62	58	76	69	63	61	52	64	59	57	60	65
Oppose	36	42	37	29	36	32	46	32	32	31	41	35	26	37	48	36	35	38	21	25	33	35	45	32	37	41	38	28
Not sure	4	4	4	3	4	3	4	3	5	3	3	6	6	3	2	4	3	4	3	6	4	4	3	4	4	2	2	7
Single Family Houses or Town Houses for Low Income Families																												
Favor	59	58	60	59	62	61	52	65	59	66	54	59	65	57	60	60	59	56	85	69	63	55	53	60	59	58	63	56
Oppose	36	38	34	36	34	34	44	31	35	31	42	34	27	40	38	36	36	39	10	24	32	42	44	34	36	39	33	36
Not sure	5	4	6	5	4	5	4	4	6	3	4	7	8	3	2	4	5	5	5	7	5	3	3	6	5	3	4	8
Small Housing Project of Apartments for Low Income Families																												
Favor	55	53	52	57	57	60	42	59	56	62	50	55	62	51	50	53	56	52	76	67	60	48	47	57	54	52	57	55
Oppose	42	43	45	39	40	36	54	39	40	35	48	40	32	46	49	44	40	45	21	28	37	49	51	40	42	47	41	39
Not sure	3	4	3	4	3	4	4	2	4	3	2	5	6	3	1	3	4	3	3	5	3	3	2	3	4	1	2	6
Small Housing Project with Apartments for Low Income Families, Moderate Income Families and the Elderly																												
Favor	48	50	47	45	48	54	43	43	47	55	44	45	52	46	46	46	49	45	71	57	49	45	42	44	48	42	52	47
Oppose	45	43	49	44	47	38	51	51	44	41	50	44	35	49	51	47	44	48	21	30	44	49	54	48	45	54	43	40
Not sure	7	7	4	11	5	8	6	6	9	4	6	11	13	5	3	7	7	7	8	13	7	6	4	8	7	4	5	13
Large Housing Project of Apartments for Low Income Families																												
Favor	42	39	36	48	45	48	29	52	40	49	38	40	51	39	34	40	43	39	60	57	44	34	35	41	42	39	41	44
Oppose	54	57	61	47	50	48	66	47	54	48	59	54	43	58	64	56	53	57	38	37	52	62	62	55	54	59	57	48
Not sure	4	4	3	5	5	4	5	1	6	3	3	6	6	3	2	4	4	4	2	6	4	4	3	4	4	2	2	8

How Think Neighbors Would Feel About Various Types of Projects in Neighborhood

	Mainly Opposed %	Would Not Care One Way or Other %	Mainly Favor %	Not Sure %
Large apartment housing project for low income families	64	10	17	9
Large apartment housing project for moderate income families	60	14	16	10
Small apartment housing project for low income families	55	15	21	9
Small apartment housing project for moderate income families	52	17	21	10
Small apartment housing project for low income families, moderate income families, and the elderly	52	13	23	12
Single family houses or town houses for low income families	49	17	25	9
Single family houses or town houses for moderate income families	44	21	25	10
Large housing project of apartments for the elderly	44	16	31	9
Small housing project of apartments for the elderly	35	18	38	9

Views Back of Attitudes Toward Integrated Housing

	Total %
Why Favor Integration	30
All people should be given equal opportunities	12
People should be free to live wherever they want to	9
Would relieve racial tensions	6
Must integrate housing	3
Why Oppose Integration	63
No one should be forced to integrate	21
Cannot force integration, will take time	16
Opposed to mixing races	11
Not government's business	7
Government has better things to do	6
Should be handled by states	1
Let minorities work their way up	1
Qualified	23
Don't rock the boat, everyone satisfied here now	11
Providing decent housing not a racial issue	7
Not a Federal issue	3

(Continued)

How Much Racially Integrated Housing Should Be Goal of Government Housing Programs

	Major Goal %	Important, But Not Major Goal %	Only A Minor Goal %	Not A Goal At All %	Not Sure %
Total	13	22	19	36	10
East	17	23	19	33	8
Midwest	13	24	21	33	9
South	9	15	17	46	13
West	13	26	18	35	8
Cities	19	24	14	34	9
Suburbs	10	21	20	42	7
Towns	10	28	21	33	8
Rural	10	17	23	34	16
18-29	18	27	18	32	5
30-49	12	23	20	37	8
50 and over	9	17	18	40	16
Less than high school grad	15	16	15	36	18
High school grad	9	24	21	39	7
College grad	23	25	20	28	4
Men	14	20	20	37	9
Women	12	24	18	35	11
White	10	22	20	38	10
Black	44	25	12	13	6
Under $5,000	12	17	13	38	20
$5,000-$9,999	18	19	19	34	10
$10,000-$14,999	8	25	22	40	5
$15,000 and over	14	26	20	34	6
Subsidized housing nearby	11	22	19	39	9
No subsidized housing nearby	13	22	19	36	10
Knowledge of Government Housing Programs					
Know a great deal	14	23	22	36	5
Know only a little	15	26	18	35	6
Know almost nothing	9	17	17	39	18

Views Back of Attitudes Toward Integrated Housing—Continued

People should go where they can afford to live	2
Not sure	8

Note: Adds to more than 100 percent as some respondents volunteered more than one view.

Attitudes Toward Federal Policy to Provide Strict Enforcement of Laws Against Racial Discrimination in Sale or Rental of Housing

	Strongly Favor %	Somewhat Favor %	Somewhat Oppose %	Strongly Oppose %	Not Sure %	Favor %	Oppose %	Not Sure %
Total	28	19	17	26	10	47	43	10
East	29	27	14	20	10	56	34	10
Midwest	33	18	15	24	10	51	39	10
South	20	12	22	34	12	32	56	12
West	32	23	15	23	7	55	38	7
Cities	37	17	13	26	7	54	39	7
Suburbs	27	22	18	25	8	49	43	8
Towns	26	21	19	23	11	47	42	11
Rural	18	19	20	27	16	37	47	16
18–29	37	22	15	20	6	59	35	6
30–49	27	19	18	27	9	46	45	9
50 and over	19	19	18	29	15	38	47	15
Less than high school grad	23	16	17	28	16	39	45	16
High school grad	25	21	18	27	9	46	45	9
College grad	46	22	12	18	2	68	30	2
Men	28	19	17	27	9	47	44	9
Women	28	20	17	24	11	48	41	11
White	24	20	18	28	10	44	46	10
Black	68	15	8	3	6	83	11	6
Under $5,000	25	14	16	26	19	39	42	19
$5,000–$9,999	30	21	16	25	8	51	41	8
$10,000–$14,999	25	23	18	25	9	48	43	9
$15,000 and over	31	20	18	26	5	51	44	5
Subsidized housing nearby	26	17	17	30	10	43	47	10
No subsidized housing nearby	29	20	17	24	10	49	41	10
Knowledge of Government Housing Programs								
Know a great deal	32	20	15	28	5	52	43	5
Know only a little	31	21	18	24	6	52	42	6
Know almost nothing	20	17	18	27	18	37	45	18

Attitudes Toward Federal Policy Which Would Build Housing for Low Income Families, Including Minorities, in Areas Where They Might Otherwise Not Be Able To Afford To Live

	Strongly Favor %	Somewhat Favor %	Somewhat Opposed %	Strongly Opposed %	Not Sure %	Favor %	Oppose %	Not Sure %
Total	17	27	18	28	10	44	46	10
East	20	29	15	26	10	49	41	10
Midwest	17	27	17	29	10	44	46	10
South	12	23	20	33	12	35	53	12
West	19	27	19	26	9	46	45	9
Cities	25	25	14	28	8	50	42	8
Suburbs	12	25	20	33	10	37	53	10
Towns	13	34	19	25	9	47	44	9
Rural	13	26	19	28	14	39	47	14
18-29	22	31	16	24	7	53	40	7
30-49	15	25	19	33	8	40	52	8
50 and over	13	24	17	31	15	37	48	15
Less than high school grad	19	24	15	26	16	43	41	16
High school grad	15	27	19	30	9	42	49	9
College grad	17	31	20	28	4	48	48	4

(Continued on p. 1477.)

Attitudes Toward Federal Policy Which Would Build Housing for Low Income Families, Including Minorities, in Areas Where They Might Otherwise Not Be Able To Afford To Live

(Continued from p. 1476.)

Men	16	27	16	30	11	43	46	11
Women	18	26	19	27	10	44	46	10
White	13	27	19	30	11	40	49	11
Black	55	25	8	7	5	80	15	5
Under $5,000	19	23	15	25	18	42	40	18
$5,000-$9,999	20	29	18	24	9	49	42	9
$10,000-$14,999	14	28	18	33	7	42	51	7
$15,000 and over	15	26	18	34	7	41	52	7
Subsidized housing nearby	11	28	19	32	10	39	51	10
No subsidized housing nearby	18	26	17	28	11	44	45	11
Knowledge of Government Housing Programs								
Know a great deal	19	25	17	33	6	44	50	6
Know only a little	19	26	19	29	7	45	48	7
Know almost nothing	12	29	16	26	17	41	42	17

Attitudes Toward Federal Policy of Providing Housing Allowances to Low Income Families, Including Minorities, to Live in Modest but Standard Housing Where They Want

	Strongly Favor %	Somewhat Favor %	Somewhat Oppose %	Strongly Oppose %	Not Sure %	Favor %	Oppose %	Not Sure %
Total	24	25	14	25	12	49	39	12
East	25	29	12	21	13	54	33	13
Midwest	26	28	11	25	10	54	36	10
South	16	19	19	30	16	35	49	16
West	34	23	13	23	7	57	36	7
Cities	30	25	11	24	10	55	35	10
Suburbs	21	23	14	29	13	44	43	13
Towns	25	29	16	20	10	54	36	10
Rural	18	25	17	24	16	43	41	16
18–29	29	34	12	18	7	63	30	7
30–49	27	23	12	27	11	50	39	11
50 and over	16	22	17	27	18	38	44	18
Less than high school grad	22	20	16	24	18	42	40	18
High school grad	24	27	13	25	11	51	38	11
College grad	30	28	13	23	6	58	36	6
Men	24	23	15	27	11	47	42	11
Women	24	26	13	24	13	50	37	13
White	21	25	15	27	12	46	42	12
Black	54	29	6	2	9	83	8	9
Under $5,000	22	22	14	21	21	44	35	21
$5,000–$9,999	27	23	15	24	11	50	39	11
$10,000–$14,999	25	26	13	28	8	51	41	8
$15,000 and over	21	29	14	27	9	50	41	9
Subsidized housing nearby	21	28	14	25	12	49	39	12
No subsidized housing nearby	25	24	14	25	12	49	39	12
Knowledge of Government Housing Programs								
Know a great deal	30	25	13	25	7	55	38	7
Know only a little	26	26	14	25	9	52	39	9
Know almost nothing	16	24	14	26	20	40	40	20

Is There Room for More People to Live Around Here?

	Room For More People %	Right Number Now %	Too Many People Already %	Not Sure %
Total	22	58	17	3
East	15	60	23	2
Midwest	22	61	15	2
South	32	54	9	5
West	15	62	21	2
Cities	14	58	24	4
Suburbs	7	69	22	2
Towns	26	62	9	3
Rural	46	47	5	2

Placing Restrictions on How Much New Housing Could Be Built Around Here

	Total %
Favor restrictions	58
Oppose restrictions	27
Not sure	15

A Law That Would Prohibit the Construction of Any New Housing Around Here Unless It Were to Replace Existing Housing

	Total Favor Restrictions %
Favor	67
Oppose	25
Not sure	8

Statements on Public Housing

	Agree %	Disagree %	Not Sure %
Foreign aid and national defense may be important for international stability, but it is much more important to devote our resources to domestic stability by improving housing, health care, and education	90	7	3
There are many people who, through no fault of their own, are handicapped by bad breaks and should be helped by the government	88	9	3
People who own their homes take better care of them than people who rent them	85	11	4
Welfare discourages able bodied recipients from trying to go out and find a job	79	17	4
Housing subsidies discourage able bodied recipients from trying to go out and find a job	65	24	11
Most poor people who are given clean, new housing do not take care of it	65	25	10
Housing projects should be designed to house all ages and eligible income groups—not just the poor and the elderly	65	27	8
Mass transit should be subsidized by the government because low income users can't afford an increase in fares	65	21	14
Moderate income housing needs are often forgotten in the desire to help low income housing	62	20	18
High interest rates on mortgages hurt the poor more than the rich; interest rates should therefore be subsidized by the government	62	27	11
The working poor should get preferential housing treatment over the non-working poor	62	28	10
Most poor people want housing that is realistically beyond their means	58	27	15
Government housing programs concentrate too much on urban areas and not enough on rural areas	58	18	24
Low income housing should not be built in middle or upper income neighborhoods	55	37	8
Only the Federal Government has the money to rebuild American cities	53	35	12
A landlord should be allowed to reject a member of a minority group if he feels the other tenants would object	51	41	8
A landlord should be allowed to reject a person on welfare if he wants	46	48	6
Government supported housing is cold and lifeless, and is often a worse place to live in than the slums it replaced	41	39	20

How Much People Feel They Know About Federal Housing Programs

	A Great Deal %	Some But Not a Great Deal %	Only a Little %	Almost Nothing %	Not Sure %
Total	4	28	36	31	1
East	3	24	38	34	1
Midwest	4	35	38	23	*
South	4	23	32	39	2
West	2	32	37	26	3
Cities	4	29	36	29	2
Suburbs	5	26	39	29	1
Towns	2	37	37	23	1
Rural	2	24	31	42	1
18 to 29	3	32	36	28	1
30 to 49	4	30	38	27	1
50 and over	3	23	36	37	1
Less than high school grad	2	17	32	46	3
High school grad	4	32	37	26	1
College grad	4	37	41	18	*
Men	4	29	37	29	1
Women	3	28	34	33	2
White	3	29	36	31	1
Black	7	25	38	26	4
Under $5,000	3	18	36	41	2
$5,000–$9,999	3	26	36	33	2
$10,000–$14,999	2	30	38	29	1
$15,000 and over	6	37	34	23	*
Subsidized housing nearby	4	40	33	22	1
No subsidized housing nearby	3	26	37	33	1

*Less than 0.5 percent.

Believed Effects of Good Housing

	Total %
Brings the Family Closer Together	
Great extent	35
Some extent	44
Only a small extent	11
Not at all	7
Not sure	3
Positive	79
Negative	18
Not sure	3
Helps to Prevent Juvenile Delinquency	
Great extent	27
Some extent	44
Only a small extent	14
Not at all	12
Not sure	3
Positive	71
Negative	26
Not sure	3
Encourages People to Take More Pride in Themselves	
Great extent	49
Some extent	40
Only a small amount	6
Not at all	3
Not sure	2
Positive	89
Negative	9
Not sure	2
Makes People Physically Healthier	
Great extent	35
Some extent	41
Only a small amount	10
Not at all	10
Not sure	4
Positive	76
Negative	20
Not sure	4

Where Obtain Most Information About Government Housing Programs

	Total %	Less Than High School Grad %	High School Grad %	College Grad %
News stories in newspapers	57	46	59	70
News stories on TV	56	54	57	57
Word of mouth	26	32	25	18
News stories on radio	20	20	20	22
News stories in magazines	17	6	19	32
Personal experience	9	6	9	15
Speeches, talks by elected public officials	7	4	8	9
Not sure	5	7	5	2

How Rate Job Done by Government in Keeping Public Informed About Housing Programs

		Knowledge of Government Housing Programs		
	Total %	Know a Great Deal %	Know Only a Little %	Know Almost Nothing %
Excellent	2	4	2	1
Pretty good	24	29	27	16
Only fair	39	42	43	32
Poor	23	21	21	27
Not sure	12	4	7	24
Positive	26	33	29	17
Negative	62	63	64	59
Not sure	12	4	7	24

Kind of Subsidized Housing Nearby

	Total Subsidized Housing Nearby %
Apartments	43
For elderly	18
Low income	19
Houses	13
Townhouses, duplexes	12
235 housing	12
FHS housing	8
Projects	5
Specific project	4
Not sure	1

Note: Adds to more than 100 percent as some respondents gave more than one answer.

Is There Any Government Subsidized Housing Located Near You?

	Subsidized Housing %	No Subsidized Housing %	Not Sure %
Total	20	64	16
East	18	68	14
Midwest	19	70	11
South	23	60	17
West	21	52	27
Cities	15	64	21
Suburbs	24	61	15
Towns	22	63	15
Rural	21	67	12
18-29	20	60	20
30-49	23	62	15
50 and over	18	68	14
Less than high school grad	19	67	14
High school grad	23	60	17
College grad	15	68	17
Men	21	65	14
Women	19	63	18
White	21	64	15
Black	17	61	12
Under $5,000	18	65	17
$5,000-$9,999	17	66	17
$10,000-$14,999	23	64	13
$15,000 and over	23	61	16
Subsidized housing nearby	100	—	—
No subsidized housing nearby	—	80	20
Knowledge of Government Housing Programs			
Know a great deal	27	59	14
Know only a little	19	67	14
Know almost nothing	15	65	20

Is Nearby Subsidized Housing Well Built and Attractive?

	Total Subsidized Housing Nearby %
Is attractive and built well	72
Is not	17
Not sure	11

Is This Subsidized Housing a Place You Personally Would Like to Live In ?

	Total Subsidized Housing Nearby %
Like to live in	55
Not like to live in	39
Not sure	6

Analysis of the Under $5,000 Income Group

	%
Total	100
East	19
Midwest	27
South	41
West	13
Cities	45
Suburbs	10
Towns	20
Rural	25
18-29	22
30-49	16
50 and over	62
Less than high school grad	62
High school grad	33
College grad	5
Men	45
Women	55
White	80
Black	15

Alternative Mortgage Forms

By Donald P. Tucker
Federal Reserve Board

The current form of mortgage contract, with a level payments schedule and a fixed interest rate, is an inflexible financial instrument that does not adequately meet the needs of either borrowers or lenders in an inflationary environment. It imposes an unnecessarily high financial burden on the borrower in the early years of a mortgage, and it exposes lending institutions to excessive risks of financial squeezes and possible bankruptcy. This note considers the advantages and disadvantages of three alternative forms of mortgage designed to meet these difficulties. One, the variable-rate mortgage, with a graduated or flexible payments schedule, involves only a modest change from current practice. The other two, the purchasing-power (or readjustable) mortgage and the graduated-payment CAP (contingent appreciation-participation) mortgage with an "equity kicker," represent more substantial changes.

In partial recognition of the inadequacies of the present rigid form of mortgage, the Federal Home Loan Bank Board (FHLBB) has recently proposed some rule changes to permit federally chartered savings and loan institutions to make "flexible payment mortgage loans." This note also examines the proposed rule changes and concludes that, although they represent a step in the right direction, they are too limited in scope to deal effectively with the problems of the standard mortgage instrument.

Problem I—Uneven Cash Flow Burden

The first difficulty with the current form of mortgage arises whenever there is any significant amount of inflation occurring.[1] The mortgage promises to repay a fixed dollar amount, without any reference to what those dollars will be worth, and because inflation continually reduces the real value of the dollars that the borrower will eventually pay back, the lender includes an inflation premium in the interest rate he charges in order to compensate himself for the deterioration in the real value of his asset due to inflation. A mortgage that would cost 4 percent when there is no inflation instead costs 8 percent when there is steady inflation at 4 percent per year. With the level-payment mortgage, this makes the monthly payments almost twice what they would be without inflation, and this has the effect of shutting many moderate income families out of the market for homeownership.

There is no reason, however, why homeownership should be more expensive or burdensome in periods of inflation. The true opportunity cost of homeownership is given not by the market rate of interest but by the real rate (market rate minus the inflation premium), which is affected little or not at all by inflation. The reason the level-payment mortgage makes it more burdensome under inflationary conditions is that this particular form of mortgage forces the homeowner to repay his principal (i.e., to build up his equity in the house) more rapidly than is necessary in the early years of the mortgage. In effect, the inflation premium in the mortgage interest rate represents extra payments to build up his equity, payments he would not be making if there were no inflation.

A 30-year mortgage is still a 30-year mortgage, of course, with or without inflation, and the accelerated repayment of the principal does not continue over the life of the mortgage. It occurs only in the early years. Then, as inflation raises the family's income and reduces the real value of the fixed monthly payment, the burden of the mortgage payments declines. In the later years of the mortgage, the burden is smaller relative to the borrower's income than it would have been without inflation. Thus, the way a level-payment mortgage adjusts to inflationary conditions is to shift some of the financial burden forward from the later years into the early years. Whereas the burden of level payments is flat over time when there is no inflation, it is bunched up in the early years when there is inflation. The way in which inflation alters the accumulation of equity and the cash flow burden of homeownership with a level-payment mortgage is illustrated in Figures 1 and 2. Note that even when the inflation rate is only 4 percent, the financial burden is altered dramatically from what it would be without inflation.

[1] For a more detailed analysis of the difficulty with the level-payment mortgage, see William Poole, "Housing Finance Under Inflationary Conditions" in *Ways to Moderate Fluctuations in Housing Construction*, Federal Reserve Board, 1972.

Figure 1
Mortgage Payment as a Fraction of Borrower's Income on 4 Percent and 8 Percent Level-Payment Loans of $20,000 for 30 Years, Assuming a 4 Percent Real Rate of Interest*

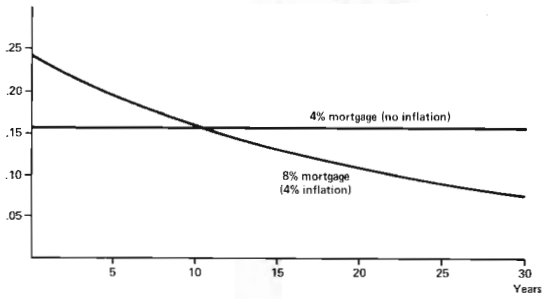
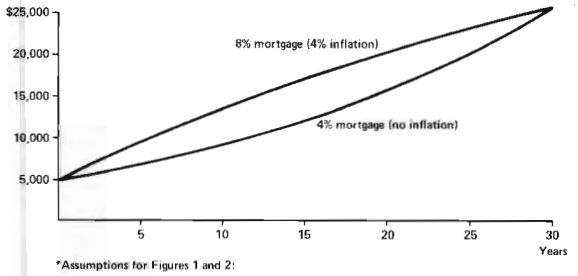


Figure 2
Real Value of Owner's Equity on 4 Percent and 8 Percent Level-Payment Loans of $20,000 for 30 Years, Assuming a 4 Percent Real Rate of Interest*



*Assumptions for Figures 1 and 2:
4 percent mortgage: constant prices, borrower's income $600 per month, value of property constant at $25,000.
8 percent mortgage: 4 percent rate of inflation, with borrower's income and value of property both rising at 4 percent annually; borrower's income initially $600 per month; value of property initially $25,000.

Problem II—Financial Instability of Lenders

The second problem with the fixed-rate level-payment mortgage is its unsuitability for the position of chief portfolio asset of savings institutions with short term deposit liabilities. Any general rise in interest rates tends to raise the interest costs on all their passbook deposits and on their new certificate deposits immediately, while the earnings on their mortgage assets rise slowly, thus depressing their earnings and net worth, and potentially even causing bankruptcy. This problem arises not because mortgage rates adjust more slowly than the rate paid on savings deposits, but because the turnover on mortgages is very slow. Any change in the mortgage rate affects only new mortgages taken out after the rate change goes into effect, and all the old mortgages continue to earn at the old rate.

This problem has been controlled in the recent past by imposing statutory ceilings on the rates that savings institutions can pay on their deposits. This has been a very costly and unsatisfactory solution, however. It has meant that small savers are prevented from earning as much interest as they could otherwise earn if the Government did not forbid it, or as much as bigger more sophisticated savers do earn by other investments. It has also meant that the supply of new mortgage funds derived from the deposits of individual savers practically dries up in tight money periods because many savers take their money out of their savings accounts in order to earn higher returns elsewhere. The rate ceilings have severely aggravated the problem of cyclical instability in the supply of mortgage funds. This is illustrated by the experience of 1966 and 1969 shown in Table 1.

Whereas problem I, which affects borrowers, is associated with the presence of inflation, any inflation, this second problem, of concern only to lending institutions, arises from uncertainty about the rate of inflation. Because the mortgage rate that lenders charge contains an inflation premium based on their expectations of what average rate of inflation will prevail over the life of the mortgage, their earnings will not suffer from interest rate increases due to inflation that they have foreseen. It is the unanticipated inflation and the accompanying interest rate increases that get them into trouble. Interest rates can rise for other reasons, of course, especially as part of business cycle fluctuations, but much of the secular upward trend of rates since the mid-sixties has been due to increased expectations of inflation.

The Purchasing-Power Mortgage

The purchasing-power, or readjustable mortgage, is the most fundamentally different of the mortgage alternatives considered here, but it also offers the most satisfactory way to deal simultaneously with both problems I and II. This form of mortgage is pegged to some price index or cost-of-living index, and whenever the price index rises, both the unpaid balance on the mortgage and the amount of the monthly payment are readjusted upward by the percentage required to match the percentage increase in the index. The lender is thus automatically protected against depreciation of his mortgage asset due to inflation, and he does not have to charge an inflation premium in the interest rate. The rate on the purchasing-power mortgage would thus run somewhere around 4 percent to 5 percent and monthly payments would be much lower initially than on the traditional mortgage.

This gives the purchasing-power mortgage a big advantage over the traditional level-payment

Table 1. Net Month-to-Month Changes in Mortgages Outstanding and Savings Deposits at Savings and Loan Associations
(Millions of dollars)

Month	1965	1966	1967	1968	1969	1970
			Mortgages			
January	530	498	140	113	642	274
February	528	546	166	542	671	223
March	801	755	402	789	917	198
April	824	735	436	879	1,025	486
May	840	513	676	957	988	723
June	1,012	420	1,035	727	1,216	1,128
July	819	81	732	718	865	1,079
August	845	147	998	884	844	1,114
September	742	107	855	810	703	1,122
October	667	−6	833	845	608	1,156
November	585	−21	765	732	450	1,184
December	695	112	766	903	533	1,607
			Savings Capital			
January	254	−77	298	−461	−93	−1,236
February	619	528	763	584	606	205
March	1,055	838	1,457	1,275	1,379	1,595
April	−93	−773	497	−294	−516	213
May	792	387	1,130	757	494	747
June	1,603	1,185	1,935	1,494	1,359	1,801
July	−432	−1,508	55	−605	−1,110	543
August	554	124	646	389	−8	550
September	1,040	631	1,193	1,133	879	1,827
October	582	−56	495	495	−406	1,091
November	807	614	582	648	226	1,103
December	1,643	1,732	1,615	1,643	1,069	2,816

Source: *Federal Reserve Bulletin.*

mortgage from the point of view of the borrower. Instead of the disproportionately heavy financial burden of the monthly payments in the early years that is characteristic of the level-payment mortgage in periods of inflation (see Figure 1), the purchasing-power mortgage makes the ratio of mortgage payments to income absolutely constant for a borrower whose income rises with the general price level. Instead of enforcing on him an unnecessarily rapid accumulation of equity, it permits a more gradual accumulation of equity without any increase in the term to maturity of the mortgage.

As an illustration, Cases 1 and 4 in Table 2 compare a $20,000 30-year level-payment mortgage at 8 percent with a 4 percent purchasing-power mortgage for the same amount and term, assuming steady inflation at 4 percent. Both mortgages are equivalent in the sense that their streams of monthly payments have the same present discounted value to the lender when discounted at 8 percent. This illustration assumes an 80 percent mortgage with a downpayment of $5,000.

Note that the accumulation of equity under the purchasing-power mortgage when the inflation rate is 4 percent is essentially the same as under the level-payment mortgage when there is no inflation. Under the purchasing-power mortgage, it would also be the same if the inflation rate were 6 percent or 8 percent or higher.

Note also that the real value of the unpaid balance on the loan and the ratio of the unpaid balance to the value of the property both decline right from the start with the purchasing-power mortgage, even though the dollar amount of the unpaid balance rises for the first several years. The unpaid balance always rises more slowly than the rate of inflation.

Because of its lower initial monthly payments, general adoption of the purchasing-power mortgage could have a tremendous impact on the ability of poor and moderate income families to afford their own homes. A $20,000 mortgage for 30 years with an interest rate at the current level of 8 percent requires monthly payments of over $145 under a level-payment mortgage, but the payments on the same loan would initially be

Table 2. Alternate Payment Schedule for a $20,000 Mortgage at 8 Percent for 30 Years, Assuming Inflation at 4 Percent Annually

Year	Monthly Payment				Unpaid Balance				Real Value of Unpaid Balance				Real Value of Borrower's Equity			
	Case 1	Case 2	Case 3	Case 4	Case 1	Case 2	Case 3	Case 4	Case 1	Case 2	Case 3	Case 4	Case 1	Case 2	Case 3	Case 4
0	$146.64	$119.80	$111.36	$95.40	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$5,000	$5,000	$5,000	$5,000
1	146.64	122.22	115.76	99.29	19,834	20,154	20,247	20,450	19,056	19,364	19,453	19,648	5,944	5,636	5,547	5,352
2	146.64	124.69	120.04	103.35	19,654	20,291	20,461	20,888	18,142	18,731	18,888	19,282	6,858	6,269	6,112	5,718
3	146.64	127.20	124.24	107.56	19,459	20,407	20,640	21,311	17,258	18,099	18,306	18,901	7,742	6,901	6,694	6,099
5	146.64	132.40	132.39	116.52	19,018	20,573	20,894	22,097	15,571	16,844	17,107	18,092	9,429	8,156	7,893	6,908
7	146.64	137.81	139.94	126.22	18,502	20,628	20,965	22,776	13,984	15,591	15,845	17,214	11,016	9,409	9,155	7,786
10	146.64	146.32	150.74	142.32	17,554	20,452	20,740	23,512	11,767	13,710	13,902	15,761	13,233	11,290	11,098	9,240
15	146.64	161.72	167.43	173.83	15,369	19,196	19,256	23,529	8,433	10,535	10,568	12,913	16,565	14,465	14,432	12,087
20	146.64	178.72	181.68	212.31	12,110	16,130	15,875	20,999	5,441	7,248	7,133	9,436	19,589	17,752	17,867	15,564
25	146.64	197.51	194.51	259.33	7,247	10,242	9,867	14,104	2,666	3,767	3,630	5,188	22,334	21,233	21,370	19,812
30	146.64	218.29	205.74	316.74	0	0	0	0	0	0	0	0	25,000	25,000	25,000	25,000

Note: Case 1: Level-payment mortgage.
Case 2: Graduated-payment mortgage with payments rising at steady 2 percent per year.
Case 3: Graduated-payment mortgage with payments rising at a declining rate; initially they rise at 4 percent annually, but at the end of the 30-year term they are rising at only 1 percent per year.
Case 4: Graduated-payment mortgage with payments rising at steady 4 percent per year, which is equivalent to a purchasing-power mortgage under the assumption of steady 4 percent inflation.

$107 or less under a purchasing-power contract, assuming a real rate of interest of 5 percent or less. More generally, the payment would be at least 26 percent less initially under the purchasing-power contract than under an 8 percent level-payment mortgage, for any size mortgage, and this could clearly make the difference to many moderate income families between being able to own their own homes or being forced to rent. Or if they do own, it could make the difference between being able to afford to maintain and improve the property and being unable to afford even minimum maintenance. The purchasing-power mortgage does not necessarily save the borrower any money over the long run, but that is not the point. It reduces the cash requirement for monthly payments in the crucial early years, when the burden would otherwise be the heaviest, and spreads the burden more evenly over the life of the mortgage. This change alone would have great value to moderate income families.

The purchasing-power mortgage should also appeal to lending institutions because of its capacity to stabilize their earnings. Any increase in interest rates due to increased inflation (this is the factor that has accounted for most of the upward trend of rates during the 1960's) would be matched by increased earnings (where the inflation adjustment applied to the unpaid balance is counted as earnings) on all their mortgages, not just the new ones made after rates have risen, and they would not encounter the squeezes of the past decade.

This improved stability would make it possible to remove the statutory ceilings on deposit rates, and thus the use of purchasing-power mortgages would also benefit the homebuilding industry by stabilizing the flow of new savings into mortgages.

The biggest disadvantage of the purchasing-power mortgage is that it would require a substantial institutional change and reorientation of the way people think about debt obligations. Both lenders and borrowers might be troubled by not knowing in advance what the payments would be in the years ahead, and one way of removing this uncertainty, while retaining most of the benefits of the purchasing-power mortgage, would be to use a variable-rate graduated-payment contract instead, as described below.

Borrowers have adapted themselves to this uncertainty in the countries where purchasing-power mortgages are in widespread use, however, and the uncertainty facing lending institutions can be treated in another way. In countries where it is already in use (e.g., Brazil and Chile), the purchasing-power mortgage is generally offered by savings institutions that also offer readjustable savings deposits, and this is an important component of the plan. A savings institution that had a large fraction of its assets pegged to a price index while its deposit liabilities were all fixed in dollar terms would be exposed to substantial financial risk. If the expected rate of inflation built into the interest rate paid on deposits were greater than the inflation that actually materialized, the savings institution would be in danger of a financial squeeze. The inflation correction after the fact on their mortgages would not be sufficient to cover the inflation premium they would already have paid out to their depositors. Thus, for reasons of financial stability and security, savings institutions (and other financial institutions) could not offer purchasing-power mortgages in any volume unless they have an equivalent portion of their liabilities in the form of readjustable savings accounts or other liabilities pegged to a price index. This means that introduction of the purchasing-power mortgage into general use would require more institutional change than would be necessary for any of the other mortgage alternatives discussed here. If undertaken, however, this institutional change could be of substantial value to savers, in addition to its benefits to borrowers and lenders. To savers, a complete and guaranteed hedge against inflation would be appealing, even if the additional interest they received on top of the inflation correction were only 2 percent or 3 percent.

Another difficulty with the purchasing-power mortgage is that it might not provide as rapid an accumulation of equity as lending institutions would like in order to provide themselves protection against default losses on their loans. As mentioned before, under a purchasing-power mortgage, the owner accumulates equity at the same rate, no matter what the inflation rate, and this rate is the same as under a level-payment mortgage with no inflation. When accompanied by a good downpayment, a purchasing-power mortgage should provide adequate protection, and it would make a sound and prudent investment. Lending institutions have become accustomed in recent years, however, to the more rapid accumulation of equity provided by level-payment loans at rates of 7 percent to 8 percent (see Figure 2), and they might object to the slower accumulation provided by the purchasing-power mortgage.

This problem merely reflects the fact that the chief advantage of this proposal to the borrowers, the slower accumulation of equity in the early years, is a disadvantage to the lenders. If the other benefits of this contract to lenders are not sufficient to offset this disadvantage from their point of view, then lenders could easily adjust the interest rate they charged or the downpayment required. This issue should not be a fundamental obstacle to the purchasing-power mortgage.

Another solution to this objection is to take advantage of the flexibility of the graduated-payment variable-rate mortgage (described below) to design a contract with many of the same advantages but with a somewhat more rapid equity accumulation than is provided by the purchasing-power mortgage.

The last objection often raised to all financial contracts with escalation clauses is that they would promote inflation. There is no reason to expect this consequence, however. Inflation is generated by people trying to buy more goods than are being produced, and the problem is controlled by the use of monetary and fiscal policy instruments. The presence of purchasing-power mortgages would not alter our ability to control inflation through these instruments.

The Graduated-Payment Variable-Rate Mortgage

This form of mortgage is the widely discussed variable-rate mortgage which has been

made more favorable to borrowers by attaching a graduated payments schedule to provide a more even cash flow burden over the life of the mortgage. Thus, it has the same capacity as the purchasing-power mortgage to ease the burden of homeownership for moderate income families, making it possible for many families who could not afford the monthly payments of a level-payment mortgage to own their own homes.

As generally understood, the variable-rate mortgage is a variation of the level-payment mortgage.[2] It would tie the interest rate on the mortgage to the current rate on new mortgages or to some other market rate, and whenever the interest rate changed, either the term to maturity or the monthly payment would be adjusted to reflect the changed rate. Extensions of the term to maturity could only correct for a limited amount of rate increase, however, and any rate increases in excess of that limit amount would have to be met by increased monthly payments.

With a sufficient degree of rate flexibility, this form of mortgage would solve problem II, the financial instability problem of the savings institution, for it would shift to borrowers the cost of interest rate increases. Its widespread use would make it possible to eliminate the present statutory ceilings on savings deposit interest rates. Thus, it would play an important role in stabilizing the flow of new funds into the mortgage market through savings institutions in times of tight money.

But this rate flexibility would be a serious disadvantage to borrowers. The variable-rate mortgage would provide the borrower some degree of automatic adjustment to a decline in the expected rate of inflation, an adjustment he now lacks with the traditional level-payment mortgage. Any decline in the expected rate of inflation would be reflected in lower interest rates throughout the financial markets, and this general reduction would be translated into reduced costs on outstanding variable-rate mortgages. But the value of this benefit to the borrower when rates drop would not nearly match the cost to him of being subject to increases in his rate if market rates increase. This is because when market rates drop, he already has the option to refinance, after paying some penalty costs, and the automatic adjustment under the variable-rate mortgage would merely spare him the trouble and penalty costs of refinancing. In the event of an increase in market rates, however, the automatic-adjustment provision would cost him the full amount of any rate increase because he is not subject to this in any way with the current form of mortgage. Thus he has more to lose with the variable-rate mortgage from increases in rates than he has to gain from declines in the rates, and it would be necessary to offer borrowers some special inducement to accept a variable-rate mortgage in preference to a fixed-rate mortgage.

One obvious inducement would be for the lending institution to offer a starting interest rate and an adjustment provision that would be expected to provide a lower average interest rate over the life of the mortgage than on the fixed-rate alternative. However, we do not know how much of a rate reduction would be necessary to persuade borrowers to accept the added risk that the variable-rate mortgage entails, nor do we know that lending institutions would be willing to sacrifice enough yield to meet the demands of the borrowers in this regard.

A more promising inducement to borrowers to accept the variable-rate provision, one whose benefit to borrowers would far exceed its cost to lenders, would be to attach a graduated payments schedule. This would serve as a way of dealing with problem I, the uneven burden of the payments under inflation, which is not alleviated by the variable-rate feature.

Suppose the interest rate on the graduated-payment variable-rate mortgage is initially set at 8 percent, with the payments to run for 30 years. The graduated-payments provision would be implemented by having the contract specify a complete schedule of monthly payments for 30 years according to which the payments initially would be lower than required for a level-payment mortgage, but would rise from year to year at some modest rate. The rate at which they would rise would be less than, or at most equal to, the rate of inflation expected to prevail in the future. The formula that would determine the initial level of the payments and the rate at which they would increase over time could have the payments rise at a steady 4 percent annually for the full 30 years, for example, or else it could have them rise initially at 4 percent annually but at a gradually declining rate until they would be almost level for the final 5 or 10 years.

Having the payments rise steadily for 30 years at the expected rate of inflation would lead to roughly the same payments stream as the purchasing-power mortgage, considered above, if

[2] For a more detailed analysis of the variable-rate mortgage, see William Poole, Barbara Negri Opper, and R. Frederick Taylor, "The Variable-Rate Mortgage on Single-Family Homes" in *Ways to Moderate Fluctuations in Housing Construction,* Federal Reserve Board, 1972.

actual inflation matched the expected rate, and if the contract rate remained constant over the life of the mortgage. Thus, with this payments schedule, the borrower would be expected to accumulate equity in his house at the same rate as with the purchasing-power mortgage, which would be the same rate as with a level-payment mortgage with no inflation.

But one of the virtues of the principle of using a graduated-payment schedule is its flexibility. The pattern of expected equity accumulation (based on the pattern of expected appreciation in the value of the property) can be adjusted to any pattern the lender and borrower can agree on. If the lender considers the equity accumulation under the purchasing-power mortgage to be too slow, then a payments schedule can be chosen that is more satisfactory to the lender while still providing lower initial payments than the traditional level-payment mortgage would require. Two such alternatives are illustrated by Cases 2 and 3 in Table 2, assuming a constant mortgage rate (i.e., assuming that the variable-rate provision never needs to be applied).

Note that in nominal terms, the unpaid balance on the loan rises for the first several years. This is not a particularly relevant measure of what is happening to the loan, however. The real value of the unpaid balance and the ratio of unpaid loan to the value of the property decline from the beginning, and the owner is always building up equity in the house. Viewed in this light, the extra payments that would be necessary to cover all the nominal interest are unnecessary and represent additional payments to build up equity more rapidly than is necessary for the soundness of the loan.

This issue can be placed in sharper focus by taking equity accumulation as a key indicator that concerns the lender. Many lenders have come to expect their loans to provide a rate of equity accumulation greater than would be provided by a level-payment mortgage at zero inflation or by a purchasing-power mortgage (see Figure 2). But whatever the rate of equity accumulation they have come to regard as acceptable, there is no logical reason why they should require a still higher rate of equity accumulation every time the inflation rate increases. Yet, that is what happens with the level-payment mortgage, as illustrated by Figure 2. If, for example, lenders regard as adequate the rate of equity accumulation on a 6 percent level-payment mortgage, with inflation at 2 percent, then they do not need to require a level payment schedule for repaying the loan when the expected inflation rate rises to 4 percent or higher and the mortgage rate rises accordingly. The rate of equity accumulation they need can then be provided by a graduated-payment mortgage, whose initial payments are substantially less than would be required for the equivalent level-payment mortgage. This point is illustrated in Table 3.

The graduated-payment provision of this contract also makes any increase in the mortgage rate, as might be required under the variable-rate provision, less painful to the borrower. If there is no graduated-payment provision, the borrower feels any increase in his rate as an immediate increase in his monthly payments, or possibly, if the rate increase is small, as an extension of the term of his loan. But under this contract, neither of those steps is required. Instead, the schedule specifying his monthly payments in the future is adjusted to have the payments rise at a more rapid rate over the next few years. The current payments remain unchanged. If the rate increase merely reflects a more rapid rate of inflation than was previously anticipated, then this adjustment to the payments schedule imposes no real burden at all on the borrower, because the increased inflation will also mean more rapid income growth and more rapid appreciation in the value of the property than had been anticipated previously.

One possible problem with a graduated payments schedule that concerns many people is the possibility that inflation might turn out to be less than expected and that the payments schedule built into the contract might provide for the payments to rise faster than the borrower's income or the general price level. This is very unlikely with this contract, however, unless everybody continually overestimates the future rate of inflation. One component of the mortgage rate is the inflation premium reflecting everyone's expectation of what inflation will be in the future, and any unexpected reduction in the rate of inflation should be translated into a reduction in interest rates, including the rate on new mortgages, which in turn would call for a downward adjustment in the schedule of future payments on existing variable-rate mortgages. This should prevent the problem of mortgage payments growing faster than income because inflation has declined.

Another obvious problem is that it is impossible to predict the rate of inflation far into the future, or to know with any certainty how big the

Table 3. Comparison of Mortgages that Provide Equal Equity Accumulation at Different Inflation Rates

Year	Monthly Payment			Unpaid Balance			Real Value of Unpaid Balance			Real Value of Borrower's Equity		
	Case 1	Case 2	Case 3	Case 1	Case 2	Case 3	Case 1	Case 2	Case 3	Case 1	Case 2	Case 3
0	$119.80	$119.80	$119.80	$20,000	$20,000	$20,000	$20,000	$20,000	$20,000	$5,000	$5,000	$5,000
1	119.80	122.22	124.69	19,755	20,154	20,559	19,364	19,364	19,364	5,636	5,636	5,636
2	119.80	124.69	129.78	19,495	20,291	21,117	18,731	18,731	18,731	6,269	6,269	6,269
3	119.80	127.20	135.07	19,218	20,407	21,667	18.099	18,099	18,099	6,901	6,901	6,901
5	119.80	132.40	146.32	18,616	20,573	22,734	16,844	16,844	16,844	8,156	8,156	8,156
7	119.80	137.81	158.51	17,934	20,628	23,724	15,591	15,591	15,591	9,409	9,409	9,409
10	119.80	146.32	178.72	16,745	20,452	24,976	13,710	13,710	13,710	11,290	11,290	11,290
15	119.80	161.72	218.29	14,221	19,196	25,906	10,535	10,535	10,535	14,465	14,465	14,465
20	119.80	178.72	266.61	10,812	16,130	24,058	7,248	7,248	7,248	17,752	17,752	17,752
25	119.80	197.51	325.65	6,210	10,242	16,884	3,767	3,767	3,767	21,232	21,232	21,232
30	119.80	218.29	397.75	0	0	0	0	0	0	25,000	25,000	25,000

Note: Case 1: Inflation at 2 percent annually; 6 percent level-payment mortgage.
Case 2: Inflation at 4 percent annually; 8 percent graduated-payment mortgage with payments rising at 2 percent per year.
Case 3: Inflation at 6 percent annually; 10 percent graduated-payment mortgage with payments rising at 4 percent per year.
In all cases the value of the property is assumed to rise with the general price level.

inflation premium component of the interest rate is. Thus it is difficult to know how rapidly future monthly payments can safely be set to rise. The best approach for dealing with this problem is to choose a payments schedule whose maximum rate of increase is significantly less than the currently observed rate of inflation and according to which the payments grow less and less rapidly in later years. This alternative is illustrated by Case 3 in Table 2. Such a schedule might not give borrowers initial payments as low as they could get with a purchasing-power mortgage, but it would still offer them a major reduction in their financial burden.

The biggest advantage of the graduated-payment variable-rate mortgage over the purchasing-power mortgage is that it represents an easily understood adaptation of the traditional level-payment mortgage, and it would require less institutional change to implement. Although it is not as comprehensive a way of dealing with the problems of mortgages in an inflationary environment, it still offers a major improvement over the level-payment mortgage, with important advantages to both borrowers and lenders.

The CAP Mortgage

A third approach for solving problem II, the financial instability problem of thrift institutions that make mortgage loans, and for increasing the attractiveness of mortgages as investments from the point of view of institutional lenders is the inclusion of some form of "equity kicker" in the mortgage contract through a CAP (contingent appreciation-participation) clause.[3]

This arrangement is already used on commercial and multifamily properties, and it entitles the lender to some fractional share of all capital gains realized by the owner of the property when he sells it. This provision gives the lender some degree of automatic adjustment if realized inflation rates are different (especially if they are greater) from those anticipated at the time the loan was initially made, and in this respect it bears some similarity to the variable-rate and purchasing-power mortgages. However, because the bonus to the lender is not embodied in the interest rate on the mortgage, the interest rate and the monthly payments can be lower on average than they would be with a traditional level-payment contract. In the event that the borrower pays off the mortgage before selling the house, the participation fee due to the lender could be determined by an independent appraisal.

This variation of the standard mortgage would be attractive to lenders because of its built-in inflation adjustment, and it would probably also appeal to borrowers to the extent that it would make a lower interest rate possible. It is definitely inferior to the variable-rate and pur-

[3] For a more detailed discussion of the CAP mortgage, see Bernard N. Freedman, "Contingent-Participation Mortgages on Single-Family Homes" in *Ways to Moderate Fluctuations in Housing Construction*, Federal Reserve Board, 1972.

chasing-power mortgages in its capacity to stabilize savings institution balance sheets and earnings, however, because of its uncertain equity character and because the lending institutions could not realize any cash flow over the life of the mortgage from their equity participation, unless the equity share to which they would be entitled could be detached from the rest of the mortgage and sold separately to raise cash. Furthermore, even though its use would lower the interest rate charged to borrowers, it would not provide any solution to problem I; it would not even out the burden of the monthly payments over time. To accomplish this, it would be necessary for the CAP mortgage to have a graduated payments schedule as well, and with this added feature, it would be worthy of consideration as a useful alternative to the current form of mortgage.

Technical and Regulatory Problems

The FHLBB has a regulation prohibiting any monthly payments larger than the first payment on mortgage loans made by their member institutions, and this regulation would be violated by all the proposals considered here. Accordingly, it would have to modified. Its purpose is to rule out balloon payments or other large payments that impose an unreasonable burden on the borrower. The intent of this regulation could be preserved by modifying it to require that no payment may exceed the first payment in real terms, after correction for price level changes. If so modified, this regulation would impose no constraint on the graduated-payment variable-rate or purchasing-power mortgages, as I have described them, but some exception would have to be provided for the payment in which a lending institution would collect its share of the capital gain to which it would be entitled under a CAP mortgage.

The FHLBB has recently taken another approach to relaxing this constraint. It has issued proposed regulation changes that would allow federally chartered savings and loan associations to make "flexible payment mortgages." Under the proposed regulations, the lender and borrower could negotiate a payments schedule based on the borrower's special needs, subject to the requirement that "each payment must at least cover the interest due for that payment."

Although it is very significant that the FHLBB should move in the direction of removing some of the rigid and highly restrictive regulatory constraints that now prevent all innovation in mortgage forms, this particular proposed change is too modest to have any real value. The requirement that each payment must cover accrued interest clearly rules out any effective treatment of problem I, the uneven burden of payments, through a graduated payments schedule. It would permit a purchasing-power contract only if the increments made to the unpaid balance to adjust for inflation are not interpreted as interest.

This restrictive requirement, although appropriate in a noninflationary environment, has no place under inflationary conditions where the interest rate contains an inflation premium. Requiring that the payments be large enough to reduce the real value of the loan, so that the borrower is accumulating equity in the property with each payment, is a reasonable requirement, but it is not necessary for the monthly payments to cover nominal interest for this condition to be met. It is only necessary for the monthly payments to cover the real interest charges (nominal interest minus the inflation premium component). Any monthly payments in excess of interest charges at the real rate of interest represent accumulation of equity in the property, assuming an average property whose value rises with the general price level, and any mortgage with a purchasing-power escalator feature or a graduated payments schedule whose initial payments cover real interest is financially sound in this respect. Thus the condition the FHLBB has attached to its proposal for flexible-payment mortgages is not necessary for the financial soundness of the loan. It perpetuates an unnecessary existing hardship on mortgage borrowers that appears to arise from the myopia of bankers who cannot comprehend the effects of inflationary conditions on mortgage contracts.

An even more serious problem is the presence of usury laws in many States that prevent mortgage rates from rising above a certain level. The purpose of these laws is to protect borrowers from exorbitant charges, but the difficulty with them is that they fail to take account of the inflation premium built into interest rates. The inflation premium part of the interest charge does not cost the borrower anything in the long run if the value of his property increases with the general price level; it merely represents extra payments to build up his equity in the house more rapidly than he would do in the absence of inflation. Hence, the intent of the usury ceilings would be met by laws limiting only the real rate of interest. That sort of regulation would be difficult to administer, however, because of the diffi-

culty of determining what portion of the market interest rate represents real interest, and it is unlikely that States could be persuaded to modify their usury laws in this direction. It is more likely that they would argue that keeping usury ceilings at their present levels is desirable in order to give the Federal Government more incentive to control inflation. On balance, State usury laws are likely to be a particularly serious impediment to the use of variable-rate mortgages. On the other hand, they would not restrict the use of graduated payments schedules. As for the CAP and purchasing-power mortgages, it would be a matter for judicial interpretation or new legislation to determine whether the CAP payment or the escalations of the unpaid balance under the purchasing-power contract would be subject to the usury laws.

A third issue concerns the choice of the reference interest rate for use in adjusting the rate on the variable-rate mortgage. Borrowers need to feel confident, when their rate is raised, that the standard or reference rate used to determine the amount of the increase is "honest," or truly market determined, and not subject to manipulation by the lenders. For this reason, it might be appropriate to use the market rate on some long term Government issue, such as the rate on 3- to 5-year Government securities. This rate should be free of manipulation by lenders, but it is subject to being influenced by Government monetary policy, and thus borrowers might put pressure on the Government to hold down these interest rates when that might be in conflict with the requirements of responsible monetary management. There is no easy solution to this issue; there are important disadvantages to any choice.

Finally, the purchasing-power mortgage may have a serious tax disadvantage unless judicial interpretation or legislation can clear it up. The interest payments that are deductible from income on the personal income tax include an inflation premium that would be absent from the interest payments under the purchasing-power mortgage. If only the direct interest payments are deductible, then borrowers would have a much smaller deduction available to them with the purchasing-power mortgage than with the other forms of mortgage, it would be necessary also to permit deduction of every increment to the unpaid balance, where this refers to the increments brought about by correction of the unpaid balance for changes in the price level.

Conclusion

The package composed of purchasing-power mortgages available from savings institutions that also offer readjustable savings deposits to their depositors provides the most comprehensive and, theoretically, the most appealing solution to the problems I and II outlined above, with the added benefit of providing an inflation hedge to savers. However, it is very unfamiliar to financial institutions and the general public, and its implementation would require both substantial institutional change and substantial reorientation of the way the general public thinks about financial markets. This is by no means impossible; it has been done in other countries and is feasible here. But there would be significant transition costs of switching to this system.

It would require much less institutional change and appear more understandable in the minds of borrowers and officials of lending institutions to modify the present form of mortgage contract to permit graduated payments schedules, which would provide almost as satisfactory a solution to problem I. However, that does not deal with problem II. Because of the substantial regulatory and technical problems with the variable-rate mortgage, as well as the potential problem that it would be difficult to secure public acceptance of it, substantial efforts should be made to find an alternative solution to problem II, such as encouraging the issuance of long term debenture obligations by savings institutions.

If problem II cannot be solved adequately in this fashion, however, then the next-best move would be to combine the graduated payments schedule with the variable rate provision in the same mortgage contract. Assuming that the various problems with the variable rate provision can be overcome, this combination would provide a genuine improvement over the present rigid form of mortgage—an improvement that should appeal to both borrowers and lenders.

Stabilizing and Expanding the Supply of Mortgage Funds by Savings Institutions

By Donald P. Tucker
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Introduction

Several times within the past decade, savings institution have been threatened with severe liquidity and solvency problems in periods of rapidly rising interest rates, and much attention has been directed toward finding a way to reduce their susceptibility to these problems without impairing the supply of mortgage funds to the housing market. Statutory ceilings on savings deposit interest rates have been imposed as an ad hoc expedient, but the artificially low interest rates that have resulted have caused the flow of new savings into the mortgage market to dry up almost completely in tight money periods, thus aggravating severely the cyclical fluctuations in the supply of mortgage funds through savings institutions.

In order to permit the mortgage market to function more normally during tight money periods, these statutory ceilings must be relaxed and eventually eliminated, but the problem is to determine what other steps must be taken in order to provide the savings institutions with the protection from financial squeezes and the threat of bankruptcy that is now provided by the rate ceilings. In order to alleviate these problems more directly, without the distorting effects of the statutory interest rate ceilings, the President's Commission on Financial Structure and Regulation (the Hunt Commission) has proposed two things. They recommend that "Congress consider the adoption of an insurance program against interest rate risk . . . ," and they also recommend, as have many others, that savings institutions make more use of variable rate mortgages.[1] The insurance plan, however, has serious administrative costs, and there are no signs that variable rate mortgages are going to become widespread in the near future.

This paper argues that a third solution to this problem can be found that avoids the administrative costs of the first and the implementation difficulty of the second, a solution that would have the important additional benefit of increasing permanently the flow of mortgage funds through savings institutions. This solution consists of encouraging savings institutions to issue long term subordinated debentures, subject to a reserve requirement against outstanding debentures, or, as an alternative, having them accept more long term advances, also subject to a reserve requirement.

The reserve requirement is an essential part of this plan, for the instability problem could be made worse if the savings institutions invested the proceeds of the debenture sales entirely in mortgages. But with this reserve requirement constraint on their balance sheets, savings institutions could reduce their financial instability and possibly also increase their earnings, while at the same time increasing their mortgage lending, by issuing debentures[2] or accepting more long term advances. If the private capital markets do not offer a sufficiently attractive price to savings institutions for their debentures, then the government should consider buying them or guaranteeing them to improve their marketability. A government purchase or guarantee program could probably be structured to be self-supporting, without the need for any subsidy.

The Federal Home Loan Bank Board has recently revised its regulations to permit savings and loan institutions to issue small quantities of debentures. There does not yet exist a private resale market for debentures, however, and the quantity that can be issued by any one institution is limited to no more than 3 percent or 4 percent of liabilities. Furthermore, there are no restrictions on how the institution may employ the proceeds of the debenture sale. Thus, under the present new regulations, debenture sales cannot contribute much toward improving the financial stability of the savings institutions, and this was not one of the reasons given for granting this new authority. Nevertheless, it sets up on a small scale the institutional structure that would be needed (with some modifications) to accomplish the goal of improved financial stability.

[1] Recommendations G2–G5 and discussion. *The Report of the President's Commission on Financial Structure and Regulation* (Reed O. Hunt, Chairman), Washington, D.C., December 1971, pp. 77, 81–83.

[2] The Hunt Commission also recommends wider use of subordinated debt instruments by savings institutions (Recommendation B5, p. 33), but protection against financial crunches is not among the reasons given by the Commission for favoring this proposal.

The Problem

The root of the financial instability problem that this proposal is designed to alleviate is in the unbalanced maturity structure of savings institution (SI) balance sheets. The SI borrows short and lends long. The average term to maturity of its assets is long because of the predominance of mortgages in its portfolio, whereas the average term to maturity of its liabilities—predominantly deposits that can be withdrawn on demand—is short. When interest rates rise over an extended period, and if they rise faster than the SI anticipated when it was making new mortgage loans, then an earnings deficit may result. Interest costs on deposits rise faster than interest earnings on the mortgage portfolio, and if the more rapid increase in interest costs continues long enough, the SI loses money.

Under more serious conditions, it can lead to insolvency. As long term interest rates rise, the market value (present discounted value) of outstanding mortgages falls, and thus an expanded measure of earnings that includes unrealized capital gains or losses on mortgages will show a deficit even if conventional earnings are positive. These unrealized capital losses may never affect the normal functioning of the institution if the institution is never required to sell them in the secondary market or otherwise cash them in before maturity, but any significant withdrawal of deposits can force this on the SI. In this case, if the rise in interest rates has been rapid enough, the SI's assets may be worth less than its liabilities, and it may be forced to declare bankruptcy.

The statutory ceiling on the interest rate that SI's can pay on their deposits obviously plays an important role under these circumstances. By holding down the SI's interest costs on its deposits, it reduces the threat that an earnings deficit will develop, where earnings are measured by the excess of interest receipts over interest payments. And it probably also reduces the risk of insolvency simply because depositors are less likely to become jittery and to withdraw their deposits if the SI does not report an earnings deficit. However, it certainly does not eliminate the problem completely, and so even within the current institutional framework it is important to seek a better remedy.

But the statutory ceiling itself has major costs, for it severely inhibits the net inflow of savings deposits into thrift institutions in periods of high interest rates because other financial assets become more attractive to savers. This disintermediation causes the flow of new funds into mortgages through thrift institutions to dry up almost completely in tight money periods. For this reason, the Hunt Commission has proposed, as have many others, that the statutory ceiling on time and savings deposit interest rates be abolished.[3]

The Hunt Commission did not have in mind individual piecemeal improvements, however. They proposed a fundamental change in the entire institutional framework of banking, including permitting SI's to make consumer loans and invest in other short term assets.[4] The reaction of SI's to this additional freedom, especially if the ceiling on their deposit rates is removed as well, will undoubtedly be to reduce the percentage of their assets committed to mortgages, and possibly their total mortgage lending, so as to reduce their exposure to the risks of liquidity squeezes and insolvency. The only way to prevent this possible decline in the supply of mortgage funds under the liberalized Hunt Commission structure would be to provide some other means for them to bring the maturity structure of their assets and liabilities more into balance. Furthermore, since the removal of the statutory ceiling on deposit rates might lead to increased instability in spite of the portfolio adjustments SI's would make, a means to reduce instability would be even more necessary under the liberalized Hunt Commission banking structure than under present conditions.

Solutions

Wider use of the variable rate mortgage, as proposed by the Hunt Commission, could accomplish this purpose because—assuming a good secondary mortgage market is maintained—the variable rate mortgages would effectively be short term assets. For this reason in particular, they have received considerable attention recently, and I shall not analyze them further except to observe that despite their obvious advantages for improving the stability of SI's, they are not likely to provide a practical solution to the stability problem in the near future. They must have widespread market acceptance among both borrowers and lenders in order to be an effective stabilizer, and so far there are no signs that this acceptance will be forthcoming.

The intent of the proposal for interest rate risk insurance is similar, transferring the interest

[3] Recommendations A1–A6, pp. 23–4.
[4] Recommendation B1, pp. 31–2.

rate risk to an insuring agency rather than to the borrowers. One alternative mentioned by the Hunt Commission would have the insuring agency guarantee the SI a varying minimum rate of return on mortgages, with the guaranteed minimum pegged to some market interest rate. Another variation would give the SI the right to sell mortgages at par to the insuring agency whenever the Treasury bill rate or some other market rate exceeded some specified level.[5]

Either alternative would have the effect of giving mortgages some of the characteristics of short term assets, thus altering the effective maturity structure of their portfolios. They would be protected against an earnings squeeze because their interest earnings from assets would rise at times of tight money, either through the direct interest guarantee or because they could sell off their low-yielding mortgages at par and make new loans at higher yields. Furthermore, under the second variation, they could raise cash to meet deposit withdrawals through sales to the insuring agency without taking a capital loss. Whether they would suffer any capital loss when selling mortgages supported only by insurance on their interest payments would depend on whether the insurance was transferable to the buyer.

Although both alternatives undoubtedly could accomplish the basic aim of reducing the risks of cash flow squeezes and bankruptcies and increasing the flow of funds through thrift institutions into mortgages, the insurance proposals are not particularly promising either, for they have serious disadvantages. They are likely to require a Government subsidy or, barring that, then the insurance premium is likely to be big enough to make the plan unattractive to SI's, in which case participation by the SI's would not be voluntary. Also, under the plan giving SI's the option to sell mortgages at par, any widespread use of this option that arose suddenly in a period of tight money could be disruptive to capital markets, for the insuring agency would somehow have to raise the cash to buy the mortgages tendered to it. The other version of guaranteeing to make up the difference between the contractual rate on the mortgage and some varying guarantee rate would be administratively complex because it would require keeping track of the contractual rate on every mortgage.

Both schemes would give SI's the incentive to collude with their customers to understate on paper the true interest rate or to overstate the par value of mortgages. Furthermore, both plans would be hard to handle in terms of administrative staffing because claims for reimbursement would be concentrated only at certain periods of tight money, and for months or years in between there would be nothing for the claims staff to do. Finally, and perhaps worst of all, this insurance commitment would give the monetary authorities another incentive to hold down market interest rates when this might conflict with the needs of economic stabilization.

The theme of this paper is that the same goal—namely, the goal of reducing the susceptibility of SI's to liquidity and solvency problems without impairing the supply of mortgage funds to the housing market—can be accomplished in another way, without relying on insurance or on variable rate mortgages. Whereas those proposals would work by shortening the effective term to maturity of the SI's assets, the same thing can be accomplished by lengthening the effective term to maturity of their liabilities. This could take several forms in practice, such as increasing the percentage of deposit liabilities in long term certificates, increased use of long term advances from Federal Home Loan Banks (10-year advances are now the longest permitted by law), or the issuance of long term debentures by SI's.

If the maturity structure of SI balance sheets is evened out in this fashion with a significant quantity of long term items on both sides of the balance sheet, then average interest costs would rise more slowly in periods of tight money, making it possible for the gradual rise in interest earnings to keep pace. Also, the present discounted value of the long term liabilities would decline as long term interest rates rose, which would tend to offset the decline in market value of the mortgages on the asset side of the balance sheet. The danger that net worth might be seriously impaired by rising interest rates would be reduced.

Long term advances and debentures would have an important advantage over certificate deposits for this purpose, an advantage which arises from the fact that the value of mortgages does not respond symmetrically to interest rate increases and decreases. Mortgages generally contain a provision permitting the borrower to repay the principal early, at his own option, and borrowers often take advantage of this provision to refinance their mortgages when mortgage rates drop. Hence the value of a thrift institution's mortgage portfolio does not rise materially if mortgage rates drop. The interest earnings on it may drop instead as borrowers refinance. If

[5] See p. 83 of the Commission report.

thrift institutions were to issue ordinary long term liabilities whose interest costs would remain constant and whose value would rise as long term rates declined, then a decline in rates could cause the same earnings squeeze and drop in net worth that now occur in response to an increase in rates. In order to avoid this problem, the SI's long term liabilities should have a call or advance redemption provision permitting the thrift institution to redeem them at, or close to, par at any time, so that in this respect they would resemble mortgages. This is easy to do with advances or debentures but might not be practical with deposit certificates.

The issuance of debentures would have the added feature of providing some deposit insurance on uninsured accounts because the claims of the debenture holders in liquidation would come after the claims of uninsured depositors. In effect, the debentures would constitute an addition to the capital account of the SI for this purpose.

Marketability—The Government's Role

An important question about the proposal that savings institutions issue debentures in the private market is whether the SI's will be willing to pay an interest rate high enough to induce investors to buy the debentures. Investors will expect the return on the debentures to include a premium to cover possible defaults and the risk of capital value fluctuations due to interest rate fluctuations, as on any private debt security. But, in addition, they will expect a premium reflecting information costs in some sense. This will arise either because they do not want to incur the high costs of acquiring information about their financial condition and so make a deliberately high estimate of default risk, or else because they are afraid that other investors will not bother to acquire this information, thus making the debentures illiquid and difficult to sell. This premium might be small for the debentures of the very large, well-known institutions, but all other SI's would probably have to pay a substantial premium, and many would find that the rate they would have to pay would be too high to make debenture sales worthwhile. Thus, information costs might make it impossible for debentures to be sold to the private market in sufficient volume to have any significant benefits for the stability of savings institutions as a group.

In this case, the Federal Home Loan Banks should consider a program of offering long term advances in substantial volume at attractive rates to their member associations. They could do this at rates more favorable than the private market could offer without running a deficit on the program, because the information costs would not be the same to them as to the private market. Furthermore, such a program could be initiated without major institutional change; essentially, it would require merely a modification of the goals and guidelines of the existing system of advances. The chief disadvantage of this approach to the stability problem is that there is currently a restriction limiting advances to a 10-year term; but this limit could presumably be relaxed, and even within the 10-year limitation such a program could make a major contribution.

The information costs would be lower for two reasons. First, since each SI's long term financing would be entirely provided by one lender, the regional Federal Home Loan Bank, the information costs would be incurred only once and spread over the entire debt issue. By contrast, if debentures were sold to private investors, each investor would incur the same information costs for a given institution, but would spread the costs over a much smaller loan quantity, thus requiring a higher charge per dollar of loan. The second reason for the information costs to be lower in the case of advances is that the Federal Home Loan Banks or their affiliates already receive much of the relevant information about the financial condition of the institutions as part of their regular operations.

An alternative to the use of advances for this purpose would be for the Government either to buy the savings institutions' debentures outright or else to guarantee them against default for sale to private investors. Through either method, the Government, without itself incurring any cost in the long run, could ensure that the savings institutions would be able to borrow at lower cost than if they borrowed directly in the pricate market without any Government assistance, and the reason for that is that either method would economize on information costs, just as in the case above for advances.

An Involuntary Alternative

The primary goal of the Hunt Commission's proposal for insurance against interest rate risk, protecting savings institutions against the risk of financial disaster in periods of tight money, can be accomplished in other ways. In addition to the alternatives of providing direct insurance protection or encouraging expanded use of vari-

able rate mortgages, the monetary authorities could even out the maturity distribution of SI balance sheets by raising reserve requirements against deposits or by requiring that SI's have a certain dollar amount of debentures or other long term liabilities outstanding for every $100 of mortgage assets held.

The special merit of the proposal for debenture sales (or more long term advances) is that it meets three additional tests. First, it increases the flow of mortgage lending through SI's. Second, its terms can be set to be advantageous to the SI's, thus gaining their support and voluntary participation, probably without a Government subsidy. Third, it can be implemented essentially within the present institutional framework, with only minimal institutional change. None of the other methods of stabilizing SI finances meets all three tests.

Its chief disadvantage is that—as long as it relies on voluntary participation—it cannot stabilize SI balance sheets as completely as insurance can. But if the requirement of voluntary participation is dropped, and if SI's are required instead to have a certain dollar amount of debentures or other long term liabilities outstanding for every $100 of mortgage assets held, then substantially greater stabilization could be achieved. The trouble with this approach is that it would tend to lower the income of the SI's, assuming a given mortgage rate. Under present institutional conditions, the longrun response to imposition of this requirement would probably be an increase in mortgage rates and/or a decline in the interest rates paid on deposits, which would reduce the supply of funds for mortgage lending. If the SI's are given greater freedom to make different kinds of loans and choose a wider variety of assets, as recommended by the Hunt Commission, then the longrun effect of imposing this requirement would also be to reduce the supply of mortgage funds because SI's would switch to other investments.

The Effects of Housing Subsidy Programs on Their Direct Beneficiaries

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Introduction

This paper has three purposes. The first is to argue that the Government's housing subsidy programs now suffer from a lack of definition of the impact that subsidized housing is expected to have on the lives of people who inhabit it (hereafter called "social policy effects"). The second purpose is to discuss an approach by which the work of defining and documenting the range of social policy effects can begin. The third purpose is to provide a prototype for that work by reporting the results of some research which I have recently completed. A separate section will be devoted to each of these purposes.

The Need for Attention to the Effects of Subsidized Housing on its Intended Beneficiaries

One major purpose of HUD's exhaustive reexamination of housing subsidy programs is to explicate the rationales for Federal Government intervention in the housing market. In the spirit of that study, this paper will explore a set of rationales so fundamental that they are seldom discussed. I refer to social policy rationales—that is, the purposes which the programs are intended to serve for the households whose housing consumption is subsidized.

Examination of housing subsidy rationales is usually dominated by discussions of imperfections in financing and production mechanisms. That is certainly appropriate. If private mechanisms are inadequate, either in the volume of their aggregate output or in the distribution of that output among areas or demographic groups, the case for Government intervention is good. But the concern for production is based on a prior assumption, namely, that maintaining a given level of housing consumption for all citizens serves a vital social purpose. Unless poor people's housing consumption has a powerful effect on the welfare of society or the families whose consumption is subsidized, the inadequate production or inequitable distribution of housing services is just an interesting fact.[1]

In truth, we do assume that low income people's housing consumption is worth subsidizing. But we make the assumption so readily that we do not consider its implications. This section will try briefly to explicate the potential social policy objectives of housing subsidies and to discuss the importance of being clear about which of them our housing subsidy programs are meant to serve.

There are two logically distinct sets of purposes that programs to subsidize the housing consumption of low income families might serve. They are:

1. Hedonic: Providing better housing to increase resident households' satisfaction or general quality of life.

2. Antipoverty: Working through improved housing environments to change the future income prospects or behavior patterns of the resident families.

There is no logical necessity that a given program cannot serve both purposes; in fact, a program probably must serve the first purpose if it is to achieve the second. But the second purpose, antipoverty, is far more ambitious and difficult to serve than the first. Programs can produce hedonic effects without having any antipoverty consequences.

I think we have not examined these separate social policy objectives closely enough to distinguish them in practice. In advocating, designing, and evaluating housing subsidy programs, we have badly confounded the hedonic and antipoverty objectives. Subsidy programs are advocated as ways of increasing the residents' satisfaction, and as antipoverty devices. And they are evaluated in the same way: Programs that produce clearly "decent" shelter are criticized because they do not promote behavioral change or social mobility. Yet housing subsidy programs are designed and administered according to criteria

[1] Housing subsidy programs may also be justified as means of reducing the negative externalities of slums, such as the danger and esthetic disgust experienced by community members other than the slumdwellers themselves. But the experience of projects like Pruitt-Igoe suggests that such general community objectives cannot be served without first providing some positive hedonic results for the residents.

that emphasize the technical imperatives of providing physically "standard" housing within the imposed cost constraints; little thought is given to designing mechanisms that will have antipoverty effects. A general principle for program advocacy and design should be that programs are designed in ways that are consistent with what is expected of them. If we expect subsidy programs to effect only physical improvements, they can be designed to reflect only the technical imperatives imposed by the financing and development systems. If we mean to stress tenant satisfaction, we must select those which reflect the tastes of resident populations. And if we expect housing programs to achieve antipoverty or behavioral objectives, we must design housing programs according to explicit theories of the linkages between living environments and family economic and social behavior.

The choice of objectives is not a trivial one, and cannot merely reflect a preference for dramatic outcomes over modest ones. HUD cannot afford to promote programs by promising results that exceed their capacities. The proper definition of objectives for housing subsidy programs requires more than political prudence. It also requires a clear understanding of what is feasible, i.e., (1) how to achieve the hedonic objective most efficiently, and (2) whether it is possible—and, if so, under what circumstances—to achieve antipoverty objectives through housing subsidy programs.

At the moment, social policy objectives are too ill-defined, and the means of their achievement is too little understood, to permit confident statements about what can be done. In particular, research linking housing subsidy programs to behavioral or antipoverty outcomes for the residents has been sorely neglected.

This paper cannot offer a definitive list of feasible and infeasible social policy objectives, but it can illustrate a first attempt at organizing a research program to attack the problem. The following section reports a first attempt at defining the problem in researchable terms and obtaining evidence about the social policy effects (especially the behavioral and antipoverty effects) of one important housing subsidy program.

Suggestions and a Concrete Example About How to Approach the Explication and Testing of Social Policy Rationales for Housing Subsidy Programs

The foregoing is not intended as an argument that it is impossible to achieve behavioral or antipoverty objectives through housing programs, but it does mean that achieving such objectives is now beyond the state of the art of theory of program design. The whole topic of social policy rationales for housing subsidies needs further conceptual development and research. That work should proceed in the following stages:

1. Specifying the ways in which housing change might be expected to have behavioral or antipoverty objectives. That would include attempts to describe the processes by which housing change could affect family income, attitudes, and behavior; the circumstances in which those processes are most likely to occur; and the social groups to which they are most likely to apply.

2. Generating empirical data to test and elaborate the hypotheses about program effects. At a minimum, that would require efforts to document instances in which housing subsidy programs have produced the expected behavioral or antipoverty effects. A more complete strategy would attempt to identify elements of program design that are crucial in producing those effects.

3. Building, from the results of (1) and (2) above, a body of theory and evidence about housing program design that would inform policymakers about (a) the apparent limits of the effects which any housing program can be expected to accomplish, and (b) the best ways to design programs to achieve those effects.

One of the purposes of this paper is to prepare the way for that work. Perhaps its main contribution will be in defining the need for research on social policy rationales and providing rhetoric to persuade HUD to pursue that research. But the paper will also try to present a prototype analysis that includes elements of each of the three basic tasks outlined above. That "prototype" will consist of a brief report on some original research which I conducted, with the assistance of Pamela B. Hussey, while I was employed by the Policy Research Division of the Office of Economic Opportunity.

The study grew out of OEO's concern with identifying those forms of public intervention that had the greatest long term impact on the income prospects of poor families. After the obvious correctives, such as manpower training programs, had had discouragingly weak and tempo-

rary results, OEO turned its attention to more intense manipulations of the target population's life experiences. Housing programs were naturally seen as tools to create major changes in families' life experiences. Hence, the question was asked, "Are housing programs potentially more effective than manpower and other specifically labor market programs in helping people out of poverty?" And more simply, "Do housing programs hold any promise as fundamental antipoverty policy?"

These questions simply were not answerable from the existing research literature, nor was there a data base or method of inquiry that could furnish unambiguous evidence. So the decision was made to develop a simple methodology for assessing the social policy outcomes of housing subsidy programs and to implement it on a small scale by conducting a study of an exemplary program in a single site.

Because the entire research area was poorly developed, it was prudent to maximize the odds of finding clear effects by concentrating on the subsidy program that appeared to make the most dramatic changes in the quality of housing and the conditions of occupancy for low income people. At the time, the most likely looking program was low income homeownership, as achieved through the 235 subsidy. That program combined a relatively heavy subsidy and a change in occupancy status from rental to ownership. Thus, it appeared to be a relatively powerful manipulation of the resident's housing environment, and more likely than many other programs to produce measurable behavioral or antipoverty effects.[2] The empirical elements of the research are quite modest—they involve a small study of participants in one program in one city. Some of the results are striking and deserve attention. But the research is reported here less for its intrinsic value than for its utility as a model—admittedly a crude and preliminary one—for the program of research I think must be done.

The remainder of this section outlines the set of relationships the research sought to investigate and describes the data file that was developed to examine the relationships.

To begin our research, we consulted the popular and policy advocacy literature on homeownership and the scanty body of research that was available to identify a number of relationships that needed investigation. These were all "linkage" relationships, between some aspect of owning and living in a home that is federally subsidized (and thus presumably better than the household could afford unassisted) and some specific financial or behavioral indicators of the household's welfare. Though it was possible to characterize a very large number of such relationships (and the research was able to shed some light on most of them), only the central ones are summarized here. They are:

A. Relationships between aspects of homeownership and improvements in family finances.

1. Family finances are improved in the short term because total monthly housing expenses decrease.

2. Family finances are improved in the long term because:

(a) Some part of shelter rent goes to build equity.

(b) Unlike renters, owners get the benefit of general increases in property values in their neighborhoods or areas.

(c) Fixed monthly payments provide a "focus" around which good budgeting practices can be built.

(d) Owning a home encourages households to increase the main earner's work effort or to introduce additional wage earners into the labor force.

B. Relationships between aspects of homeownership and family attitudes or social behavior. Owning a home gives a household a "stake" in the community, and thus:

1. Promotes personal pride.

2. Increases feelings of personal efficacy.

3. Increases participation in community affairs.

4. Provides incentives for proper treatment of neighborhood and public property.

These statements of expected relationships are straightforward; they are easy to find in the policy advocacy and "success story" literature. The next section describes the study design by which we tried to investigate them, and states caveats about the probable validity and generality of the findings.

[2] In concentrating on homeownership, I was aware that the research findings would confound the effects of housing quality change, neighborhood change and ownership. At this early stage in the research program, I thought it more important to document the existence of behavioral or antipoverty effects than to make fine distinctions among the effects of specific aspects of subsidy programs.

A Report on a Prototype Study

The empirical parts of the research were conducted in one site, and relied on responses from participants in a single project, which facilitated the placement of low income families in Section 235 subsidized homes. The site was Seattle, Washington, and the project was an OEO-funded 237 counseling program which, at the time of our data collection (December 1971 to February 1972), had been operating for about 3 years. The project had aided about 500 families in buying houses with Section 235 subsidies; project files also contained names and addresses of families who had applied for 237–235 assistance and were eligible, but who had not yet found homes to buy.

The data collection consisted of a survey of families from the project's files of both homeowners and eligible pending applicants. (Much of our analysis will rely on comparisons between the "owner" and eligible pending "renter" groups.) We drew random samples from the owner and renter files, and conducted personal interviews with members of 313 owner households and 168 renters.[3,4]

The main analysis groups—renters and owners—proved to be very similar on all of the standard demographic indicators that might affect patterns of response. (These indicators included income, family size, race, sex of head, main earner's occupation, and chief source of income. Full details are provided in the Appendix.) Likewise, the two groups were similar in terms of their patterns of location in the Seattle area, the types of structures they occupied (nearly all renters were living in single family homes or duplexes), and the length of time they had been living in Seattle. Thus, the fact of homeownership appears to be the most salient characteristic on which the two groups are distinguished.[5]

The Results

The study collected a wide variety of financial, social, and attitudinal data on all respondents; a full report of the results would greatly exceed the length limitations of this paper. So this report will concentrate on only four of the relationships identified above. They are:

1. Family finances are improved in the short run because total monthly housing expenses decrease.

2. Family finances are improved in the long run because part of shelter rent goes to build equity.

3. Homeownership leads families to stabilize their budgets and to make more carefully planned "rational" spending decisions.

4. Homeownership encourages households to increase the main earner's work effort or to introduce additional workers into the labor force.

Before we can examine each of the relationships in detail, it is necessary to assess the degree to which the particular program we studied really achieved the major changes in the owner families' housing environment, which are supposed to underly the relationships.

Our data indicate that owners did experience a considerable change in the type and quality of housing they consumed. Although a surprisingly large proportion (75 percent) of renters lived in single-family homes, the switch to

[3] The survey was conducted by West Coast Community Surveys of Berkeley, Calif., which worked under contract from a minority-owned management firm, Nero Associates of Portland, Ore.

[4] Several properties of the study design and procedures have implications for the validity and generality of our analysis:

- Limiting the study to one locale greatly restricts the range of situations to which the findings can be applied directly. Thus, the study was a "pilot," and its findings must be taken only as the best estimates of general phenomena that we have available.
- Conducting the study in Seattle, which had a very high unemployment rate at the time (10–13 percent), may introduce a discouraging bias into the analysis of financial effects of ownership. However, it must be remembered that the area unemployment rate is standard across all owner-renter comparisons.
- Relying on a cross-sectional, treatment-control group design reduces the power of causal inferences. Yet the great demographic similarities between the owner and renter groups encourages some optimism about the utility of measures of the "renter" group as proxies for preownership observations of the "owner" group.
- The fact that "renters" had sought homeownership assistance removes most of the self-selection problems that plague the analysis of many analogous studies of program effects.
- Overall, the evidence that the study can adduce about the relationships enumerated above is circumstantial. We can have confidence in observed differences between owners and renters, but we cannot unequivocally attribute those differences to ownership or any of its aspects. The study has great heuristic value, and can certainly test the plausibility of some important lines of argument about the effects of housing change.

[5] An unexpected feature of our survey was that it provided fairly rich data on a set of families who had purchased homes but were no longer living in them. Nearly all of those families had been evicted through foreclosure or had quit claim to avoid foreclosure. These families were interviewed with instruments specially designed to track the history of their experience with the homes that led to foreclosure.

Though the foreclosure sample is too small to permit statistical analysis, it can occasionally shed light on our interpretation of patterns of response in the main analysis. In the following report, references to "foreclosures" are drawn from the special information provided by these people.

ownership apparently meant a change from multifamily dwellings for about a quarter of the owners. (That effect was stronger among the lowest income owners, fully a third of whom moved from apartments when they purchased their houses.)

On the average, both owners and renters lived in spacious quarters; the change to ownership did not affect the average household's rooms:person ratio, although owners' houses probably had larger rooms. Ownership did have a slight effect on the household's choice of neighborhoods. Owner families were more likely to live outside Seattle's central area (the only area in Seattle that could be called a ghetto) and more likely to live in the suburbs.

We asked owners to rate several features of their current homes in comparison to their prior (rented) homes. On every comparison, owners were more likely to say that the new home was better than that it was worse. But many of the comparisons were clearly close calls, and every comparison had a large number of owners rating their owned homes lower than thheir previous rented ones. (See Table 1 for details.)

Table 1. Owners' Comparative Ratings of Features of Present Home and Previous Rented Home

Feature	% Saying Present Home's Better	Feature is Worse
Interior, general	50%	26%
Windows and doors	44	33
Roof	45	21
Kitchen	73	19
Heating	55	29
Space	66	13

Overall, it is safe to conclude that ownership did bring a real increase in the quality of the living environment. The data in Table 1 and others to follow indicate that the absolute quality of the owned houses was not very high. But the program generally did cause the increase in housing consumption that our analysis must presume.

Now to investigate the relationships identified above.

Relationship #1: "Family Finances are Improved in the Short Run Because Total Monthly Housing Expenses Decrease": On close logical examination, that statement is not very plausible; it also fails to hold empirically. It is implausible because of the nature of the program. Low income families who select themselves into the program are eager to increase their housing consumption; they naturally buy as much housing as local prices and the program structure permit. And our data show that despite a sizable Federal subsidy ($67 per month on the average), owner families still make higher monthly payments than renters. (A median of $107 compared to $100 for renters.) [6]

There is reason to assume that owners' monthly shelter rent is actually far more than $7 in excess of renters' payments. That proposition is based on important differences in the meaning of monthly shelter payments for owners and renters. Our data reveal (and other similar studies confirm) that a great portion of low income renters regularly skip one or two payments every year. The practice is almost inevitable because of the narrow financial margins on which low income people like our respondents live. The practice is so common that landlords who rent to such groups expect it. As Grigsby (1971) suggests, most such landlords would rather have a tenant who is a little in arrears than have a vacant unit. We can speculate with some confidence that such landlords take account of their tenants' erratic payment practices by inflating the monthly rental charge. The landlord probably expects to receive something less than 12 times the monthly rent for his unit every year, and the true yearly rental cost to the tenant is something less than the yearly contract rent.

This presents a problem in comparing renters' and owners' monthly housing outlay. Because mortgagees cannot fudge their monthly rates to anticipate periodic nonpayment, owners are held literally to the contract price for principal and interest. (We shall see later that our owners are frequently in hot water with their mortgagees because they skip payments, as the renters do, but that is not directly relevant to this analysis.)

Applying this reasoning to some of our earlier findings, we can speculate that our owners' apparent average rent is probably considerably more than the reported $7 in excess of renters.

Overall, our evidence indicates that owners' family budgets are more strained by monthly shelter rent payments than are renters'.

In investigating relationship #1, we also inquired about incidental housing expenses, for

[6] Surprisingly, very few of our owner families had moved out of public or other subsidized housing when they got on 235; and even fewer of the renter groups were living in subsidized housing. So it is safe to say that the change to homeownership represented a change from the private to the subsidized market for almost everyone.

maintenance, improvements, and furnishings. We found, not surprisingly, that owners are more likely than renters to make major house-related purchases. Fully half of the owners, but less than a third of the renters, had made major purchases of *both* furniture and appliances since their latest move.[7] For both groups, the median cost of such purchases was nearly $700.

Owners are also liable for all maintenance on their houses. Though only a trace of the renters reported maintenance expenses since moving to their current homes, nearly all owners did. About 1/5 of the owners (and a similar proportion of renters) reported making only purely elective cosmetic improvements. These improvements were inexpensive, costing a median $22. But 23 percent of owners experienced "major"[8] maintenance problems, and those who repaired them paid a median $500; 51 percent of the owners had "moderate" problems, which cost a median $110 to repair. (Surprisingly few owners reported doing the repairs themselves. Most used professionals for everything).

The data from our survey make a strong case against Relationship #1. Low income owners apparently do not get relief from high housing expenditures. To the contrary, homeownership forces a readjustment of family budgets toward greater emphasis on housing expenditures.

Relationship #2: Family Finances Are Improved in the Long Term Because Part of Shelter Rent Goes to Build Equity: This relationship can hold only if (a) the homes retain the value at which they were priced when the owners took possession, (b) the owners make their payments regularly.

The best evidence about (a) above—the resale value of the homes—is not available. Almost none of our owners has sold their houses except through foreclosure—a process which does not provide useful price information.

But the long term prospects for the owners' homes retaining their value are not good, if one believes our data on maintenance problems. The cost of "major" repairs was so high (a median $500) that many owners simply could not make them. Of those who experienced major problems, only 39 percent were able to do anything about them. The rest had to make do with whatever structural defects their houses had. The implications of this are clear. Owners who cannot afford to repair major defects must sit by as their houses become worse, and presumably less valuable.

The picture for "moderate" problems is brighter: Nearly ⅔ of the owners experiencing such problems were able to repair them.

Overall, one-third of our owners' sample had major (14 percent) or intermediate (19 percent) maintenance problems and could not afford to repair them. And this analysis does not include our "foreclosees," most of whom lost their homes in part because they could not meet their houses' maintenance demands. The foreclosees' experience leads to a discouraging prognosis for the owners who have had to skip maintenance.

The other requisite for equity accumulation is steady performance in meeting mortgage payments. In the early years of amortizing a mortgage, the amount of debt retired is not much more than 1/12 of the total principal and interest payments due. Failure to make all payments can negate—and possibly even reverse—the process of building equity.

On the basis of our evidence, the owners are not doing especially well. About 16 percent of the owners (as compared to 14 percent of the renters) had failed to meet their last monthly payment. A total of 34 percent of owners (and 31 percent of renters) had skipped a payment in the last year. Thus, a substantial proportion—nearly two-thirds—of the owners are making steady progress toward retiring their mortgage debt. The other third, however, are barely keeping up with their interest charges.

These aggregate results obscure the information that is needed to make policy conclusions. It is essential that we describe the kinds of circumstances that promote payment-skipping and determine whether identifiable groups are especially prone to delinquency. That will be attempted in a later section. For the present, we can only conclude that these data cast doubt on the general validity of the argument that low income homeowners benefit from accumulating equity in their homes. That is not a universal phenomenon because (1) many owners simply cannot meet the maintenance demands of their houses, and (2) many owners skip mortgage payments regularly. Our foreclosure sample included many people whose homes were worth far less than the owners owed when they moved out.

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[7] Renters were asked to report on purchases made *since they last moved,* and comparisons were made between owners and renters whose most recent moves were equally distant in time. Thus, these results are not artifacts of the owners, more recent moves to new homes.

[8] Respondents described the problems and we coded them. By our definition, "major" problems affected the safety or basic shelter value of the house. "Moderate" problems affected the house's appearance or its occupants' comfort, but were not fundamental structural defects.

That may also be the case with many families who were still in their homes when we interviewed them. Yet we must remember that fully two-thirds of the owners had not skipped payments, and most of those had kept abreast of their repairs. Thus, homeownership might prove to be a financial advantage to many families.

Relationship #3: Homeownership Leads Families to Stabilize Their Budgets and Make More Carefully Planned "Rational" Spending Decisions: Defining this as a crucial relationship requires the assumption that the low income families had poor budgeting practices in the first place. That may not be literally true: Many such families have such meager incomes that they must run deficits even to obtain the necessities of life.

Yet, our evidence clearly shows that ownership is not associated with a decrease in families' consumer debt or a reduction in their general payment delinquency.

Proportionately more owners than renters (49 percent versus 43 percent respectively) reported increased debt for things other than the home mortgage since their most recent residential move. (The comparison between renters and owners may be regarded as surprisingly close, considering the owners' considerably greater outlay on home furnishings and repair).

Delinquency on payments other than rent or mortgage is a serious problem for all the low income people we interviewed. But it is again the owners who are most likely to be in arrears on some monthly payments. Over half (54 percent) of the owners and a large proportion (44 percent) of renters were currently behind on scheduled payments. These figures look really serious when we look at the joint incidence of mortgage and other payment delinquency. Of the owners who were currently behind on house payments, 93 percent were also behind on other payments. Only 44 percent of owners who were current on house payments were behind on other payments. (The same relationships hold, but at lower levels of incidence, for renters).

Our "foreclosees" sample and some earlier work on mortgage delinquency by Smith (1969) underline the importance of payment delinquency, especially when it applies to nonmortgage as well as mortgage debt, as a clear forerunner of foreclosure or abandonment—two outcomes that deprive the family of its subsidy, its equity, and for practical purposes, its credit rating.

The analysis of payment delinquency leaves a disappointing impression of the effects of homeownership. But the fact remains that many members of our sample were not payment delinquent at all. They appear to have a reasonable chance to succeed as homeowners.

Relationship #4: Homeownership Encourages Households to Increase the Main Earner's Work Effort or to Introduce Additional Workers into the Labor Force: The analysis of this relationship proved to be immensely complicated. Both the owner and renter samples were composed of mixtures of blacks and whites, intact families with male main earners, female-headed families, etc. Meaningful patterns were apparent only when we broke out subgroups according to race and/or sex of family head.

In summary, the findings were these:

- Black owners, both males and females, were more likely than black renters to have experienced an increase in income within 6 months of their moving to their current home. That relationship does not hold for whites.
- Few of our respondents, owners or renters, reported changing jobs since moving to their current homes. Wage increases were fairly common, however. Female main earners in owner families and both male and female main earners in renter families reported a high proportion (about 62 percent) of wage increases since moving. Male owners lagged behind, with only 44 percent of them reporting a post-move wage increase.
- Main earners in owner families were more likely than renters to be working at extra jobs. Of those main earners who worked at all, 54 percent of owners and 49 percent of renters had a second job. The difference among blacks was especially strong, with 55 percent of owners and 45 percent of renters working extra jobs. (The effect of main earners' second jobs on total family income is considerable, especially for blacks. In our sample, all the black families (owners and renters) with incomes in excess of $8,000—but only 35 percent of families earning less than $5,000—had main earners employed at more than one job. The relationship is less pronounced for whites: 57 percent in the over $8,000 class and 29 percent under $5,000. Thus, black owners' greater tendency to hold extra jobs has important implications for family income.)
- Owner families definitely do not field more secondary wage earners than do renters. Renter families are almost twice as likely as owners (31 percent to 17 percent) to have more than one member employed.

• The cumulative effect of all these facts is not dramatic. Only one set of owner households —those headed by black females—reported more increases in family income than did comparable renters. These families were the poorest in our sample, and the most dependent on public assistance. Among the categories of families that relied most on earned income, owner families were no more (and sometimes far less) likely than renters to have increased income after their latest residential move.

Despite the mixed nature of the results, relationship #4 clearly holds for at least a subset of owner families, and homeownership is clearly not a negative influence. Owning a home and receiving a government subsidy for it clearly does not work against these families' participation in the labor market.

Throughout this discussion of the empirical findings, it was necessary to modify many statements with the caveat that general trends hide important variability among subgroups of low income homeowners. The following section will try to enrich the findings by searching for sources of variability among the owners in terms of two variables that are apparently important indicators of the success of homeownership in improving family economic welfare, viz. payment delinquency and increase in family debt.[9]

Payment Delinquency

In this analysis, we tried to identify characteristics of families or of their housing that explain the incidence of payment delinquency. The first set of variables we investigated were family demographic and income characteristics. We discovered that few of those variables were related to payment delinquency. There was no significant relationship between payment delinquency and the race or the sex of the family head. There was a weak but nearly significant relationship between payment delinquency and welfare dependency, and a significant negative relationship between delinquency and total family income.

Most of the significant determinants of payment delinquency have to do with the cost of the house. The relationship between total monthly mortgage payment and delinquency is quite strong (for our data, that is: $r = .241$), as is the relationship between delinquency and the owner's rating of the structural quality of the house ($r = -.174$).

The true importance of monthly housing cost and structural quality can best be seen in light of the fact that welfare families paid more for their houses on the average than did other families, and generally got lower quality houses. Furthermore, higher income families paid less for their housing on the average, and got better quality. In fact, if we isolate the effects of monthly housing costs and house quality, the relationships between payment delinquency, on one hand, and low income or welfare dependency on the other, fall far below the level of statistical significance. (Table 2 presents the relevant coefficients.)

These findings are surprising; they suggest that there was something perverse about the way in which families were matched with houses. The least financially secure families—either through their naiveté or because of faulty counseling—get the worst deals on their houses. Conversely, the best-off families—the ones with highest incomes, greatest recent increase in income, and greatest expectations for future income increases —got the best houses for the least money. This evidence forces the conclusion that success or failure in 235 homeownership is strongly related to the family's resources and its savvy in recognizing a sound house and being able to bargain for a fair price. Those lower income families who get equally cheap and equally sound houses as the "better off" families do just as well in avoiding payment delinquency.

Thus, the onus of much of the unfavorable data about payment delinquency is on the design and operation of the program itself. Homeownership is apparently not wholly inappropriate to the financial needs of low income people.

Debt Increase

The picture for debt increase is generally the same as for payment delinquency. Demographic variables generally do not explain owners' increase in debt since moving. With the exception of female-headed households, which have a weak but statistically significant relationship with debt increase, all the other significant correlates are aspects of housing cost or quality.

The previous section established that the lowest income families generally purchased more expensive and lower quality houses. Families headed by females are among the lowest income

[9] The following analysis applies to owners only, and is based on sets of zero-order and partial rank-order coefficients, which were computed after ordinal scale scores were assigned to the survey responses. Because of the large number of ties in the rank orderings, the coefficients are seldom very impressive. But they do permit us to distinguish statistically significant relationships from insignificant ones, and to compare the strength of different relationships.

Table 2. Relationships Crucial to Explaining Payment Delinquency

Variables	Rank-order correlation*
Payment delinquency, welfare dependency	.100
Payment delinquency, family income	−.076
Payment delinquency, monthly cost	.116
Payment delinquency, house quality	−.174
Welfare dependency, monthly cost	.141
Welfare dependency, house quality	−.214
Family income, monthly cost	−.121
Family income, house quality	.156
Payment delinquency, family income (partialing monthly cost)	.049
Payment delinquency, welfare dependency (partialing house quality)	.065
Recent income increase, monthly cost	−.155
Expectation of future income, monthly cost	−.107
Expectation of future income, house quality	.086

group, and they definitely suffer from the low quality of the homes they own. Partialing out the effect of house quality reduces the correlation between female-headed households and debt increases below the conventional level of statistical significance. (However, the correlation is high enough to leave us with the suspicion that debt increase is a special problem for this group.)

Table 3. Relationships Crucial to Explaining Debt Increase

Variables	Rank-order correlation
Debt-increase, female headedness	.096
Debt-increase, monthly housing cost	.100
Debt-increase, house quality	−.091
Debt-increase, cost of repairs and purchases for house	.237
Debt-increase, house structural problems	.152
Debt-increase, female headedness, partialing house quality	.084

But the chief effect of this analysis is to underline the importance of housing cost and house quality on determining families' success as homeowners. If the majority of the families our study observed were successful as homeowners, it is in part because they got sound houses for reasonable prices. That applies even to those lowest income and female-headed families who were fortunate enough to make solid purchases.

Final Observations on the Seattle Results

The preceding analysis shows (1) that the homeownership program we studied does not appear to have universal antipoverty consequences for participant households, (2) that homeownership can lead to some important negative economic consequences for low income families, and (3) that the quality and cost of owned homes is far more important in explaining the incidence of owners' financial problems than are the families' demographic characteristics. The third finding somewhat softens the discouraging tone of most of the findings about equity accumulation, payment delinquency, etc. But the truth is that none of the variables whose effects we were able to test appeared to explain much of the variance in payment delinquency or debt increase.[10] That means that all of our homeowners, even those in good and reasonably priced houses, were quite likely to experience financial problems.

Despite its limitations, our study does provide some evidence about both the prospects for achieving antipoverty goals through homeownership, and about some characteristics that such a program must have if it is to succeed.

Our data showed that many—perhaps two-thirds of the owner households—were apparently meeting house payments and building equity without increasing their nonmortgage debt. Thus, the study did show that homeownership subsidy programs can have antipoverty consequences.

But the study also showed how financially devastating a bad home purchase can be. Most of the families served by the program have relatively weak and inflexible sources of income. They cannot tolerate sudden shifts in emphasis or the addition of major new expenses. They can usually handle moderate and predictable increases in their housing expenditures, but a sound and properly priced home is indispensable. "Handyman's delights"—houses priced high because of location, size, yard, etc.—can be fatal. Our sample contained many low income people who found suitable houses to buy, but it also showed how badly poor people can get taken in the housing market.

There is no reason to think that the homeownership counseling project whose clients we studied was a bad one. To the contrary, the project was exemplary in terms of staff competence, operating efficiency, and most other standards

[10] Our data were not amenable to sophisticated statistical analysis. Thus we cannot make any exact statements about the variance explained by any variable or set of variables.

that an evaluation would apply. The real problem is that the counselors were operating in an area where the margins for error are terribly small. The 235 subsidy is just large enough to permit a poor household that gets a very good buy to succeed. Anything less than a very good buy is clearly dangerous.

Thus, counseling must be carefully oriented to the difficult business of identifying very good buys and matching families to them. That means that counseling should be a low volume, labor-intense activity. A counselor must be at least as ready to discourage families from buying homes as to encourage them. Some kind of homeownership subsidy program could do well without counseling, but that program would have either (a) to exclude the lowest income groups served by 235 (particularly female-headed and welfare dependent families), or (b) to provide a far richer subsidy, to insure that families can meet mortgage and maintenance costs without severe distortion of their budgets.

The designers of new homeownership programs should be clear about the range of their possible impacts. At worst, they could have the severe negative effects on family finances which some of the families in our study suffered. At best, they can help families to engage in a forced savings program through repayment of their mortgage loans, and give them a stake in the capital gains game. But homeownership is unlikely to cause a quick change in families' basic earnings or spending patterns; its most likely direct effect is only to increase the proportion of family income spent on housing. If those limited objectives are sufficient rationale for a homeownership subsidy program, it should be designed accordingly.

This analysis rests on a report of a small part of a small study. There is more to be learned even from the data base we collected in Seattle, and vastly more from conducting a program of research on the social policy impacts of housing programs.

Conclusion

I hope the relatively voluminous attention given to the foregoing research report has not confused the reader about the chief purpose of this paper. It is intended to argue for a serious program of research about the ways of achieving social policy objectives through housing subsidy programs. The research report is intended only as an example of the kind of research I am advocating. It may also serve as a model for such research, although I think the best model would be a simple outline of the steps by which a strategy of research on social policy outcomes can be built. Those steps are:

1. Specifying the social policy outcomes of interest. Earlier in this paper I simplified the discussion of social policy outcomes by lumping them into two categories, hedonic and antipoverty. It would be more realistic to develop finer categories that distinguished among different aspects of hedonic satisfaction (e.g., living space, neighborhood environment, house appearance, location, etc.) and between improving family income prospects and changing specific aspects of social attitudes and behavior (e.g., promoting a sense of political efficacy, improving children's school performance, etc.). Clearly, social policy objectives must be defined before it is possible to research whether and how they can be achieved.

2. Specifying the processes by which current or contemplated policy interventions (housing subsidy programs with some definable characteristics) are expected to achieve the desired outcome(s). As the foregoing research report illustrates, these processes can be drawn from sources such as social science theory, the statements of policy advocates, and common sense. But whatever their source, they must be defined clearly so that researchers can establish criteria for collecting and analyzing empirical data that reflect on their (the processes') validity.

3. Identifying real world examples of the subsidy programs of interest, and designing procedures to collect and analyze data to test whether the processes do occur. Ideally, this step would be achieved through mounting experimental programs whose characteristics could be tailored to research needs (including close control over program characteristics and longitudinal measurement of effects on participating households.) More realistically, this step will be achieved through identifying program activities which exemplify subsidy types and designing research analogous to the Seattle homeownership study reported above.

4. Arranging cooperation with local groups administering the housing subsidy programs of interest, and conducting (through contractors or by HUD staff) field data collection operations. Although the research I am advocating is not strictly program evaluation (since it focuses on the effects of general program characteristics,

rather than on the administrative performance of program operators) involves the self-interest of program operators too closely to justify having them design or supervise the data collection. Likewise, the evidence required by the research must not be merely anecdotal: Proper analysis requires data from carefully structured survey interviews with large numbers of program participants.

5. Analyzing data from specific research projects and comparing results of similar studies in order to assess the generality of conclusions. This is the step by which HUD can develop a body of theory and practical knowledge about the social policy outcomes of housing programs. It is also where research findings are converted into policy-relevant information. At this step, the participation of HUD staff—people who are professionally trained to conduct such analysis and free enough of administrative responsibility to spend the required time—is essential. Only such a research staff can develop an "institutional memory" for HUD. Though contractors can execute particular studies competently, only internal staff can create a broader research strategy and integrate the findings from discrete pieces of research in ways that policymakers will find meaningful.

Appendix: Characteristics of Owner and Renter Groups Comparison Groups for Analysis

Table 1. Numbers

	White	Black	Total
Owners	138	175	313
Renters	69	99	168

Table 2. Income (Mean)

	White	Black
Owners	$6,050	$5,540
Renters	5,104	4,780

Table 3. Household Size

Owners median	4.6
Renters median	4.2

Table 4. Percent Female Headed

	White	Black
Owners	41.5%	63.2%
Renters	47.6	50.5

Table 5. Median Age of Head

Owners = 35
Renters = 32

Table 6. Employment (Heads)

A. By standard measures of unemployment

	White	Black
Owners	10.0%	12.5%
Renters	9.5	15.4

B. Total not employed

	White	Black
Owners	35.8%	37.0%
Renters	42.9	44.3

Table 7. Location in City

Prior to move owners were in:	
Central area*	42%
CC**	41
Suburbs	17
After move owners are in:	
Central area	30%
CC	43
Suburbs	27
Contrasted with renters, who are in:	
Central area	42%
CC	37
Suburbs	21

* Central area—ghetto
** CC = Seattle city

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Consumer Preferences in Housing

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Introduction

Information on consumer preferences for housing in the United States is generally unstructured, informal, diffuse, and of uneven quality. The most precise consumer preference information is in the intuitions and perceptions of those who are intimately involved with the housing market—developers, builders, lending agencies, architects, and planners. The lack of regular and systematic information available about consumer housing choices makes it difficult to project national trends or to analyze the degree to which preferences are satisfied.

We have attempted in this brief study to use both hard statistical data and informed expert opinion to identify consumer preference changes in housing. Possible benefits for government agencies, private industry, and consumers from more complete information on consumer preferences are identified.

The current state of the art includes statistical data and projections from the Bureau of the Census, the Bureau of Labor Statistics, and the U.S. Forest Service, as well as the experience and sensitivity found in the intuitive judgments expressed by Federal officials, consumers, practicing architects, behavioral scientists, economists, builders, developers, and other housing professionals serving particular segments of the market or particular geographic areas of the country. All have valid views, formed and tested over time. Obviously, we have found some more compelling than others, but each offered its own measure of insight. Collectively, those views represent the best market research data on consumer preferences in the country.

An important question in defining and researching issues of consumer preference in housing is one of scope—of the proper frame of reference information about the individual house and the surrounding environment and neighborhood or statistically based national trends such as the rate of household formations. Each level is important to different groups for different reasons. Thus we have included information in each area, and analyzed the potential usefulness of fuller and more accurate information to each.

A second critical question is the definition of "preference." The economist's definition of preference, expressed in buying decisions, clearly is the basis of statistically derived information. We used looser definitions in querying both consumers and housing professionals about preferences inadequately satisfied. This provided a more realistic understanding of consumer preferences and economic choices.

Two dangers existed: First, querying preferences without consideration of realistic financial constraints could have resulted in fantasy responses. In fact, direct consumer responses seemed to be realistic and to assume such constraints. Second, asking builders which consumers prefer risks, confusing the degree to which builders follow taste or act as tastemakers. Ultimately, the conservatism of the consumer and the builder's desire to sell his product profitably combine to produce relatively modest changes and easily reached equilibrium.

Consumer preferences are generally treated as observed consumer decisions on structure, lot, amenities, etc. Predictive housing preference studies, conforming to rigorous market research guidelines, are infrequently done and prohibitively expensive and do not generally yield "pragmatic" information needed by government or private industry for policy or construction decisions. ADL reviewed both types of information and concluded observable consumer behavior to be the most appropriate working definition for policy purposes.

Builders: Key Factors

Developers, housing producers, and local builders largely determine the character of housing supplied to distinct market segments. Census data is employed by large housing companies to ascertain the general parameters of the market to which new activity is directed. Decisions are made on a local rather than a national basis to respond to the characteristics of the local market.

Virtually every housing or apartment development offers a variety of options in terms of space, style, and amenities. The tradeoffs made by consumers and salesmen are recorded by producers. These profiles of choice form the

basis for product refinement and design. The small builder "eyeballs" the market, "knows" what sells and what does not, and builds accordingly. Such intuition on the part of the architects and builders, based on their own experience and some careful shopping of the competition, forms the basis for most marketing decisions. Interest rates, land costs, the supply of labor and materials, and the availability of sewer hookups all influence the builder. The preferences of consumers also influence the builder, but here his gage is likely to be as much what his competition provides as what the consumer prefers.

Consumers: Key Factors

What influences the consumer? What factors determine what, when, where, and why he buys?

Although, conceivably, a great many factors could be listed as comprising consumer preferences in housing, a relatively small number of descriptors is usually adequate to convey sufficient information to enable consumers to eliminate from consideration approximately 95 percent of listed units in a metropolitan area. For example, most real estate ads offer no more than 20–30 words of description including:

1. For sale or rental
2. Municipality (neighborhood)
3. Price
4. Space (number of bedrooms)
5. Condition
6. Special amenities or features

From these data a consumer can make the major judgments as to whether his key preferences will be satisfied. For the 5 percent which now make up the possible choice, a visit to the house is usually the next step.

A visit to the unit serves two purposes. First it verifies the key preference factors purported by the ad. Secondly, the consumer presumably proceeds to make judgments about the details of the neighborhood, the site, and the unit. All contribute to an overall judgment regarding the value of the unit in relation to price and carrying costs, and to the status or lifestyle image conveyed by the unit. In many of these areas of judgment made upon seeing the unit, preferences may only be significant if something is either drastically wrong or exceptionally positive. The importance to the individual consumer of various attributes is believed by builders and realtors to vary particularly in relation to age, family cycle, income, race/ethnicity, and type of housing presently occupied.

Long lists of detailed environmental characteristics are subordinate in importance to the above half-dozen key preference indicators which are usually addressed by typical real estate ads. It is in the manipulation of these relatively few variables (particularly costs) where the greatest ability to influence consumer behavior and increase consumer satisfaction can be found.

Publicly Influenced Preferences

It is particularly important to note which consumer preferences are not strictly or directly served by the commerical marketplace but rather by public policy and governmental action. These factors are primary influences on consumer behavior.

Services: Community environmental and social services (including schools, police and fire protection, street cleaning, public transit, pollution control, public open space, clinics, social service centers, etc.) should, in theory, be equally available to all citizens—rich and poor, urban and suburban alike. Yet clearly great disparities exist, not only between cities within the same State or metropolitan area, but also within the same municipality. Evidence of the generally inadequate levels of public services (even in affluent areas) may be seen in the proliferation of paid private police guards, private schools, private trash collectors, etc. Such private augmentation of authorized, but often inadequate, public services is generally available only to the Nation's wealthy. Revenue sharing may impact the distribution of such services to a more equitable pattern; changed tax policies that depended less on property taxes to finance services would also facilitate a more equitable distribution of public services.

Tenure: Another consumer preference heavily impacted by public policy is the choice to rent or own. One of the factors that affects this choice is Federal tax policy, particularly the IRS regulation that allows interest payments on mortgages to be deducted from a taxpayer's income. Even though a tenant's rent may be used to pay the landlord's mortgage interest, only the landlord can deduct such payments; the tenant cannot. The amount of such deductions totals about $7 billion annually in forgone Federal revenues, an indirect homeowners' subsidy. The alternative of collecting those revenues, an indirect homeowners' subsidy. The alternative of collecting those revenues and redistributing them in other, and perhaps more progressive and efficacious,

housing programs is not within the mandate of housing policymakers at HUD, but would require legislative action. These potential revenues could be collected with the stipulation that they continue to be used for the upgrading of the Nation's housing stock (the current justification for granting the tax concession). Alternative housing subsidy programs could reduce major sources of current consumer dissatisfaction by lowering effective prices through such mechanisms as an expanded "housing allowance-type" program. This would allow consumers in substandard units additional disposable income that could be applied to repairs or other environmental priorities.

Participation and Control: Although government tax policy favors the owner, by no means does this fully account for the Nation's strong preference to own rather than rent. Beyond the fact that real estate is generally an excellent investment in the United States and an important hedge against inflation, ownership for many is an important personal expression of control over, and active participation in, shaping one's immediate living environment. Such participation ranges from "owner-building," (whereby the household performs as its own general contractor in the actual construction of the dwelling), which accounts for nearly 20 percent of all single family housing starts in the United States annually, to tenant management and control programs for public housing. Expressions of the consumer preference to control and participate directly in the dwelling environment are evidenced by the powerful trend toward self-help rehab and home improvement. This segment of the market more than doubled in the last 4 years, and now over half of major home improvements (additional rooms, kitchen/bath modernizations, finishing attics and basements, porches, carports, patios, etc.) are undertaken by homeowners who intend to do the major portion of the work themselves.

When the consumer preference to participate and control is thwarted or frustrated, housing deficiencies become particularly aggravating. An innovative self-help rehab program in Rochester, N.Y. (Better Rochester Living), showed, for example, that a household's tolerance for some deficiency or inconvenience was far greater if the household owned the property (and was in control of the needed repair) than it would have been under rental conditions with the landlord in control of the repair.

Dissatisfaction with public housing both by low income tenants and housing professionals also touches on this point. Observers have spoken of a "vending machine" mentality when one feels out of control, leading to an urge to kick the machine, if, after inserting the coins, nothing comes out. Because management and maintenance budgets have been notoriously low in public housing projects, and hence service poor, it has been hypothesized that if tenants can control and participate in the disposition of their rents and in maintenance and management of public housing, they will be less likely to abuse the property. The phenomenon of tenant organization, rent strikes, and other forms of tenant participation and control are not confined only to low-cost units, but are in evidence in middle and upper income rentals.

Final Introductory Note

The state of information about consumer choices in housing is imperfect—viewed from the supplier's perspective or from the consumer's. Moreover, some of the key variables of choice, such as the provision of public services, are only distantly related to the individual production or consumption decisons in housing. A long-standing tenet of housing policy has been the encouragement of homeownership, implying control over one's immediate environment. Yet homeownership and its accompanying advantages have skewed the degree to which the housing market responds to consumer preferences. The affluent may always be better off, and to say the poor are less well off, thus may be trite and obvious. But the question of consumer preference in housing—unlike most consumer goods—is very different for the poor and the nonpoor. Thus, not only will we identify issues of preferences in housing as seen by groups on both the demand and supply side of the question, but also by poor and nonpoor consumers.

Findings and Conclusions

General Conclusions and Trends

- Market identification activities in the homebuilding industry reflect the fragmented character of the industry. Consumer preferences in housing are assessed by builders on a local level. Thus the type and character of available housing depends on local market experience rather than responses to national demographic shifts.
- Predictive housing preference studies are generally not conducted by builders or de-

velopers. Instead, reliance is placed on demonstrated behavior of buyers and renters.

- Housing decisions are choices between packages that consist of structure, land, neighborhood, available services, amenities, and price. In general, one cannot disaggregate the package at will to choose neighborhood A, with service availability B, with price C, on land parcel D.
- The proportion of family income spent on housing has not changed significantly over the last 50 years. Vis-a-vis other goods, housing is a major determinant of lifestyle rather than a necessity which, when satisfied, fades in importance relative to other goods.
- Homeowners choose to buy based on their expectations of future income, rather than on present incomes.
- The anticipation of the late 1960's that new towns were the wave of the future, offering escape from central cities and traditional suburban living, is declining. New towns are not the panacea to satisfaction of consumer preferences.
- In the view of some developers and social psychologists, the next decade will see increasing emphasis on discrete market segments —e.g., the young, the unmarried, older and retired persons—with units and communities built to satisfy their tastes and requirements.
- Second homeownership increases by 150–200,000 units per year. The trend may be acceptance of less space in or near the city coupled with a second home for weekends and holidays.
- The rising cost of land, land use legislation, and accompanying developments in the uses of zoning will reinforce trends to multifamily housing, condominiums, and planned unit developments (PUDs).
- Low maintenance dwelling units (e.g., condominiums) are increasingly preferred by all population segments.
- Regional differences in housing, in terms of size of units and number of occupants, are minimal. Over the last 10 years, however, the proportion of housing starts has differed dramatically, with the South and the West accounting for 68 percent of sales of new one-family homes in 1971.
- Owner-occupied housing has grown dramatically, from 43.6 percent in 1940 to 62.9 percent in 1970. The large increase in the decades of the 1940's and 1950's leveled off in the 1960's.
- The recent trends (since 1968) in new housing have been away from the previous dominance of the single family house, which has fallen below 50 percent of annual additions to new housing. Projections for the future show a continuation of this trend through the 1970's, with 44.7 percent of new housing in that period as single family houses, moving up to 52.7 percent in the 1980's, according to a U.S. Forest Service analysis. Other observers believe that the rapidly rising costs of the traditional single family house and lot will lead to a long term shift to cluster housing and condominiums.
- Mobile home production has grown rapidly but has leveled off and is projected to maintain a steady 20 percent share of the annual new housing production through 1990.
- The gap in median family income between white and black families ($10,672 vs. $6,440) is reflected in the homeownership rate (63 percent vs. 41 percent). However, during the 1960's the rate of increase in owner-occupied homes was greater for blacks than for whites.
- Similarly, while 80 percent of all persons surveyed in 1971 were satisfied with their neighborhood, twice as high a percentage (36 percent vs. 18 percent) of blacks as whites were dissatisfied or neutral. (From OMB citations of unpublished University of Michigan data.)

Conclusions Specific to the Nonpoor

- The high cost of single family detached homes suggests a trend away from a realistic preference for this traditionally preferred housing type. Rather, preferences will likely emerge for garden-type apartments, townhouses and condominiums.
- The key factors in the housing decision of middle income families—neighborhood, schools, transportation, aesthetics—are external to the dwelling unit.
- For both renters and owners, choice among a range of options exists only at middle and upper income levels. As housing prices go up, that range of choice narrows for middle income consumers. Housing choice is relatively unconstrained for upper income families.

Conclusions Specific to the Poor

- The results of a low income consumer panel held by ADL in Washington, D.C., confirm the judgment of virtually every housing professional interviewed that, in general, low income renters believe they have no choice regarding quality of construction, location, design, or cost of their dwelling space.

- Low income consumers of rental housing consider management and maintenance to be of primary importance. Beyond that their preferences include larger rooms, more bedrooms, washing machines in each dwelling unit, more windows, spacious kitchens, and reliable sewage and plumbing systems.
- Low income consumers perceive their only contribution to their living space to be the internal furnishing of the unit.
- Previous HUD and FHA housing policies were not designed to enhance opportunities for choice among consumers at the lower and lower-middle portions of the income scale, according to low income panelists. The housing allowance experiment is viewed favorably in this regard.
- Futurists and behavioral scientists interviewed predict limited change in low income lifestyles impacting consumer preferences in housing over the next decade due to continuing unemployment and inflation and what is perceived as unresponsive housing policy.
- Despite the fact that mobile homes are not a preferred type of dwelling unit, they will become increasingly prevalent among low and lower-middle income families over the next 5–10 years due to the increasing cost of other types of housing.

Methodology

On May 17, 1973, Arthur D. Little, Inc., was asked to undertake a brief study of consumer preferences in housing by the Office of the Deputy Assistant Secretary for Policy Development, Department of Housing and Urban Development. Work was to begin immediately and a report delivered on July 2, 1973.

With six weeks of study time available, it was clear that maximum use of existing sources of information and of expert judgment was required. Consumer preferences in housing, judged by statistical and judgmental indicators was the focus of the project. Its emphasis was to be changes in preferences and emerging trends. The methods used to complete this report included interviews, panel discussions, literature searches, review and analysis of statistical information, and development of cumulative consumer information through successive discussions with recognized authorities. Before we developed a detailed methodology, several initial definitional issues required resolution.

The first was the definition of consumer preference. Preferences could mean economic choice as represented by purchase or rental decisions. It could also mean some vaguer notion described as "what consumers really want" or their "real preferences." If the latter, we were required to express preferences realistically and to identify genuine dysfunction in the market mechanisms, not some Utopian concept. We chose to retain some ambiguity in the definition, since focusing only on preferences in the narrower sense of the term seemed unrealistic if we were to project trends or analyze fully the meaning of changes in preference.

Second, housing as viewed by consumers clearly meant something beyond the dwelling unit itself. Our definition included characteristics influencing choices. Thus the unit, its location, and its relation to a full range of residential services all are encompassed.

Third, the interaction of producers and consumers arose, as a question of whether housing producers were tastemakers or taste-takers. That is, who decided there was a consumer preference for fireplaces, maintenance-free exteriors, or a patio—the consumer or the producer? Ultimately, we concluded that consumer decisions ruled, and while amenities and conveniences might confuse a shortrun picture, acceptance and inclusion in most new housing indicated a genuine preference in the long run.

We proceeded with the study through the following steps:

1. Initial summary of information on the state of knowledge from interviews and literature review.

2. Development of hypotheses about consumer preferences in housing by seven recognized authorities.

3. Testing these hypotheses through interviews and by expert review and comment.

4. A panel of low income housing consumers, held in Washington, D.C.

5. A panel of nonpoor homeowners, held in Buffalo, New York.

6. Interviews with a variety of builders, architects, behavioral scientists, marketing experts, and futurists by project team members.

7. Additional interviews by those consultant experts whom we asked to prepare hypotheses for the project.

8. Papers were commissioned in the areas of:

a) Demographic and Population Characteristics as They Relate to Housing, to 1990

b) Economics of Consumer Preferences in Housing

c) Development of Consumer Preferences —Display Matrix

9. Draft report was prepared and analyzed by an outside reaction panel.

10. Final report was drafted after HUD reaction and suggestion.

Two studies done by Owens/Corning Fiberglas on homebuyers' preferences and on garden apartment residents' attitudes (1967 and 1968) were useful background information. Similarly, the CELS-80 1971 and 1972 reports of the Economic and Marketing Research Group of the Whirlpool Corporation were helpful.

A recurring question throughout this project was, what improved consumer preference information would be useful, and to whom? We have provided some suggestions in those areas at the end of the report.

Consumer Preferences from Four Perspectives

Consumer preferences are generally discussed in classical economic terms. In addition to the economist's perspective on consumer preference, perceptions of suppliers (builders and developers) and consumers (both poor and nonpoor) are significant to an understanding of the complex forces determining rental and purchase choice.

Arthur Solomon, housing economist and Deputy Director of the Harvard-MIT Joint Center for Urban Studies, authored the review of economic literature and thought on consumer preferences.

The builder-developer perspective is that of five regional managers of a large architectural and engineering firm. Their perceptions are illustrative of participants in the building process; those perceptions were confirmed in interviews for four large national housing producers.

The nonpoor perspective is a product of a homeowners' panel held in Buffalo, New York, and unstructured interviews with middle income renters. While no statistical validity is claimed for the views expressed, they do suggest important consumer preferences which appear to be generally applicable.

The low income perspective results from a panel held in Washington, D.C., confirmed by professional experience of project team members. Here again, while no statistical validity is claimed, the results of the panel are instructive in understanding and responding to acute housing problems.

The Economics of Consumer Preferences

This section presents some of the most salient findings in the literature of housing demand as it relates to consumer preferences. Those findings focus around two consumption issues:

1. Consumer preferences for housing vis-a-vis other goods and services;

2. Consumer valuations of various housing and neighborhood attributes (e.g., interior floor space, structure type, environmental quality).

In the design of national policies and programs, it is important to know whether there has been a downward or upward shift in consumer preferences for housing. Has there been a secular change in the American families' taste for housing? Have increased personal expenditures for automobiles, recreational activities, or alcoholic beverages lowered the share of family income devoted to housing services? What has been the change in housing expenditures in response to increases in the price of housing or to the steady growth of real incomes? And have the responses been the same for various household types? These are the questions covered in the first section.

Once the evidence on the demand for housing is summarized, the second section deals with consumer preferences for specific structure and neighborhood attributes. As the existence of suburban mansions and dilapidated one-room shacks indicates, housing is by no means a homogeneous good. Instead, housing consists of a bundle or package of diverse items, including floorspace, a specific type of heating system, structural qualities, and other interior and exterior features. With the purchase or rental of a housing unit also come neighborhood schools, police protection, access to work, and a variety of other municipal services and neighborhood features associated with the location of the dwelling unit. There has been an effort in recent years to determine the implicit prices of the var-

ious housing and neighborhood attributes, and consequently the tradeoffs available to housing consumers. These research efforts enable one to indicate, in a preliminary manner, the characteristics most valued by housing consumers. What are the relative preferences, for example, of different interior and exterior features? How important are environmental and neighborhood factors in determining housing choice? What items do consumers choose with an increase in their purchasing power? What, if any, are the differences in the preferences of blacks vs. whites, small vs. large families, etc.?

The two sections are organized in a similar manner. First, there is a brief review of the major conceptual issues underlying the research. Then the major empirical findings are presented. Finally, the implications about consumer preferences are summarized.

Consumer Preferences for Housing: What has been the trend, over time, in the preference of consumers for housing as distinct from other consumption items? The theory of consumer demand assumes that the quantity of housing services purchased by a household depends positively on its real income and negatively on the price of housing relative to the general price level. While economists agree about the direction of change, there is still some controversy over its magnitude. Those who have found that the quantity of housing services changes less than proportionally in response to changes in income and price (low elasticity of demand) have argued that housing is a "necessity" and, once minimum shelter requirements are met, that households prefer to spend a higher proportion of their income on automobiles, food, clothing, leisure activities, etc. To support this view, prevalent in the 1950's, economists pointed to the fact that low income families spend a higher proportion of their "current" income on housing than what is spent by households with higher incomes. Some researchers alleged a downward shift in consumer preferences for housing (Winnick, Grebler, Blank) because their estimates of the housing stock indicated that the stock had not increased as rapidly as their elasticity estimates would imply.

Much of the earlier work has been discredited in more current analyses. Using multivariate regression analyses, Muth and other economists have found that there has not been a systematic change in tastes for housing in the last 50 years. Generally, the explanation for this finding is that housing, far more than a necessity, is a major determinant of a household's standard of living, social status in the community and self-image. Also, once a household's "normal" or average expected income is taken into account (rather than its transitory income for any given year) there seems to be a high elasticity of housing demand to changes in household income or relative prices.

The Demand for Housing with Respect to Income: In a review of cross-section evidence on the demand for housing (Muth, Reid, Lee, Winger), deLeeuw found that the overall elasticity of demand for renters was in the range of .8 to 1.0. This means that households tend to spend the same proportion of their "permanent" or normal income on housing as their income rises. On the other hand, homeowners tend to spend a somewhat higher percent of changes in income on housing. This seems reasonable because homeowners view housing as an investment as well as a consumption opportunity, and receive preferential tax treatment as well.

The Demand for Housing with Regard to Price: There seems to be a consensus among economists (deLeeuw, Muth, Reid) that the price elasticity of housing demand is approximately -1.0. This means that with a 10 percent increase in the relative price of housing, consumers will reduce their expenditures for housing services by a similar amount, 10 percent. It should be noted, however, that various components of housing have quite different price elasticities. Muth found, for example, that the price elasticity of demand for rooms was around -0.3. The marked negative response of consumers to higher prices indicates that technological changes, adoption of uniform building codes, modification of union resistance to innovative building materials, and other practices which lower the cost of housing will tend to increase housing consumption appreciably.

The Consumption of Owners and Renters: Owner-occupancy appears to be preferred by a large segment of the population, as it tends to rise with the expectation of higher permanent income (Reid, deLeeuw). This results from both economic (e.g., favorable tax laws, capital appreciation) and social (e.g., status) concerns. When owners and renters have the same permanent income and are of the same household type, the housing quality they consume, as measured by housing expenditures, is similar. One noteworthy difference between homeowners and renters, however, is the lower mobility of those who purchase their own homes. Once a household buys

a home it is less likely to change residence, even with an increase in family size. Among other consequences, this leads to a higher proportion of overcrowding among moderate income families, who can better afford homeownership, than among those with lower incomes.

Consumer Preferences by Household Type: As one might expect, the demand for housing varies among household groups. Nonwhite households, for example, appear to have a lower income elasticity of demand for housing than whites. Rather than reflect a lower preference for housing, the lesser percentage change in housing expense accompanying a rise in income probably results from institutional and landlord discrimination which restricts the available range of housing choice for blacks, Puerto Ricans and Mexican-Americans.

With an increase in family size the income elasticity of housing appears to increase as well (deLeeuw). The fact that large households spend a larger proportion of their income for housing than small households is contrary to our intuitive expectations, which would assume economies of scale with large-size families. The shortage of large bedroom units in many cities undoubtedly causes an increase in price (a quasi-rent), above the longrun market equilibrium rent.

Prospects: Housing consumption is little affected by short term fluctuations in family income, but rather by more permanent changes in future income expectations. In this respect, housing consumption has been extremely stable, maintaining approximately the same share of total household expenditures since the beginning of this century. This means that higher quality housing will be consumed, on the average, as real income per capita continues to rise. Nothing in the past, or anticipated in the future, would seem to indicate a downward shift in consumer preferences for housing. However, if the price of housing relative to other consumer goods continues to rise the general improvement in housing conditions will be constrained.

Consumer Valuations of Housing and Neighborhood Attributes: Households do demand heterogeneous set of diverse structural and neighborhood attributes, e.g., a specific number of bedrooms, a row house, a particular neighborhood school, improved access to work, personal security when walking the streets, and a variety of other features which comprise the so-called housing bundle. Recognizing the diverse nature of these attributes, it would be possible to compare consumer preferences for each characteristic and their consequent tradeoffs if each item had a known price. Then we could accept the judgment of consumers expressed in the marketplace by assuming that attributes which sell for a high price are valued more highly than those which sell for less. But since most of the components of the housing bundle are never sold separately or, like public services, never sold at all, it is extremely difficult to obtain market prices. Yet, since each component contributes to the total price of the housing bundle, it is possible to determine the implicit price of the separate components through the use of multivariate regression analysis. Using this technique, the total cost of the housing bundle can be "regressed" against its separate components, yielding an implicit price for each component. This has been called a hedonic price index.

Much of the recent economic research on housing markets, in fact, has included the estimation of hedonic indices as a central part of the analysis. At present there is a considerable amount of disagreement over the best way to define and estimate such an index (Kain, Rothenberg, Solomon, deLeeuw). The controversy arises out of different theories of housing market operations, particularly in regard to assumptions about market equilibrium, the definition of discontinuous submarkets, and the joint production and consumption of various housing bundle components.

In some of these analyses, it is explicitly assumed that the housing market operates in such a way as to permit consumers to perceive implicit prices for housing and neighborhood components. Thus, comparisons among housing bundles imply tradeoffs by which consumers can increase one component at the expense of others (e.g., more interior space for a smaller parcel size). This presumes, of course, that the implicit prices estimated in the regression equation can be interpreted as representing the general equilibrium prices in the housing market. Given this assumption, the implicit prices represent marginal rates of substitution between component attributes for both producers and consumers. As a reduced form equation, the implicit prices represent the point of maximum preference (utility) for housing consumers (as well as the point of maximum profit for housing suppliers).

Most of the empirical studies have tried to aggregate the many housing and neighborhood components into a smaller number of categories, generally interior characteristics, exterior features, and environmental or locational factors.

Neighborhood and Environmental Characteristics: A portion of the cost for each dwelling unit is a payment for its particular location, and the municipal services, accessibility, and environment which are associated with the location. One significant finding of the hedonic price analyses is that neighborhood characteristics are valued quite highly by consumers, particularly the quality of public education and personal security. In addition, neighborhood prestige, or status, seems to be quite important. Using the median years of education of the head of household as a surrogate for social status, one study indicates that households were willing to pay $1,900 more to live in an area where the median adult had completed the 10th grade, rather than the 8th grade, all other factors being comparable. The foregoing locational features, as well as the relative traffic congestion, noise and air pollution, indicates the need to learn more about consumer preferences for a "suitable environment," and to define them better.

Exterior Characteristics: Research findings indicate that households express a clear preference for different structural types. Although there is not enough representative data from a cross-section of the Nation to generalize about structural types (and costs and preferences undoubtedly vary by region), dwellings built of brick and stone materials appear to be more highly valued than similar ones constructed with wood. Interestingly, asbestos shingle facing apparently adds nothing to the value of a house (King). Another study shows that single detached homes and duplexes are more highly valued than flats (Kain and Quigley). In the same city, a new structure sold for $3,250 more than one that was 25 years older, although otherwise identical. Also there is an age effect on rents, but the effect is less strong (only $2.80 per month).

Interior Dwelling Unit Features: The number of rooms and total floor space have been found to have a significant influence on the total value of a housing unit. However, with a rise in income, ceteris paribus, families are likely to spend twice as much of their increased purchasing power on additional floor space than on extra rooms (Thomas and King). Several studies have shown that the presence of carpeting or of hardwood flooring is marginally significant, while the presence of special-purpose rooms—workshops, laundry areas, etc.—are not valued at all by the average consumer (Lapham, King).

Most studies indicate that consumers place a significant value on basic mechanical systems. Basic rather than specific characteristics of the heating and cooling system, for example, seem to be important to homeowners and renters alike (Kain and Quigley, King and Mieszkowski).

The presence and quality of plumbing also have a significant effect on the total value which consumers place on a housing unit. Families desire and are willing to pay for better kitchen and bath facilities. In one city, at least, each bathroom added $9 to the monthly rent, and a partial bath added approximately $2,600 to the price of a home (King and Mieszkowski). Several studies corroborate the fact that the design, convenience, and modernity of kitchens—which are among the rooms used most intensively—are valued highly by consumers of all income levels.

Consumer Tradeoffs: While little evidence exists concerning the effect of changes in household circumstances on housing consumption, there is some preliminary data which should be noted. In aggregate terms, households seem to spend their increments in income primarily on improvements in exterior space, rather than dwelling quality or interior space (Kain and Quigley). This is especially true as incomes reach higher levels. Conversely, when the head of a household is unemployed, families reduce their dwelling quality more than any other items in the housing bundle. And while blacks consume lower quality housing and neighborhood services than whites with comparable incomes, the main divergencies occur in the quality of the actual dwelling units—their interior space, mechanical subsystems, design, etc.

Housing Preferences As Seen by Builders

Builders, housing producers, developers, and architects interviewed in the course of this project confirm without exception the localized nature of consumer preferences. Even the largest national home builders decentralize their operating and product design decisions. Thus local managers have responsibility for ascertaining consumer requirements and desires. The National Association of Home Builders and the Producers Councils also confirm the validity of these assertions both for materials producers and the small homebuilders.

Regional profiles of consumers exist in the files of the largest housing producers. Those profiles reflect explicit choices made between available options; e.g., basement or air conditioning; additional rooms versus certain appliances; or tradeoffs between materials and housing "packages."

The regional snapshots which follow are intended to be indicative of existing and emerging trends in consumer behavior. In order not to lose the flavor of the particular individual's view of his region, we have left the language and level of detail exactly as it was provided us.

Atlanta: As in numerous other population centers, the condominium "craze" has, over the past 13 months, come into full bloom in the Atlanta market. The number of condominium, townhouse, or other forms of for-sale, attached housing projects has multiplied by more than tenfold in that period of time.

Most of these have been new developments, designed and built for sale, although a number of rental projects have been converted with some success.

The three major motivations towards condominium development appear to be (1) significant increases in the cost of developable land and construction labor and materials, forcing builders/developers to search out higher yields and building economies; (2) widespread resistance from residents and local planning officials to new multi-family rental zoning, which, coupled with the "soft" condition in the apartment market that has existed for the past 2 years, makes condominiums an attractive compromise; and (3) a slow but steady increase amongst consumers in the popularity of the zero-maintenance/more leisure time condominium life style.

It appears that the condominium "bloom" will continue for another year to 18 months, at which time a leveling off of this type of building activities can be expected.

I believe it is also significant that the vast majority of the successful projects to date have been at the extreme ends of the price scale, either low or high. This would indicate that the middle income market is that which is clinging most tenaciously to the traditional values of single family autonomy. This is also substantiated by the continued good receptivity to single family detached programs in the $30,000–45,000 price range.

Single family detached programs are presently doing very well in the prestige $60,000–100,000 range as well.

The rental apartment market continues to be soft and, with few exceptions, there is very little construction activity in that area.

Los Angeles: In general, the trend seems to be away from the single family detached houses and toward the low density condominiums.

In cases where a project is strictly single-family, we have found that the buyer is generally more sophisticated than in the past and will no longer accept the old traditional type subdivision design, but now requires various amenities such as recreation buildings, swimming pools, and various other facilities.

The overall trend seems to indicate that people still like the idea of owning their residence but are no longer happy with worrying about maintenance and other responsibilities that are synonymous with detached housing.

It is also apparent that the size of the dwelling unit is no longer a critical matter as long as the physical space is workable for furniture placement and there is an interrelationship of areas that visually create the feeling of continuity.

There is a greater demand for more bathrooms and especially powder room facilities, along with an increasing need for more storage space. Kitchens have been criticized for the lack of work area and cabinet space.

The "Country Kitchen," which provides meal preparation, dining area, and family room activities in one area, is very popular at this time.

A very definite factor that improves sales is the sloping "cathedral" ceiling and open stairways and change of floor levels. Greater separation of the master bedroom suite from the secondary bedrooms is also proving to be more desirable along with the above; it is also desirable if space allows, to include seating or retreat areas combined with a master bedroom.

Attached garages, whether for single family or condominium programs, are desirable, especially when they provide direct access to the kitchen or service area of the residence. There is also a trend in single family detached housing towards a three-car garage, which provides numerous functional variations for the homeowner.

Another housing trend that seems to be catching on is the "zero" lot line or patio house concept. This concept provides for a more usable living area on one side of the dwelling due to the fact that the building is located on the opposite property line and eliminates a narrow unusable strip of land on either side of the unit.

People seem to be content with smaller lots if they are provided with common-area green belts that are visually attractive and provide play areas for children.

Chicago: The Greater Chicago suburban area is typical of trends throughout the Midwest, with the obvious differences in the size of market and, therefore, the rate of influence of new concepts in housing. The bulk of the market typically is influenced by the constraint of tradition,

such that a single family detached colonial house is the most predominant influence. However, several factors other than traditional constraints are now influencing this market.

The Midwest in general, and Chicago specifically as its economic leader, have experienced during the past 10 years a strong influx of people due to a very stable and growing economic base. This has obviously attracted many people, and especially young people between the ages of 25 to 35 who have been exposed to other markets in the country and hence more advanced concepts of housing.

Additionally, the land planning aspect of production housing has changed drastically over a 10-year period with the introduction of PUD, multiuse planning. The builder-developer is primarily interested in the building half of the business, which is predicated on cash flow, and has used the PUD development to give more leverage with respect to overall economics and greater continuity in production sequence. Therefore, a typical PUD is planned with commercial in the front bordering major circulation, a reserve of land for multifamily housing behind the commercial, some form of attached housing behind the multifamily, and culminated with the largest portion of the land devoted to single family detached housing. The builder's first phases are generally single family detached. He has recently involved himself in attached housing which has become popular in the Midwest in the form of townhouses and quadrominiums.

Recently zoning and the entire governmental process of converting raw unzoned land into designed land packages have become exceedingly difficult. The zoning process requires a great deal of front money, requires greater expertise in planning, and in many areas is virtually impossible because of utility problems, specifically with respect to sewers. Therefore, the land available in suburban areas for production housing that is zoned presently is predominantly multifamily. Because of the original planning methods and phasing of programs, this land is extremely expensive and can now only justify high density housing. Therefore, we now see a very strong trend towards condominium multifamily housing.

Your attention is invited to the report by COMCO which details specifically the numbers of single family, attached single family, condominiums, and apartments within the Chicago market. COMCO, as of this writing, is the best source for information relative to market in Chicago and may be contacted in the future for more detailed information.

The two accompanying tables represent about 90 percent of all the buildings in suburban Chicago. The word "proposed" in the report is synonymous with zoned. The average age of each development is given in months. The price range in thousands of dollars indicates the very lowest and the very highest prices surveyed, which related to 90 percent of the total units in Chicago. There are 140 single family developments, 120 condominium developments and 54 single family attached developments in the Chicago area. This total number represents an assumed 1½–2 year inventory in single family and single family attached units, but virtually no inventory in condominiums. Condominium sales last year represented 25 percent of the market and should, within the next year and a half, represent between 40–50 percent of the market.

These data, therefore, represent a shift in market influence to the point that available housing by necessity will be in the form of new housing types within the next 2 years. That, coupled with the influence from both Coasts and the fact that several large corporations have already introduced new housing concepts in the Midwest, should overcome the enigma previously related to the traditional constraint.

There is currently a strong trend in many areas throughout the Midwest for corporations to isolate themselves in the role of the land developer. They tend to involve much larger parcels of land than were seen in the original PUD's, and the scale of these programs is of the size of 1,000 acres and 5,000 to 6,000 housing units. The goal will be to provide a total village concept to the ultimate consumer and will be achieved by parceling land off to companies whose major business is that of building.

Washington, D. C.: The most significant factors affecting the Greater Washington, D.C., housing market are sewer moratoriums and no-growth zoning policies. Both of these have created a strong seller's market where prices in certain types of housing (e.g., single family detached) have become unusually inflated. The availability and cost of "buildable" land (zoned with sewer) have caused a significant slowdown of operations and a trend for more and more attached, condominium units.

The Washington, D.C., area is a strong market. Almost anything will sell if the price is right. Locations and amenities are significant in the higher priced units but moderate to middle cost housing is absorbed indiscriminantly.

The large influx of population from other areas of the country has generated a strong

housing market in contemporary styled units as well as the area's more traditional Jeffersonian, Georgian, and New England Colonial styles.

Consumer awareness of workmanship quality and materials is also on the increase because of an active press and reasonably sophisticated market. Governmental approvals are also becoming more involved with architectural review and quality.

New England: This is an area that traditionally has been very slow to change, but recent establishment here of divisions of West Coast and national builders is indicative of change that is about to occur.

Recent establishment of condominium-type ownership has caught on in the market place, working its way down the price ladder. The more sophisticated buyers were able to accept this type of ownership more readily.

Styles are still very traditional, with the exception of several PUD-type communities that have marketed a new lifestyle as well as architectural style. The single family market is almost totally traditional—colonial ranch and raised ranch.

Concluding Note: These brief notes from five major market areas illustrate the differences in the housing market based on regional or local preferences. They also suggest, however, the influence for change that one area exerts on another, particularly the West Coast influence on tastes and styles. Some of the themes that are found elsewhere are pointed up very clearly here —the trend to condominiums and to low maintenance, the hint that allegiance to single family homeownership may be weakening, the influence of land use planning developments. But it would be both difficult and essentially useless at this time to try to aggregate a national picture from such local and regional market analyses.

Total of All Proposed Housing Units That Can Be Identified by Acreage of No. of Units

Area	Condominiums	Single Family	Attached Single Family	Total
North	29,955	14,145	10,821	
West	29,239	10,895	12,055	
South	14,167	7,825	6,483	
TOTAL	73,361	32,875	29,359	135,595
Percent of Total For-Sale Housing	45.1	24.2	21.7	
Total Proposed Apartments	56,885			

Profile of For Sale Housing as of April 1973 by Product Type

No. of Developments Surveyed	No. of Proposed Units	Reported Sold	Remaining To Sell	Average Age of Each Development	Average Monthly Sales	Price Range
Condominium 79	25,728	8,276	17,452	13.8	8.2	17-65
Attached Single Family 47	11,901	5,980	5,921	19.1	7.1	18-65
Single Family 78	41,476	22,899	18,577	28.7	9.6	20-65

Homeowner's Panel

The Project: Eight middle class white homeowners from the City of Buffalo and its adjacent townships met for an evening of structured discussion about their reasons for buying housing.

They had been given a series of (minimally biased) questions two days beforehand and told that they were to participate in a Housing Preference Workshop and that

> We are trying to find out what kinds of houses and neighborhoods people want to live in. We believe that the best way to get this information is by asking people who own and live in houses, rather than by asking the 'experts.'
>
> A series of workshops is being held in different cities, supported indirectly by the U.S. Department of Housing and Urban Development. We have selected a group of 6–8 Buffalonians to help us answer some of these questions.

The prepared questions the group was asked to consider were:

- Why did you move from your old house?
- When you started looking, did you look for neighborhoods first or houses first?
- What kind of neighborhood were you looking for?
- What kind of house were you looking for?
- How many houses did you look at, and for how long?
- Were there many real differences among the various houses you looked at?
- What kind of house did you finally buy?
- How was it better/different from others you had seen?
- Before you started looking did you make a list of things you desired in a house? Did you know which ones were most important, and

which ones you were willing to give up if necessary?

- Was what you finally bought ideal? Or a compromise in some way? What did you give up? Overall, how close did you come to meeting your requirements?
- Did you really fall in love with any house/property you did *not* buy? Why did you *not* buy it?
- What might you desire in a home that you don't have now?
- What real shortcomings do you find in the home you bought? Not just the house but the whole deal?
- How did you feel about leaving your old home? (house, neighborhood, etc.)
- What was your old house and neighborhood like?
- How often have you moved in the past ten years?

The group was led by a skilled discussion leader with notes taken and tape-recorded by a second professional.

The People: All the participants were lively from the start, shared equally, and expressed pleasure upon being asked to participate both before and after the workshop.

There seemed to be little reticence in discussing issues of privacy, security, racial conflict, income adequacy, or values.

Although eight people were present, only six households are represented because two husband/wife teams participated. This was highly representative in that significantly different perspectives were presented by husband versus wife in both cases. Where only a husband or a wife was present, that person had been the major decisionmaker in purchasing the family house.

A table of incomes, housing costs, number of occupants, year of purchase, and the kind of house purchases follows:

Income	Housing Cost	Number Occupants	Purchase Year	House
$10,000	$23,000	4	1970	Existing
12,000	11,300	10	1963	Existing
18,000	32,000	4	1965	Existing
20,000	43,000	4	1973	New Custom Construction
37,000	32,000	2	1972	New Modular
40,000	60,000	4	1972	Existing

Many housing experiences are represented, including purchasing housing from existing "inventory," buying an industrialized modular house, and having a builder build a house from sketches.

Much experience with homeowning is represented by these six households, who had owned some 21 houses in their "homeowning lifetimes."

The people in the group work at the following jobs:

- accountant
- New York State investigator
- grade school teacher
- controller
- auto parts retailer
- stenographer
- housewife

All are Buffalo-born and bred. Several had moved to other States and returned. All liked their city and held a very positive image of it.

Family #1: Stew and his wife, both jobholders, bought their first home a year ago, because the apartment they had lived in during their 5 years of marriage had become too cramped with the advent of two children. They disliked apartment living, knew what they wanted in a home, and had determined that it would be economically feasible to buy.

They had looked at 30 houses over 3 years; and during two or three months of serious house-hunting they went through five houses, using the services of a realtor to prescreen them.

This family looked at the neighborhood first, and the house second, although they had very specific and definite requirements in a house. Choice of neighborhood was based primarily on the quality of the public school system. They finally chose the same suburban neighborhood that Stew had grown up in, purchasing a 30-year old house from an old friend and neighbor.

After having looked at many newer houses, they felt that older construction (at least 20 years old) had more quality. They also wanted an all-brick home for low maintenance. Other requirements were plaster walls and hardwood floors, a 2-floor plan, a kitchen, a separate breakfast room and a dining/living room, a full basement, a nice yard so the kids could play, and a two-car garage. A family room was optional. Radiators were not acceptable because of the prohibitive cost of adding air conditioning with that type of heating. Stew's requirements were centered around providing his children with a good, comfortable place to grow up, since he and his wife spend less time at home.

Stew was completely satisfied with his home.

Family #2: Esther and her husband, who both work, had rented the upper flat in her parents' house for 17 years when they bought their first home. Rent and accommodations were good, but they decided to move to preserve the family relationship, when the noise and activities of two growing children began to bother the grandparents.

This family spent at least 5 years house-hunting, because they had firmly fixed requirements. They looked first for a neighborhood that was "restricted" in terms of the value of the houses, desiring homogeneity; and also for a neighborhood of all ranch houses, with no split-levels or two-stories, because "the street looks better if all the houses are the same type." Another locational requirement was to stay within reach of bus transportation to the children's private schools, and within easy reach of their own jobs. Of the house itself, they required good, sound construction, a one-floor layout, and spaciousness.

They finally satisfied all of these requirements 7 years ago, with the purchase of a 7-year old ranch built by a contractor for his own family, and located only 10 miles from their old home. In terms of neighborhood, space, storage, and construction, Esther is perfectly happy. She now sees newer products and finishes that she would prefer, however; and she would like to add a dishwasher, and sliding doors from the family room to the patio.

Family #3: Tony and Mary bought their first house 10 years ago primarily because they and their four children were squeezed for space in a rental dwelling. They had decided that buying would be a better deal economically than renting. (Mortgages were then at 4.5 percent.)

Because Mary does not drive, they looked first for a neighborhood with easy access to stores, church, etc. Finding that they could not afford the older, service-rich suburban villages, they gladly chose to buy in the city neighborhood where they had both grown up, within a few blocks of park, zoo, busline, church, and school.

During a 10-month hunting season they looked inside about eight houses. Their primary requirement was space—both indoor and outdoor living and play space. (Their household has since grown to 10 people.) They were willing to settle for an older, not very well maintained house with old-fashioned equipment in order to get many large rooms, a large kitchen, a large livingroom with a fireplace, a large yard, and a full basement for storage.

This family wants and would be willing to pay for another full bathroom on the second floor and a toilet in the basement. (The house has only one bathroom.) Mary would also strongly prefer to have all laundry facilities upstairs adjacent to bedrooms. She objects to a layout that forces all traffic through the livingroom, and they find the chopped-up wallspace hard to furnish against. They are well pleased with the neighborhood, and have added some living space and improvements to the house, although Tony needs more time to do all the maintenance.

Tony: "I always said I'd never buy a house without a front porch, and I don't have one, and I miss it. I'd like to sit on it and drink beer and holler at my neighbors."

Family #4: Born and bred in Buffalo, Anne and her children were lonesome on the West Coast, so when a business venture there failed, she and her husband and two teenaged children returned, living at first with relatives.

Their purchase of a home was motivated primarily by the need to get away from an overcrowded and very difficult living situation. They did no house-hunting, however, but snapped up a favorable financial deal that came along on an older house.

Anne was miserable in her new house for the first 2½ years; furnace and gutters gave out; windows leaked; bus transportation was inconvenient and they had to buy a car; and she discovered filth and poor maintenance under a veneer of good looks. During the past year, with the children old enough to drive and some major repairs made, she has begun to enjoy the house and neighborhood. She is still pleased with the economics of the move.

She particularly dislikes a long narrow bathroom that makes her feel "closed-in," and would prefer a tub and separate shower to a combined arrangement. She also dislikes having a small kitchen that will not accommodate a dishwasher, and that forces them to have all their meals in the dining room.

Anne has owned three other houses and has rented once. She says: "You couldn't give me an apartment. If you have an argument with your husband or children, the next-door neighbor hears every word!"

Family #5: Phil had been working in California and enjoyed living there, but changes in his business allowed him to accommodate his

family's keen desire to return to family and friends in their native Buffalo.

Phil returned a month ahead of his family to find a house. He looked first for a neighborhood that would provide easy access to her old teaching job for his wife, who does not drive. Having found the ideal neighborhood, he looked at 15 houses in an attempt to find the same features they enjoyed in California. He could not find what he wanted, and found prices much higher than when he had left Buffalo. When he got a reasonable estimate from a contractor, he decided to build a house like the one he had owned on the coast, and found a lot in that neighborhood.

The house he is building for himself, his wife, and two teenaged sons has three bedrooms; a large dressing room, lavatory, and shower off the master bedroom; 15-foot closets in both the master bedroom and the dressing room; a step down living-room, a large foyer with double-door front; a family room with a wood-burning fireplace; a well-laid-out kitchen with an island range and an eat-at counter-top; an attached garage, and carpeting throughout. Unlike his house in California, this house will have a full basement, which he wanted mainly for the resale value in this part of the country.

Other than preferring slightly larger bedrooms for his children, Phil is perfectly satisfied with his house (now under construction) and with the neighborhood.

Family #6: Jim and Arlene, both jobholders in their 50's, have owned nine houses and made 12 moves during their married life. Last year they bought a lot and a modular home, assembled to suit their changed requirements for minimum upkeep and maximum efficiency.

Before their last move, they looked at several houses, and tried to negotiate a house trade in order to avoid a realty fee. They felt that they knew exactly what they wanted after all their homeowning, house-hunting years and their 12 moves. Their focus was on acquiring a smaller house and yard; the reduced amount of time required for upkeep would permit them more free time for golf and other interests; beyond that, their essential requirement was for two bathrooms and two bedrooms. They also got a Pullman kitchen for maximum efficiency, a living room, a dining room, a garage, and a half-basement as a concession to resale value. Although they looked in other areas, when they decided to build they chose a lot in the same neighborhood as their last house.

They both felt that the modular building allowed them to get exactly what they wanted, with the exception of a wood-burning fireplace—an exception that was Arlene's only regret. They were pleased with the convenience of the quick, ready-to-move-in assembly method that required no construction loan—the mortgage begins at the date of completion—and allowed them to avoid the escalation of construction costs over time.

Arlene: "When you're young, you like a big, beautiful house, you're proud of it; and then all of a sudden you discover that there are things more important."

Summary: It is notable that several issues that one might have expected such a group to discuss were not directly raised. We suggest that the meaning of these omissions be considered.

For example, none of the participants mentioned privacy as a requirement in a home, although one woman complained about the lack of it in apartment living. No one mentioned accident safety as an issue. None of the participants had given any conscious consideration to security when looking for a home, perhaps because they were used to taking it for granted. One man who had suffered an armed robbery in his home had since become more security-conscious, though he still rejected such elaborate measures as an alarm system as being potentially dangerous if not ineffective. Bike theft was discussed as being a major problem in one neighborhood, yet the same people were somewhat lax about locking doors and windows in their houses.

The participants had given very little thought to the use of professional inspection services; of the total of 19 housing purchases that had been made by these participants, inspection services had been bought for only one transaction (in California, where presale inspection for a nominal fee is an institution of the real estate business), and one other man recalled using an appraiser once for a housing deal that had not gone through. Yet maintenance problems and repair costs, soundness and reliability of housing equipment—especially in older houses—and their own ignorance of such technical matters were conscious concerns of these people, and considerable interest was expressed in the California presale inspection system.

Two more items are worth noting here. First, there was a general feeling against high realty fees, and a tendency to dispense with a realtor's services in both buying and selling houses. Sec-

ond, although time did not permit an exploration of this topic, one man correctly pointed out after the meeting that how people shop for the money to buy homes is strongly linked to what they look for in housing.

Because this exploration was organized as a small informal workshop rather than as a survey, we caution against generalizing broadly about market preferences from these indications. The results of this workshop are presented as a stimulus to fresh thinking about housing preferences, and for their value in suggesting a shape, a focus, or a point of departure for other workshops, research, or surveys.

Perceptions of the Poor

It was our early and obvious hypothesis that the poor had little choice with regard to their housing; their preferences as consumers were likely to be significantly constrained. We felt it important not only to make judgments based on our experience or only to cite the literature—e.g., the Austin Oaks Project, funded by HUD—but somehow to tap representative opinions of poor people. Accordingly we assembled a panel of six people, chaired by a project team member with long experience in working with citizen groups and eliciting community participation.

The panel did include an ethnic and geographic cross section. The results of that panel, presented here, show trends, preferences, or change that are common knowledge to many people. The notable characteristics of these data are that they provide pragmatic and firsthand information. It identifies a whole range of concerns most Americans never have to consider about their housing choices. Emerging from this panel (and confirmed by our general experience in the low income housing field) is the stark, hard-nosed realism pervading every answer to questions concerning the individual's housing preferences. Responses to "Where I live now . . . If I could move . . ." illustrate this fact. The poor are expressing preferences to have the same things the nonpoor take for granted.

Where I Live Now . . .	If I Could Move . . .
3 bedroom townhouse with no basement. Yard adjoined to neighbor's, landscaping ugly. No shopping facilities close by, the closest is 7 blocks uphill in Corals Hill, Md. and 27 blocks away in the District. Schools & churches are close by. Bus transportation is available thirty minutes during rush hour and available every 45 minutes until 11:30 pm and every two hours until 6 am. Very small bedrooms and 230 units of cinder block.	3 bedroom with basement (semi-detached) front and back yard. Far Southeast or Northeast area in the District. Access to bus line, schools, churches, hospital and shopping facilities.
I live in a 33 stories high building that looks like the "Tombs" city prison in New York. The elevator faces the back of the building and is dangerous because we have had muggings and robberies in it. I don't like heights but didn't have no other alternative. The rooms are large and the apartment itself is not so bad but there is a constant banging on the front door due to the air from the elevator that makes one go mad at times.	I would buy a three bedroom house accessible to transportation. Plumbing and wiring should be in good working condition. I would like to stay in the vicinity I live now if agreeable with my son or maybe go along with his preferences. I would like my house to be surrounded by shades of green trees and flowers even in the middle of city. It should have a porch and the painting should be in bright colors. It should be facing the corner of the street where we have access to all transportation and other facilities in the city.
I would not like to move out of my neighborhood, because as a born leader I want to have an input in upgrading the community. I feel that I have something to give and would encourage our people to remain and make the community what you want it to be.	Remain in same neighborhood because I am a born leader. Rent, because at my age I don't foresee of ever completely owning. Single or duplex not more than 2 family dwelling. My children are growing up. House—3 bedrooms sound construction and foundation. Take in consideration schools, business, recreation, social upgrading.
I live in a 2-bedroom apartment in a 3-story brick building, 12 families to an outside doorway, 3 outside doorways for each building, 36 families to a building.	At my age I would prefer to rent. If public housing were available in scattered site housing that is what I would take. My position as chairman of a statewide public housing tenants organization it is necessary for me to be a public housing tenant. I would miss the excitement.

Table 1 presents a list of concerns of the panelists in response to the first question put them: What's wrong with your housing today?

Table 1. What's Wrong With Your Housing Today?

- No day care facilities near housing.
- Need space for social service agencies in projects.
- Not enough square feet in and out.
- Not enough bedrooms.
- Bedrooms too small.
- Car damage and vandalism.
- No recognition of tenant participation.
- No central heating.
- Shortage of available standard housing.
- Poor design.
- HUD area office not responsive.
- Poor administration: misuse of funds; maintenance (lack of attention, adequate numbers of employees, and high cost); no understanding and knowledge of low-income problems; not enough HUD representatives or contact with HUD representatives; unfair leases; lack of grievance procedures.
- Poor management of local housing authorities.
- Not enough bathrooms or absence of.
- Poor construction and materials.
- Crowding/density.
- Screens and elevators vulnerable (security guards needed).
- Running water.
- Not enough low income housing (Kentucky).
- No roads/bad repair—rural areas.
- Security deposits too large.
- Bad sites for housing—isolation.
- Lack of recreation facilities and community (elderly and youth) meeting rooms.
- Rent too high as percent of income.
- Power failures/generators.
- Fire hazard—no insurance available inside.
- Elevator operations unsafe.
- One family units.

Out of this list, one can draw a few conclusions that many nonpoor might also define, e.g., not enough bedrooms, bedrooms too small. But the largest part of this list of problems deals with safety or security factors and with the management of the housing in which they live. The issue of control, automatically conveyed by ownership and sought by tenants' organizations, is a primary concern. We do not suggest homeownership as a panacea—the dire problems in programs to provide low income housing for purchase points up the need for consumer education and preparation. But as a preference, the poor want to control their living environment and are most frustrated by problems in this area.

We asked this panel to rank their problems, and the results are presented in Table 2. We also asked them to rank their priority desires, which are presented in Table 3. Against these problems and desires, the prospect of consumer preferences expressed in terms of second homes, town houses vs. single family dwellings, or a market responding to specialized segments, seems scarcely relevant.

Table 2. Priority Ranking of Problems as Perceived by Tenants

1. Poor administration—tenant and management relations
2. Not enough public housing
3. Bathrooms—running water
4. Maintenance and security
5. Poor construction

Table 3. Priority Ranking of Desires as Perceived by Tenants

Priority Desires
1. Large enough rooms
2. Enough bedrooms
3. Washing machines
4. More windows
5. Sewage systems
6. Spacious kitchens

Other Desires
Electric outlets
Enough closets
Separate kitchens
Air conditioning
Better appliances
Soundproof walls
Hardwood or carpeting
One or two levels
Standard fixtures
Circuit breaker

As suggested earlier, upper income people have almost unlimited choice vis-a-vis construction, localities, design, density; (relatively) cost is not a factor. Middle income people perceive real choices, although obviously they are somewhat constrained. Poor people, almost universally, do not perceive themselves as having choices (see Table 4). They express feelings of powerlessness on those elements usually confirming consumer preference options. As Tables 1, 2, and 3 show, the primary preference is for improved maintenance, administration, etc. Beyond these desires, the preference of low income consumers is similar to that of middle income renters or homeowners—the house itself and the environment in which it exists in terms of schools, security, quality of construction, cost, design, and density are significant.

Table 4. Do You, or Do You Not, Have a Choice Regarding . . .

	Number of People	
	Choice	No Choice
Quality of Construction	2	5
Location	2	5
Design	1	6
Cost	2	5
Density	3	4

Research Needs and Public Intervention

A tentative research agenda has been organized by major topic, with initial items of interest included under those topics. Some of these would provide basic information, useful to many involved with the issues of consumer choices and preferences in housing, from HUD to developers to consumers. Others seem to be an entry into a potentially promising line of inquiry, but some of these questions suggest answers that are of particular import to a sharper definition of appropriate government action.

The research agenda is tentative because of the need for HUD to determine how much of such information would be useful to them, and because such an agenda would be aided and sharpened by wider discussion. Nonetheless, it may be useful to have such a beginning, since this area of consumer preferences in housing is so fragmented and unorganized in what is known.

Variety and Flexibility of Housing Needs and User Requirements

Housing requirements vary for all types of households—nuclear families, extended families, sibling families, one parent families, and elderly citizens. Each group will differ in the value they place on space, number of rooms, privacy, community, security, community facilities, access to commercial areas, and exterior private space.

Four areas of research are suggested to yield a broader definition of housing needs.

- The influence of FHA Minimum Property Standards on such factors bears careful research.
- The definition of generic minimum space requirements, for different family units, is needed.
- The definition of services, external to the dwelling unit, required by different types of families would further aid in establishing consumer preferences.
- Identification of internal and external privacy requirements related to different life styles is needed.

While some of this research could be undertaken by private rather than government groups, the definition of the impact of Minimum Property Standards as a constraining influence on variety should be a Federal effort as should the establishing of generic space (and perhaps furnishings and services) requirements.

As more or less space is required by the family, in response to changing life cycles or economic circumstances, the dwelling unit should be flexible and adaptable to size and configuration changes. In order to accommodate these concepts, the minimum user requirements of potential residents need to be defined.

Thus, the Federal research in terms of variety and flexibility of needs and user requirements would be twofold:

- To establish the impact of Federal standards; and
- To define, normatively, generic minimum requirements for a variety of family unit types.

Community Tradeoff Decisions

Security emerged as a pervasive concern of low income people interviewed in this project. Further research is needed into concepts such as "defensible space" and the overall concept of enhancing security through environmental design. Specific issues include:

- Preferred tradeoffs in apartments or multifamily housing, between space, amenities, and communal facilities.
- Design features that enhance security, the feeling of security, and a sense of community. This might test the extensions of Oscar Newman's work in terms of its transferrability to other areas related to housing, e.g., communal or contiguous recreation space, public community facilities, work places.
- Definition of a "social impact" statement, dealing with the impact of a proposed development on the existing social structures, the projected security and convenience of potential residents, the privacy and social interaction requirements of potential residents, and the mix of family types.

Because the Federal Government is already in the position of issuing standards and has funded much of the initial work on "defensible space," it is best equipped to coordinate these areas of research and communicate current information. Within the framework of a federally monitored research agenda, State and local authorities could be encouraged and funded to undertake specific research projects.

Proposed Governmental Roles

Consumer Primacy: A constantly recurring question in the course of our work was why HUD wanted to know about consumer preferences and what they would do with the information. The foregoing research suggestions define an initial research program. However the governmental role in the consumer preference and choice area is broader than sponsoring research.

The present structure of the housing market obscures identification of whose preferences are being dealt with under the area of consumer preferences. For many consumers, there is an intermediary between their expressions of preferences and a message to producers. For some, this means the housing authority or the management of a project expresses preferences—rather than the consumer. For others, it means that developers express preference decisions or responses by building for some anonymous "average man." In both cases, consumer preferences are ignored or distorted.

Indeed, for the poor, where choice is always constrained and sometimes nonexistent beyond a take-it-or-leave-it dichotomy, the Federal Government has already begun to take the single most responsive consumer preference decision possible. Experiments such as the "housing allowance" program, programs that shift the purchasing power to the consumer (and away from intermediate or landlords with effectively captive tenants) reassert the primacy of consumer choice. For beyond the question of user requirements, housing with flexibility, and providing for tradeoffs, the critical question is whether the actual consumer has a choice.

Better Information: Another key role that can be played by government is in the facilitation of better, more timely, and more complete information. One of the assumptions on which the efficient functioning of a free market economy rests is full and accessible information for economic decisions. That is, to the extent that we expect normal supply and demand interaction to accommodate consumer preference, then we must insure that such information is available. Thus, the Federal Government or State agencies might sponsor clearinghouse activities in which information for producers and consumers is available on financing alternatives and availability, land costs, land use plans and constraints, housing types available, cost ranges, guidelines for rental/purchase decisions, standards on materials and construction techniques, minimum user requirements (as for space, services, environment), product safety guidelines, standard housing package definition (e.g., do houses in this State typically include a refrigerator?), and identification of tradeoff alternatives.

Such clearinghouses might serve two purposes—first, to give consumers and producers information; and second, to allow government to monitor the efficient functioning of the market. Thus, if a particular group's needs (whether the poor, the old, the young, the handicapped) were not well met, government agencies could focus on improving that situation. At the same time, where needs were being adequately met, no action would be taken.

If such information and monitoring are to work, one further step would be necessary. Appropriate criteria for government intervention would need to be defined. Definition of such criteria would be essential to making responses to problems of appropriate scale, intensity, and duration. That is, response might well be necessary to the housing needs created by a tornado, a Hurricane Agnes, to a 25 percent increase in college students, and to an influx of senior citizens. But the responses will be different, fitted to the specifics of the housing need and the range of activities already available to meet it.

Information Uses by Different Institutions: Finally, a summary of the potential uses of better consumer preference information by different groups is outlined below.

By the Federal Level:

- To identify gaps between desires and what the market is providing
- To pinpoint portions of the market not now being well served
- To identify problems more specifically—land costs, financing costs, codes, etc.
- To verify that Federal housing assistance programs are responding to current needs

By States and Localities:

- To identify appropriate State or local em-

phasis, in adapting the Federal functions to their level

- To identify particular State or local constraints on meeting consumer needs
- To identify and implement positive aids to meeting consumer needs better, from land use planning to clearinghouses

By the Industry:

- To enable developers and builders to provide for consumer desires far more accurately
- To improve, in terms of the physical structure, the interior space and amenities, and in relation to community services

By Consumers:

To provide a wider range of consumer choices

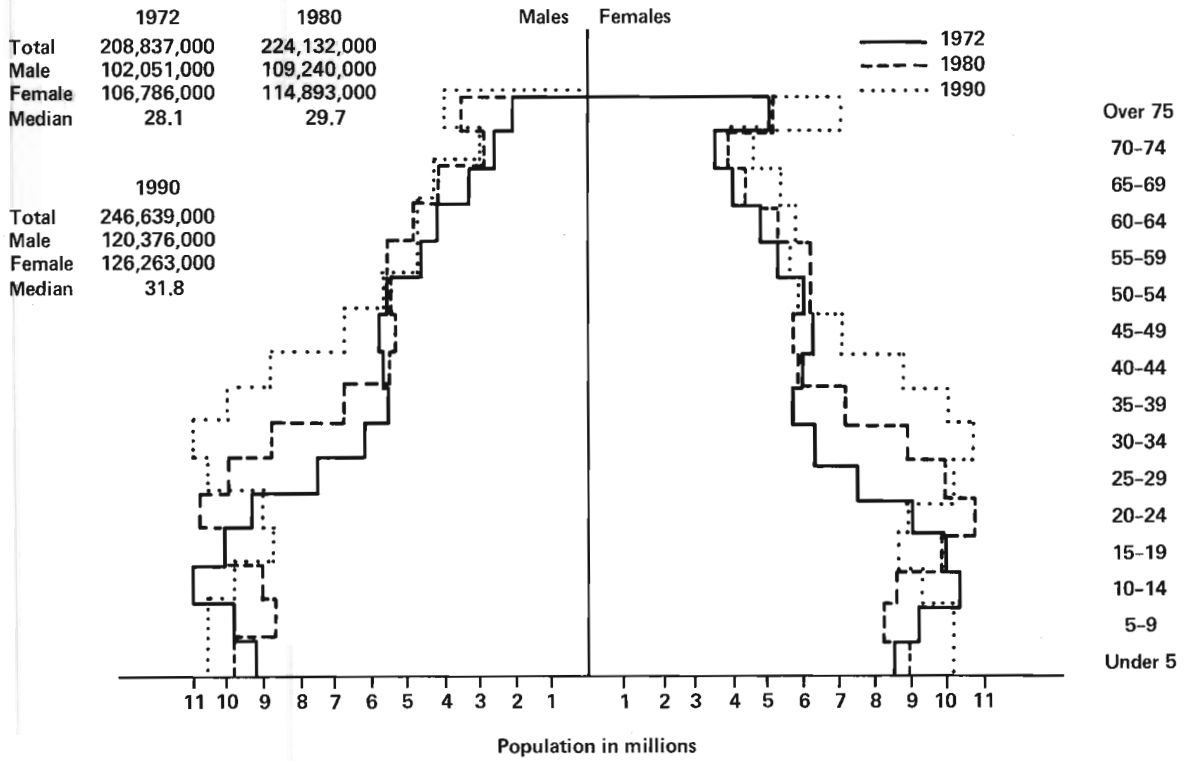
- To improve the level of tradeoffs possible, i.e., choices along a continuum rather than among discrete "sets" of packages
- To provide explicit response to consumer concerns about environmental impacts, social impacts, product safety, and construction quality

Demographic Analyses

Population Trends and Projections

Total Population: By the year 1980, the population of the United States is expected to be approximately 224 million, representing an increase of nearly 20 million, or about 9.5 percent, over the 1970 population of 204,879,000. The population projected for 1990 is approximately 246.5 million, an expected growth of about 22.5 million, or 10 percent over 1980. By contrast, the increases for the 1950–1960 and 1960–1970 decades had been 18.5 and 13.4 percent

Figure 1
Age Distribution of the Population, 1972 to 1990



Source: U.S. Bureau of the Census, Current Population Reports, Series P-25, No. 493, December 1972, Table 2, p. 187

respectively.[1] This diminishing rate of population growth results from the most striking of recent demographic trends, i.e., a sharply declining birth rate since the mid-1960's. A definite shift in desired family size appears to be emerging.[2]

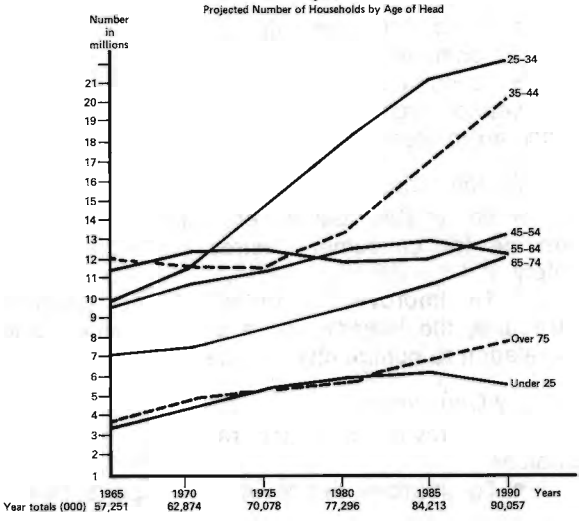
Changing Age Structure of the Population: The declining birth rate will have considerable impact on the future age structure of the population. Figure 1 shows the projected 1980 and 1990 population pyramids superimposed on that of 1972. As indicated, the segments of the population under 15 years of age will diminish from 27 percent of the total in 1972 to 23 percent in 1980 and rise slightly to 24 percent in 1990. However, the 25–34 age group will grow from 13 percent to 16 percent of the 1980 total and 17 percent in 1990. In absolute numbers that growth will be from 27 to 37 million, to 42 million.

The 25–34 age group is the most important one for household formation, and as 1980 approaches it is likely that each year a progressively larger portion of the population will be engaged in household formation; this condition will continue, although less dramatically, through 1990. However, between 1980 and 1990, the 35–44 age group will show the most pronounced growth, increasing from 11 percent to 15 percent of the total or 11.6 million in actual numbers.

Number of Households and Age of Head: The Bureau of the Census has projected that in 1980 the number of households (defined as the same as the number of occupied dwelling units) will be about 77 million, an increase of close to 14 million, or 22 percent, over 1970, and reflecting a rate of increase faster than the rate of population growth.[3] In 1990 there will be some 90 million households, an increase of about 13 million, or 17 percent, over 1980.

Figure 2 shows how the total number of households has been distributed by the age of the head in the recent past, and how it is likely to be distributed through 1990. Households in

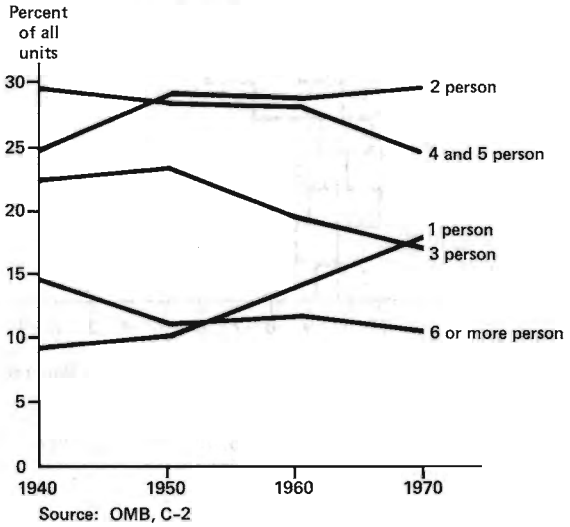
Figure 2
Projected Number of Households by Age of Head



Source: U.S. Bureau of the Census, Current Population Reports, Series P-25, No. 476, Table 7, P. 25.

the 25–34 year age group will show the most striking increase until 1980. While they were 18.6 percent of the total in 1970, by 1980 they will comprise some 23 percent. They will show an absolute increase of approximately 6.6 million households, or nearly half of the 14 million growth increment to 1980. We are clearly entering the era of the young married household. After 1980, the 35–44 age group will show the sharpest growth. It will increase in that decade from 17 percent to 22 percent of the total, or by more than 6 million households.

Figure 3
Distribution of Households by Size



Source: OMB, C-2

[1] U.S. Bureau of the Census, *Current Population Reports*, Series P–25, No. 493, December 1972, pp. 1–9. This is the most recently revised Series E projection which uses the estimated July 1, 1972 population as the base. The Series assumes an average cohort fertility rate of 2.1, which in light of recent data seems the best one to choose. The Series further assumes "no disastrous war, widespread epidemic, major economic depression, or similar catastrophe." The mortality and immigration (400,000 per year) assumptions are the same for each Series.

[2] Donald J. Bogue, *Principles of Demography*, New York: John Wiley and Sons, Inc., 1969, p. 139.

[3] U.S. Bureau of the Census, *Current Population Reports*, Series P–25, No. 476, February 1972, pp. 8–9. Series 1 of the household and family formation projections were used. Series 1 assumes that rates of change in headship rates will be the same as those from 1957 to 1969.

Size of Households: Past trends in the distribution of households by size category are graphically illustrated in Figure 3. The largest group, two person households, have remained relatively constant at about 30 percent of the total. One person households have been steadily increasing, having reached 17.5 percent of the 1970 total.[4]

In 1971 the average size of all households was 3.14 persons; 3.08 for white and 3.67 for black (see Table 1).

Type of Households: While the primary family, husband-wife household has been, and in the next decade will remain, the most important household type, it has become a smaller part of the total since 1960, as has the portion of all households in the primary family group. Households headed by a primary individual are becoming more important. Similarly, unrelated individuals comprising a household have become a larger portion of the population and will constitute 8.1 percent by 1980. These changes are detailed in Tables 2 & 3.[5]

Spatial Distribution of the Population

Regional Patterns: During the decade of the 1960's the balance of the American population has shifted from the Northeast and North Central regions toward the South and West. While all regions experienced absolute increases in population, these have been much larger in the South and especially the West (14.2 and 24.1 percent, respectively). However, in all sections except the West, the total increment was accounted for almost entirely by natural increase. Only in the West was there a significant gain through net migration: Nearly half of that region's gain of 6.75 million was derived from people moving into the States comprising the region.[6] Table 4 details the regional distribution of the 1970 population, and estimates to 1990.

The interregional redistribution patterns of blacks and whites varied considerably between 1960 and 1970. The white population has been increasing faster in the South and West, with about one-third of the increment due to net migration. The other two regions had negative net migration of whites, their entire white population gain having come from natural increases. Blacks have continued their movement from the South to the other regions of the Nation, especially the Northeast and West, where their numbers approximately doubled. These interregional changes are detailed in Table 5.

Table 1. Average Population per Household and Family, by Type and Race: March 1971

Type	Average Population Per Unit		
	United States	White	Negro
Households	3.14	3.08	3.67*
Families	3.60	3.52	4.31
Husband/wife families	3.66	3.60	4.33
Families with female head	3.33	3.01	4.22
Other families with male head	2.97	2.84	3.73
Sub-families	2.79	2.65	3.31

* Average population per household combines Negro and other races.

Source: Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P-20, No. 233, "Household and Family Characteristics: March 1971."

Excerpted from: General Statistics Related to Housing and Urban Development, p. 301.

Urbanization: The United States has become more urbanized in recent decades. In 1950, 56.1 percent of the Nation's population lived in SMSA's; by 1970 that percentage had increased to 68.6, with some 40 percent of the total living in SMSA's of over 1 million. The most pronounced growth has taken place in metropolitan areas of the 1 to 3 million range. The number of people living in areas of that scale increased between 1960 and 1970 from 29.8 million to 42.9 million, accounting for over half of the total national increase for the decade.[7] Table 6 summarizes the general urbanization trends of the last 20 years.

Within those general trends, the concentration of the black population in urban areas has been especially pronounced. As late as 1940, the South contained three-quarters of the Nation's black population, over half of which resided in communities of less than 2,500 inhabitants. By 1968 some 69 percent of the black population was to be found in metropolitan areas.[8]

[4] Social Statistics Publication, second draft (unpublished report) Office of Management and Budget, Statistical Policy Division, January 1972.

[5] *Current Population Reports*, No. 476, Table 6.

[6] General Statistics Related to Housing and Urban Development, Part X, *1971 HUD Statistical Yearbook*, U.S. Department of Housing and Urban Development, Washington, D.C.

[7] Social Statistics Publication, op. cit.

[8] E. S. Lee, et al., *An Introduction to Urban Decentralization Research*. Oak Ridge: Oak Ridge National Laboratory, 1971, p. 10.

Table 2. Households, by Type and Race: March 1971

(000)

Type of Household	United States Number	United States % Distribution*	White Number	White % Distribution*	Negro Number	Negro % Distribution*	Other Number	Other % Distribution*
All Households	64,374	100.0	57,575	100.0	6,180	100.0	619	100.0
Primary families	51,823	80.5	46,456	80.7	4,885	79.0	482	77.9
Husband/wife	44,704	69.4	41,067	71.3	3,227	52.2	410	66.2
Other male head	1,250	1.9	1,052	1.8	184	3.0	14	2.3
Female head	5,869	9.1	4,338	7.5	1,473	23.8	58	9.4
Primary Individuals	12,551	19.5	11,119	19.3	1,295	21.0	137	22.1
Male head	4,385	6.8	3,761	6.5	537	8.7	87	14.1
Female head	8,166	12.7	7,358	12.8	758	12.3	50	8.1

* Component percentages may not precisely equal sub-total percentages because of rounding decimals.

Source: Department of Commerce, Bureau of the Census, *Current Population Reports*, Series P–20, No. 233, "Household and Family Characteristics: March 1971."

Excerpted from: General Statistics Related to Housing and Urban Development, p. 301.

Table 3. Percent Distribution of Households by Type

Year	Total (000)	Percent * Households: Total	Primary Families: Husband/Wife	Primary Families: Other Male Head	Primary Families: Female Head	Primary Individuals: Total	Primary Individuals: Male	Primary Individuals: Female	All Families Ratio to Total Number of Household	Unrelated Individuals as Percent of Total Population
1960	52,799	85.0	74.3	2.3	8.4	14.9	5.1	9.8	85.4	6.1
1965	57,251	83.3	72.6	2.0	8.7	16.6	5.7	10.9	83.6	6.3
1970	62,874	81.2	70.6	1.9	8.7	18.7	6.3	12.4	81.5	7.2
Projection Series 1										
1975	70,078	80.0	69.7	1.7	8.6	19.9	6.8	13.1	80.1	7.6
1980	77,296	79.2	69.1	1.6	8.5	20.8	7.3	13.5	79.3	8.1
1985	84,213	78.6	68.8	1.5	8.3	21.4	7.7	13.7	78.7	8.4
1990	90,057	78.1	68.6	1.5	8.0	21.8	8.0	13.8	78.3	8.6

* Sub-total percentages may not add to precisely 100 percent because of rounding.

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P–25, No. 476.

Table 4. Regional Distribution of the Population

	1970 [a] Number (000)	1970 [a] % of Total	1980 Projected [b] Number (000)	1980 Projected [b] % of Total	1990 Projected [b] Number (000)	1990 Projected [b] % of Total
Northeast	49,041	24.1	54,688	24.4	58,207	23.6
North Central	56,572	27.8	60,516	27.0	65,113	26.4
South	62,795	30.9	69,033	30.8	77,445	31.4
West	34,804	17.1	39,895	17.8	45,875	18.6
Total*	203,212	100	224,132	100	246,639	100

* Percentage totals may not equal 100 percent because of rounding decimals.

Source: (a) U.S. Bureau of the Census, *Census of Housing: 1970*, General Housing Characteristics, U.S. Summary, Table 4
(b) Thomas C. Marcin, *Projections of Demand for Housing by Type and Region*. Agriculture Hand Book No. 428, U.S. Department of Agriculture, Forest Service, 1972, p. 73–76.

Table 5. Components of Population Change: 1960 to 1970

Region and Race	Net Change Number (000)	1960 to 1970 percent	Natural Increase Number (000)	1960 to 1970 percent	Net Migration Number (000)	1960 to 1970 percent
United States	23,862	13.3	20,841	11.6	+3,020	1.7
Northeastern	4,322	9.7	3,998	8.9	324	0.7
North Central	4,958	9.6	5,709	11.1	−752	−1.5
South	7,825	14.2	7,232	13.2	593	1.1
West	6,756	24.1	3,902	13.9	2,855	10.2
White	18,781	11.8	16,496	10.4	2,284	1.4
Northeastern	2,744	6.6	3,264	7.9	−520	−1.3
North Central	3,649	7.6	4,910	10.2	−1,272	−2.6
South	6,851	15.8	5,045	11.6	1,806	4.2
West	5,547	21.5	3,278	12.7	2,269	8.8
Negro	3,801	20.1	3,886	20.6	−85	−0.5
Northeastern	1,314	43.4	702	23.2	612	20.2
North Central	1,126	32.7	744	21.6	382	11.1
South	753	6.7	2,132	18.8	−1,380	−12.2
West	609	56.1	308	28.4	301	27.7

Source: Department of Commerce, Bureau of the Census, News Release CB 71-34.
Excerpted from: General Statistics Related to Housing and Urban Development, p. 299.

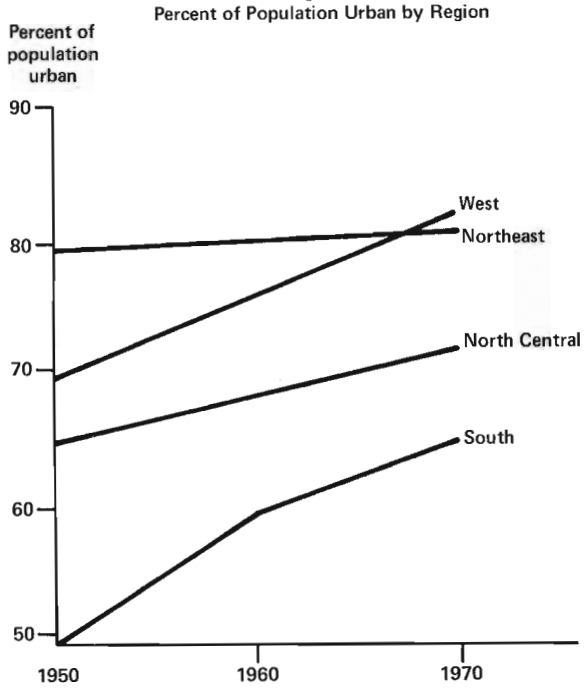
Table 6. Population in SMSA's by Size: 1950 to 1970

	1950 (000)		1960 (000)		1970 (000)	
	SMA	Areas (168) Central City	SMSA	Areas (212) Central City	SMSA	Areas (213) Central City
Total U.S.	150,697		179,320		203,212	
All SMSA's	84,501	49,413	112,885	58,006	139,342	63,824
3,000,000 or more	29,463	18,142	31,763	17,828	37,658	18,947
1,000,000–3,000,000	14,978	7,575	29,819	12,708	42,923	15,854
500,000–1,000,000	12,399	7,745	19,215	10,127	21,935	10,790
250,000–500,000	14,593	7,806	15,829	7,751	19,761	8,750
Less than 250,000	13,069	8,145	16,259	9,592	17,065	9,472
Outside SMSA's	66,197		66,435		63,870	
		Percent of Population in Central City		Percent of Population in Central City		Percent of Population in Central City
Percent of U.S. Total	100.0		100.0		100.0	
All SMSA's	56.1	58.5	62.9	51.4	68.6	45.8
3,000,000 or more	19.6	61.6	17.7	56.1	18.5	50.0
1,000,000–3,000,000	9.9	50.6	16.6	42.6	21.1	36.9
500,000–1,000,000	8.2	62.5	10.7	52.7	10.8	49.2
250,000–500,000	9.7	53.5	8.8	49.0	9.7	44.3
Less than 250,000	8.7	62.3	9.1	59.0	8.4	55.5
Outside SMSA's	43.9		37.1		31.4	

SMSA—Standard Metropolitan Statistical Area. In 1950 SMA—Standard Metropolitan Area—was used. See technical notes for description.
Source: Calculated from 1950 Census of Population, Volume I, Tables 27, 28; 1960 Census of Population, Volume III(D), Table 1; 1970 Census of Population, and Housing PHC(2)I, Table 9.
Excerpted from: O.M.B., A-2.

The regions of the Nation have varied in their degree of urbanization. The Northeast, previously the most urbanized, has been surpassed in recent years by the West. The South, while historically the least urbanized is changing at a faster rate than other regions.[9] These trends are summarized in Figure 4.

Figure 4
Percent of Population Urban by Region



Projections indicate that by 1980 some 77 percent of the Nation will reside in metropolitan areas of over 100,000 (54 percent in metropolitan areas of over 1 million). In the decade of the 1970's the absolute increment in the population of metropolitan areas of over 100,000 is projected to be 30 million. By 1990, 83 percent of the population will reside in metropolitan areas of over 100,000, and 50 percent will live in areas of over 1 million. In the decade of the 1980's, 30 million persons will be added to the population of metropolitan areas of over 100,000.[10]

Intrametropolitan Redistribution: Within metropolitan areas population growth has taken place largely in the suburban rings surrounding central cities. Between 1960 and 1970, the populations of central cities remained approximately constant for the nation at large, although there were variations between regions: General cities in the Northeast actually lost population (−3.3 percent), those in the South and North Central regions showed slight gains (1.1 percent and 2.8 percent), and central cities in the West showed an 8.9 percent increase. Nationally, the suburban population increased by 33.5 percent with increases in the South and West on the order of 45 percent. Generally, the white population of central cities declined (in the Northeast by as much as 9.3 percent). The black population of central cities increased during the decade by about one-third, with the fastest rate of increase being in the North Central and Western regions. Interestingly, the rate of increase for the black population has been faster in suburban rings than in central cities, although this was, of course, on a much smaller base.[11] General trends in the population of central cities are shown in Table 7.

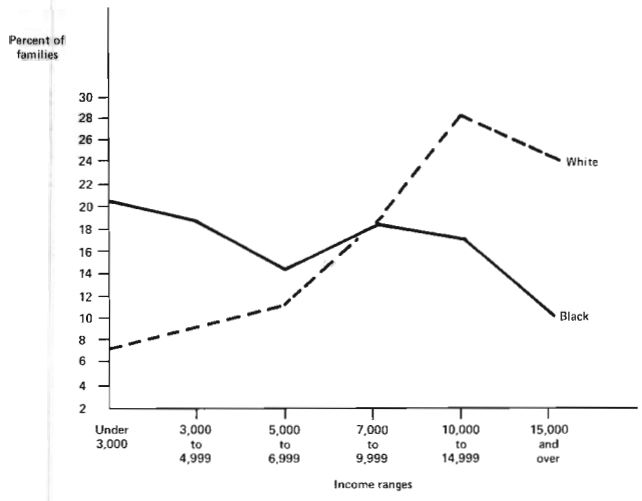
Income and Expenditure

Income: The real per capita disposable income for the population over 18 years of age has been steadily increasing since 1950. The average rate of increase has been 2.55 percent per year. In real money terms the figure stood at $2,720 in 1950, rose to $3,350 in 1960, and in 1970 reached $4,503, an increase of 65 percent over two decades.[12]

In 1971 median family income was $10,285. For the white population, median income was $10,672, slightly higher than the Nation as a whole, while black families had a lower median income of $6,440. Furthermore, black income has been rising more slowly in recent years than white. From 1969 to 1971, white family income rose from a median of $9,794 to $10,672 in 1971, a 9 percent increase, while black family income rose from $5,999 to $6,440, a 7 percent increase.[13] It is not surprising, then, that the distribution of families of each race across the income spectrum is strikingly different, with whites being much more concentrated toward the higher end than blacks. See Figure 5.

[9] Social Statistics Publication, op. cit.
[10] Work of Jerome E. Pickard, reported in Peter A. Morrison, *Dimension of the Population Problem in the United States.* Santa Monica: RAND, 1972, p. 24. Pickard used the Series E projections.
[11] Morrison, op. cit., p. 29.
[12] Thomas C. Marcin, *Projection of Demand for Housing by Type of Unit and Region,* U.S. Department of Agriculture Forest Service, Agriculture Handbook No. 428, 1972, p. 10. Figures are in 1967 dollars.
[13] General Statistics, op. cit., Table 319.

Figure 5
Distribution of Families by Level of Money Income and by Race of Head, 1971



Source: General Statistics Related to Housing & Urban Development, Table 319, p. 303

been spent on the operation of households, including furnishings, equipment, and services. In recent years, clothing and shoes have accounted for slightly more than 8 percent, food and beverages 21 percent, automotive and automotion goods and services 13 percent, and all other goods and services just over 28 percent.[14]

Housing Consumption

Housing Starts: At the national level, the total number of all housing units produced each year between 1964 and 1970 ranged from 1.4 to 1.9 million. Most interestingly, the proportion of the yearly totals represented by conventionally built structures, especially one-unit structures, has declined substantially, while the portion represented by mobile homes has considerably increased, such that it is presently a full 20 percent of the total[15] (see Figure 6). Within the category "5 or more units," generally 80 percent of structures had less than 20 units[16] (see Table 9).

Table 7. Population Change Between 1960 and 1970, By Race and Residence

Residence	Percentage Change in Population, 1960–70				
	All Regions	Northeast	North Central	South	West
			All Races		
United States	13.4	9.1	11.0	13.5	24.2
Metropolitan Areas	17.0	7.3	17.3	21.7	27.8
Inside Central Cities	1.5	−3.3	1.1	2.8	8.9
Outside Central Cities	33.5	17.4	35.7	46.8	44.0
Non-Metropolitan Areas	7.1	16.2	1.8	5.9	15.0
			Whites		
United States	11.8	6.6	8.9	14.3	21.5
Metropolitan Areas	14.3	4.6	14.1	21.0	24.2
Inside Central Cities	−5.4	−9.3	−7.5	−3.4	2.8
Outside Central Cities	32.3	16.3	34.9	48.5	40.8
Non-Metropolitan Areas	7.7	14.0	1.9	8.0	14.8
			Blacks		
United States	24.0	42.9	40.7	10.0	69.9
Metropolitan Areas	35.4	37.5	43.9	24.2	61.3
Inside Central Cities	32.8	35.5	42.1	20.5	52.0
Outside Central Cities	45.5	45.7	58.0	34.7	91.0
Non-Metropolitan Areas	3.1	183.6	1.2	−2.0	214.3

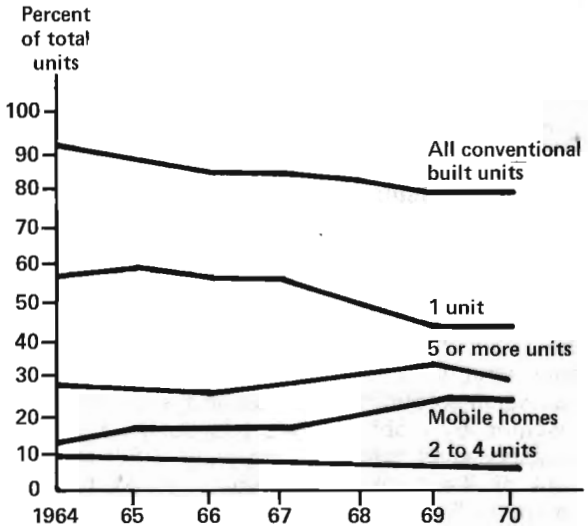
Source: U.S. Bureau of the Census, *Current Population Reports*, Series P–23, No. 37, June 24, 1971, calculated from Table A and Table 2.

Excerpted from: Peter A. Morrison, *Dimensions of the Population Problem in the United States*, RAND, 1972. p. 29.

Expenditure: As Table 8 shows, since 1950, and especially since 1960, there has been a remarkable consistency in the way Americans allocate their personal consumption expenditure over several major categories; since 1968 there has been virtually no change. Expenditures for housing services have generally been about 14.5 percent of the total, and just slightly less has

[14] Ibid., Table 324, p. 306.
[15] Social Statistics Publication, op. cit., A–4.
[16] General Statistics, op. cit., Table 345.

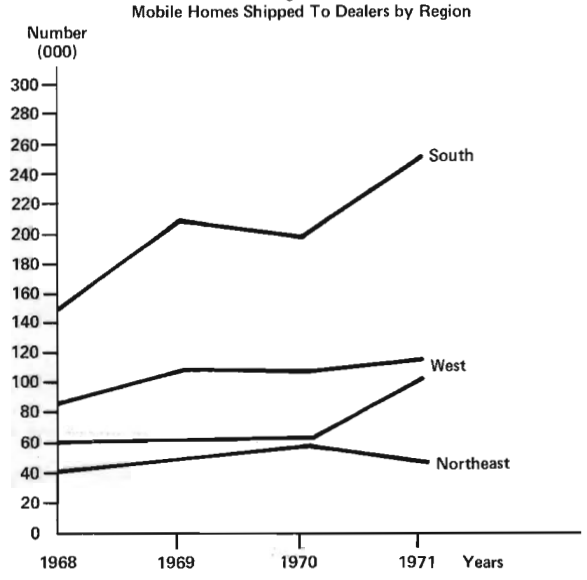
Figure 6
Distribution of Starts by Number of Units in Structure



Source: OMB, A-4

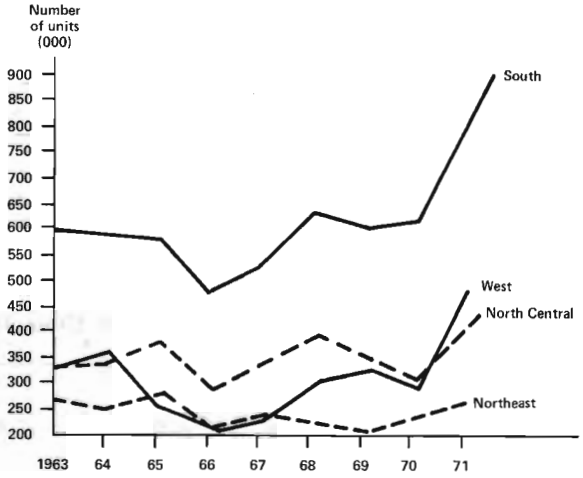
The regions of the Nation show considerable variation in the types of housing that have been supplied in recent years. The South, for example, purchases a disproportionately large share of mobile homes, and for the last several years has been rapidly increasing its share of the total consumption of mobile homes [17] (Figure 7). The South also purchases the largest share of new, single-family units and has recently been increasing its share, as has the West, although to a somewhat lesser degree; in 1971 these two regions together registered 68 percent of all new-home sales [18] (Table 10). Indeed, the South has dominated all housing construction in the last decade, accounting in most years for about half of all starts, public and private [19] (Figures 8 and 9).

Figure 7
Mobile Homes Shipped To Dealers by Region



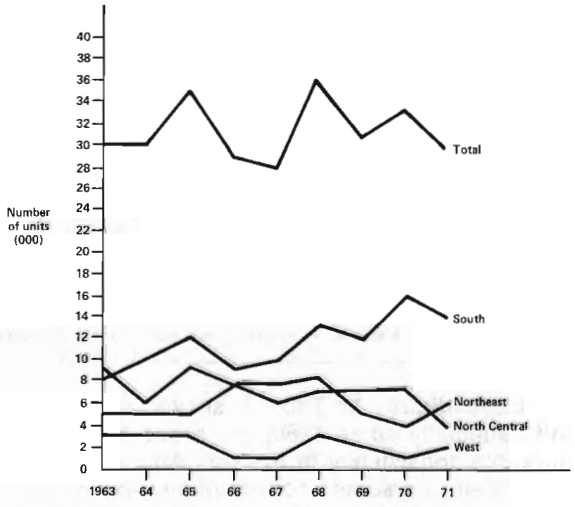
Source: General Statistics Related to Housing & Urban Development, Table 351

Figure 8
New Privately Owned Units Started, Including Farm Housing, 1963-1971



Source: General Statistics Related to Housing & Urban Development, Table 344

Figure 9
New Publically Owned Housing Units Started by Region



Source: General Statistics Related to Housing & Urban Development, Table 345

[17] Ibid., Table 352.

[18] Ibid., Table 354.

[19] Ibid., Tables 344 and 345.

Table 8. Distribution of Personal Consumption Expenditures 1950–71

Year	Total Personal Consumption Expenditures (billions of dollars)	Percent* (%) Housing Services	(%) Total	Household Operation (%) Furnishings & Equipment	(%) Semi-Durable Furnishings	(%) Services	(%) Clothing & Shoes	(%) Food & Alcoholic Beverages	(%) Automobile & Automotive Goods & Services	(%) Other Goods & Services
1950	191.0	11.1	16.7	7.4	4.3	5.0	10.3	28.2	12.9	20.7
1955	254.9	13.2	15.8	6.5	3.7	5.5	9.0	26.4	14.0	21.5
1960	325.2	14.2	15.5	5.8	3.5	6.1	8.4	24.7	13.3	23.8
1965	432.8	14.7	15.7	6.2	3.5	5.9	8.3	22.8	13.4	25.0
1967	492.1	14.6	15.8	6.4	3.5	5.9	8.6	22.0	12.7	26.2
1968	536.2	14.4	14.2	5.0	2.3	7.0	8.6	21.5	13.4	27.8
1969	574.5	14.5	14.5	5.0	2.3	6.9	8.6	20.8	13.4	28.4
1970	616.8	14.7	14.0	4.8	2.2	7.0	8.4	21.4	12.6	28.7
1971	664.9	14.9	14.0	4.8	2.2	7.0	8.5	20.5	13.5	28.4

* Totals across columns may not equal 100 percent because of rounding decimals.
Source: General Statistics Related to Housing and Urban Development, Table 323, p. 306.

Table 9. Distribution of Privately-Owned Apartment Buildings Started, by Number of Housing Units in the Building

	Number of Buildings (000)					Percent Distribution				
	1971	1970	1969	1968	1965	1971	1970	1969	1968	1965
Total	48.9	31.8	35.5	32.4	24.3	100	100	100	100	100
5 to 9 units	22.1	14.3	16.7	15.8	10.6	45	45	47	49	44
10 to 19 units	17.5	11.4	12.3	10.5	8.2	36	35	35	33	34
20 to 29 units	5.2	3.2	3.3	2.8	2.8	11	10	9	8	11
30 to 49 units	2.4	1.5	1.8	1.9	1.8	5	5	5	6	7
50 units or more	1.7	1.4	1.3	1.3	1.0	3	5	4	4	4

Source: Department of Commerce, Bureau of the Census, *Construction Reports*, Series C–20.
Excerpted from: General Statistics Related to Housing and Urban Development, p. 320.

In the years since 1960, a growing portion of all single and multifamily housing starts have been subsidized through government programs, reaching a peak of 29.4 percent of the 1,466,920 units begun in 1970, (the percentage fell to 20.8 percent in 1971).[20]

Not surprisingly, the rate of increase in the number of housing starts since 1950 has been faster inside SMSA's, and especially in the suburban rings of metropolitan areas. The number of units outside of SMSA's has actually declined.[21] Figure 10 summarizes the past trends in the number and location of the Nation's housing units.

Number of Units and Distribution of Housing Stock Characteristics: The 1970 Census of Housing[22] reported a total of 67,699,084 year-round housing units in the nation which were distributed by region as follows:

Northeast	16,197,862
North Central	18,675,232
South	20,883,566
West	11,942,424

What is most remarkable about the differences between the regions with respect to such characteristics as the number of units in structures, size of units, and numbers of occupants is that they are minimal. The Northeast may be said to be a region of many multiunit structures. The West shows the strongest preference for units

[20] Anthony Downs, Summary Report, *Federal Housing Subsidies: Their Nature and Effectiveness and What We Should Do About Them*, October 1972.
[21] U.S. Bureau of the Census, *Census of Housing: 1970*, General Housing Characteristics, United States Summary, pp. 1–7.
[22] U.S. Bureau of the Census, *Census of Housing: 1970*, Detailed Housing Characteristics, United States Summary, pp. 1–230.

Table 10. Sale of New One-Family Homes by Region, 1963–1971

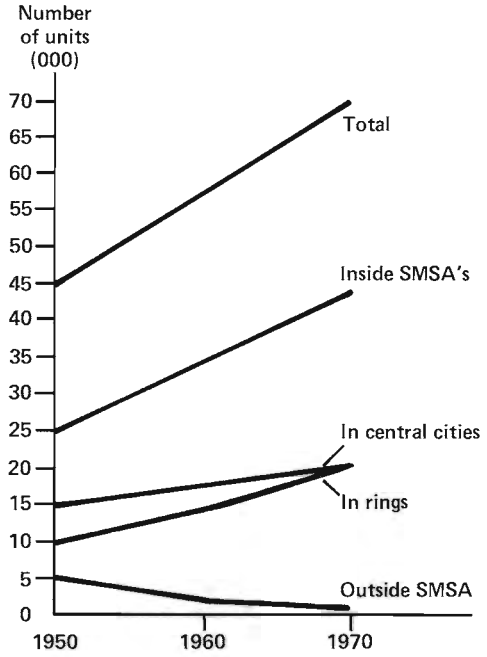
	Number of Homes (000)					Percent Distribution*				
	1971	1970	1969	1965	1963	1971	1970	1969	1965	1963
All Regions	656	485	448	575	560	100	100	100	100	100
Northeast	82	61	62	94	87	12	13	14	16	15
North Central	127	100	97	142	134	19	21	22	25	24
South	270	203	175	210	199	41	41	39	36	35
West	176	121	114	129	141	27	25	25	22	25

* Percentage totals down columns may not equal 100% because actual numbers on which percentages are based are given in rounded thousands.

Source: Bureau of the Census, *Construction Reports*, Series C–25.

Excerpted from: General Statistics Related to Housing and Urban Development, Table 354, p. 324

Figure 10
Number of Housing Units by Urban Location, 1950–1970



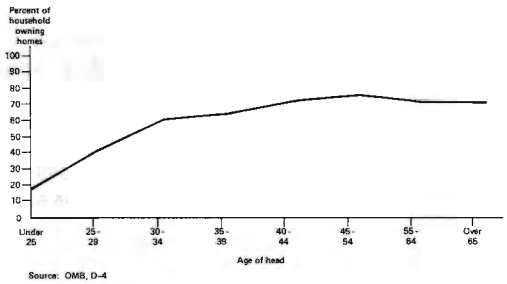
Source: U.S. Bureau of the Census, Census of Housing, 1970, General Housing Characteristics, U.S. Summary, 1-7

with more than one bath. A significant portion of units in the South still lack some or all plumbing. But with respect to many housing preferences the regions are rather homogenous, as can be seen from the data in Table 11.

Tenure: Owner-occupancy rates have been rising since 1940, reaching 62.9 percent in 1970 [23] (See Table 12). The rate, however, varies according to several important characteristics:

Age—The percentage of households owning their homes varies with age of head, reaching a peak for the 45 to 54 age group, and declining slightly thereafter (Figure 11).

Figure 11
Owner-Occupancy by Age of the Head of Household, 1970



Source: OMB, D-4

Income—Owner-occupancy rises as income increases (Figure 12).

Race—In 1970, 41.6 percent of black households were owner-occupants. However, the rate for black households residing inside SMSA's, 38.5, is considerably lower than the 48.3 percent rate for those residing outside SMSA's.[24] Figure 13 shows that between 1960 and 1970 the owner-occupancy rate for nonwhites went up somewhat faster than for whites.

Location—Owner-occupancy outside SMSA's, at 70.4 percent, is substantially higher than inside, where it is 59.3 percent.[25] There is also variation between regions:

Northeast	57.6
North Central	68.0
South	64.7
West	59.0 [26]

[23] Social Statistics Publication, op. cit., A–30.

[24] U.S. Bureau of the Census, *Census of Housing: 1970*, General Housing Characteristics, pp. 1–6.

[25] Ibid.

[26] Ibid., pp. 1–9.

Table 11. Selected Characteristics of the Housing Stock, by Region, 1970

	Total Number of Year-Round Units	In One-Unit Structure %	Structures of 2–4 Units %	Structures of 5 or More Units %	With More Than 1 Bath-room %	With More Than 3 Bed-rooms %	Median Number of Rooms	Median Number of Persons Per Unit	Lacking Some or all Plumbing Facilities %
Northeast	16,197,862	54.3	23.3	22.4	25.3	47.9	5.1	2.7	3.9
North Central	18,675,232	72.1	16.4	11.5	25.4	50.3	5.1	2.7	6.2
South	20,883,566	78.1	12.1	9.8	26.5	47.0	4.9	2.7	11.9
West	11,942,424	70.2	12.9	16.9	34.3	43.3	4.7	2.5	3.3
U.S.	67,699,084	69.4	16.1	14.5	27.3	48.0	5.0	2.7	6.9

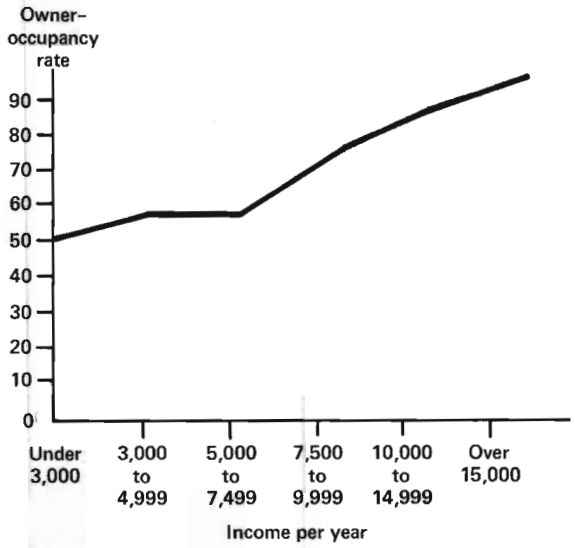
Source: U.S. Bureau of the Census, *Census of Housing: 1970*, Detailed Housing Characteristics, U.S. Summary 1–235, Table 21; and General Housing Characteristics, U.S. Summary 1–9, Table 1.

Table 12. Owner and Renter Occupied Housing Units: 1940 to 1970

	(000)			
	1940	1950	1960	1970
Number				
Total	34,855	42,826	53,024	63,417
Owner	15,196	23,560	32,797	39,862
Renter	19,659	19,266	20,227	23,555
Percent				
Total	100.0%	100.0%	100.0%	100.0%
Owner	43.6	55.0	61.9	62.9
Renter	56.4	45.0	38.1	37.1

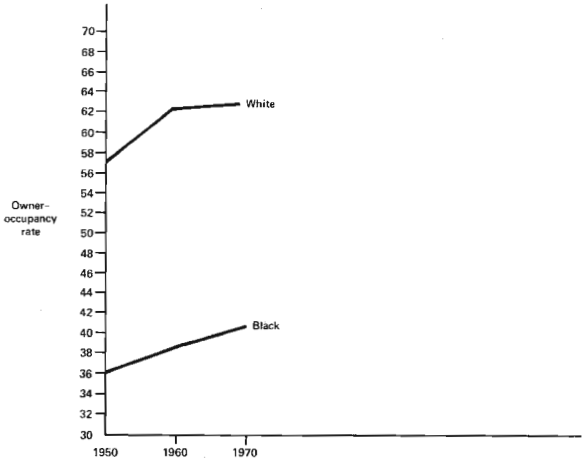
Excerpted from: O.M.B. A–3.

Figure 12
Owner-Occupancy Rate by Income of Household, 1970



Source: OMB, D–4

Figure 13
Owner-Occupancy Rate by Race of the Head of Household, 1950-1970



Source: OMB, D-5 and General Statistics Related to Housing & Urban Development, Table 337

Appliances and Equipment: In 1970 most dwelling units were heated by warm air furnances or by steam or hot water equipment. The exact distribution of heating equipment is as follows [27]:

Type	% of Units Equipped
Steam or hot water	20.3
Warm-air furnace	42.4
Built-in electric units	5.2
Floor, wall or pipeless furnace	8.7
Room heater with flue	11.6
Room heater without flue	5.8
Fireplace, stoves or portable heaters	4.8
None	1.0

[27] U.S. Bureau of the Census, *Census of Housing: 1970*, Detailed Housing Characteristics, United States Summary, pp. 1–288.

There are several major home appliances and types of equipment whose use has become quite widespread [28]:

Type	% of units Equipped
Air conditioning	35.8
Clothes washing machine	71.1
Clothes dryer	41.7
Dishwashers	18.9
Home food freezer	28.2
Television	95.5

Projections of Housing Demand: Historical data indicate that different age groups are prone to demand different types of housing (i.e., one-unit, multiunit, mobile homes). Demand for one-unit structures is highest among the middle-aged groups; demand for multiunit dwellings is highest in the younger groups, who are also the most important occupants of mobile homes.[29] Data from 1960 illustrate the general case.

Housing type occupancy rates in the United States by age [30] class for 1960:

	Age Class							
	15–19	20–24	25–29	30–34	35–44	45–54	55–64	65+
One-Unit Structures	35.6	46.4	60.0	69.1	73.9	71.8	68.3	67.5
Multiunit Structures	58.3	49.0	37.8	29.3	25.0	27.2	30.6	31.3
Mobile units	6.9	4.6	2.2	1.6	1.1	1.0	1.1	1.2

Using the distribution of households by age of head projected by Census Series E, and assuming an annual growth rate of 3.6 percent,[31] Marcin has projected the average annual demand for the 1970–80, and 1980–90 decades, by type of unit, for the entire Nation [32]:

		Conventionally Built			
	Total all Types	All Starts	One-Unit	Multi-Unit	Mobile Units
1970–1980:					
Number (thousands)	2,432.6	1,938.1	1,087.4	850.7	494.5
Percent	100	79.7	44.7	35	20.3
1980–1990:					
Number (thousands)	2,584.1	2,069.1	1,363.1	706.1	514.9
Percent	100	80	52.7	27.3	20

Marcin has further broken up the projected national demand into its regional components. The regional distribution of units demanded by type for the year 1980 and the year 1990 is detailed in Table 13.

Sources: Consultant Interviews (by ADL or Consultant)

I. D. Terner	Massachusetts Institute of Technology and Principal MASSDESIGN, Cambridge, Mass.
Richard Bender	Professor of Environmental Design, University of California (Berkeley)
Michael Brill	President, Buffalo Organization for Social and Technological Innovation and Professor of Architecture and Environmental Design, State University of New York at Buffalo
John Heiman	Executive Vice President, E. M. Warsburg, Inc., New York, N.Y.
David Hattis	Executive Vice President, Building Technology, Inc., Silver Spring, Md.
Ezra Ehrenkrantz	Ehrenkrantz & Associates, New York, N.Y.

[28] Ibid., pp. 1–235.
[29] Marcin, op. cit., p. 19.
[30] Ibid.
[31] Ibid., p. 7 and p. 9. Marcin's Series 3 has been used here.
[32] Ibid., p. 20.

Table 13. Projections of Housing Demand, by Type, by Region

	Total all Types		New Construction								Relation of Region to U.S. Totals					
			Total		One-Unit			Multi-Unit		Mobile Homes	Total Units		New Construction		Population	
	(Thousand Units)		(Thousand Units)		(Thousand Units)		(Percent)	(Thousand Units)		(Thousand Units)	(Percent)		(Percent)		(Percent)	
	1980	1990	1980	1990	1980	1990	1980	1990	1990	1980	1990	1980	1990	1980	1990	1980	1990
Northeast	460	385	380	320	152	158	40.0	49.4	228	162	79	65	17.5	15.5	18.4	15.8	24.4	23.6
North Central	664	608	493	468	299	338	60.6	72.2	194	130	171	140	25.3	24.5	23.9	23.1	27.0	26.4
South	940	941	733	768	479	598	65.4	77.9	253	170	207	172	35.8	37.8	35.5	38.0	30.8	31.4
West	562	554	456	465	268	338	58.7	72.5	188	128	105	88	21.4	22.3	22.1	23.0	17.8	18.6

Source: Thomas C. Marcin, *Projections of Demand for Housing by Type and Region*. Agriculture Handbook No. 428, U.S. Department of Agriculture, Forest Service, 1972, pp. 73–76.

Joel Zingesser	Manager, B. A. Berkus, Washington, D.C.
Richard O'Neill	former Editor, *House and Home* Magazine
Stanley Heckman	Executive Vice President, The Richards Group; Director of Marketing and Vice President, Ryan Homes; Director of Marketing, Levitt and Sons
Douglas A. Windes	National Association of Homebuilders; National Association of Mobile Home Manufacturers
David Pellish	New York State Urban Development Corporation
Sherry Arnstein	formerly HUD Model Cities Administration, currently Consultant, Arthur D. Little, Inc.
Arthur Solomon	Associate Professor, Massachusetts Institute of Technology Deputy Director, Harvard-MIT Joint Center for Urban Studies
Nelson Foote	Chairman, Department of Sociology, Hunter College
John Coleman	Harvard-MIT Joint Center for Urban Studies
Lee Rainwater	Harvard-MIT Joint Center for Urban Studies
Ira Glick	Social Research, Inc.
Robert Phelps	U.S. Forest Service
Dan Tunstall	Office of Management and Budget, Office of Statistical Analysis
Ralph Johnson	National Association of Homebuilders Research Foundation, Washington, D.C.
Bill Dawson	Vice President, Descon/Concordia, Montreal, Canada
Alfred Eckersburg	Vice President, Real Estate Research Corporation, Chicago, Ill.
Mike Levitt	Housing America, Washington, D.C.
Phil Bobrow	Architect and Planner, Montreal, Canada
Alan Thornton	Director, Marketing Analysis Division, HUD
Mort Hoppenfeld	Rouse Corporation, Columbia, Md.
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Allen W. Cox	Market Research Manager, Homebuilding Product Division Owens/Corning Fiberglas
Don Morganroth	Market Development Group, Owens/Corning Fiberglas

Martin Baker	Demov, Morris, Levin and Shein, New York, N.Y.
Ben Evans	National Academy of Sciences, Building Research Advisory Board
James Haecker	
Lowden Wingo	Resources for the Future
Robert Dubinsky	The RAND Corporation

Participants in Low Income Panel, Washington, D.C.

Mrs. Flora Rich, Pittsburgh Metropolitan Tenants Organization
Mrs. Gloria L. Jackson, Eastgate Housing Project, Washington, D.C.
Mr. Jim Hunsaker, Eastern Kentucky Housing Development Corporation
Mr. J. Lincoln Durand, Massachusetts Tenants Organization
Mrs. Maria Nieves, Eastside Branch, Metropolitan Council on Housing, New York, N.Y.
Mrs. Lorelia Carter Brown, Housing Allowance Demonstration Project, Kansas City, Mo.

Participants in Homeowners Panel, Buffalo, New York

Family # 1
2 adults aged 25–35; 2 young children
Annual income: $40K
Cost of house: $60K
Year of purchase: 1972
Husband: retailing
First home purchased

Family # 2
2 adults aged 46–55; 1 teen, 1 young adult
Annual income: $18K
Cost of house: $32K
Year of purchase: 1965
Husband: steelworker (and landlord)
Wife: stenographer (and landlady)
First home purchased

Family # 3
3 adults; couple 36–43; 7 children
Annual income: $12K
Cost of house: $11,300
Year of purchase: 1963
Husband: State investigator
First home purchased

Family # 4
2 adults aged 56–65; 2 college age children
Annual income: $10K
Cost of house: $23K
Year of purchase: 1970
Husband & Wife: restaurant managers
Third home purchased

Family # 5
2 adults aged 46–55; 2 teens
Annual income: $20K
Cost of house: $43K
Year of purchase: 1973
Husband: controller
Wife: teacher
Fourth home purchased

Family # 6
2 adults aged 56–65; no children
Annual income: $37,600
Cost of house: $32K
Year of purchase: 1972
Husband: accountant
Wife: teacher
Ninth home purchased

The Role of Federal Housing Programs in the Community Development Process

By Gail D. Shelp,
and Ursula A. Guerrieri,
co-author of the third section
ICF, Incorporated

Trends in Population Migration, Growth and Mobility

Introduction

The necessarily limited space allotted in this report for discussion of population issues precludes exhaustive investigation of the topic. There is a vast body of literature that measures and evaluates past and future population developments. This chapter highlights the major, and to those conversant in the field, perhaps familiar population statistics—migration, growth, and mobility.

Population phenomena are critical to analysis of community development and decline because the magnitude and density of population concentrations help determine the rate at which resources (such as land, housing, and energy) and public services (such as transportation, sanitation, and education) will be consumed. The composition of the population affects the mix of resources and services used, and helps determine the financial ability of the community to support continued development. In addition, the size of the community, its geographic location, the character and mix of economic activity, and its particular stage of growth or decline also affect the development/decline process.

Population "effects" on community development/decline occur principally through migration and natural population growth. Migration is the movement of persons or households from one place or locality to another. It includes both long-distance and short-distance moves, which means it includes moves from one neighborhood to another as well as moves from one State to another. Thus it encompasses some of the more controversial and noteworthy shifts in population such as urban to rural moves, intrametropolitan moves, and intermetropolitan moves. Natural population growth is the ultimate result of the fertility and mortality rates of a stable population.

Migration and natural growth can increase the concentrations of people in certain areas and help cause other areas to decline. Migration may have a more dramatic effect on community development than natural increase because it can effect relatively sudden alterations in the demographic and socioeconomic character of a community. The second order consequences of these increases or decreases in population involve the demand for housing, commercial development, public services, and employment. The demand or lack of demand for such services and amenities shape the community development process.

Migration

Frequency of Population Migration: The United States is characterized by relatively high levels of residential migration. Residential mobility rates—the percent of population changing residence annually—are about two to three times higher in the United States than in other countries where comparable data are available.[1] A comparative study of the United States, England, Scotland, and Japan shows an average residential mobility rate in the United States of 20 percent, an average rate of between 10 and 12 percent for England and Scotland, and an average rate of 8 percent for Japan.

An average American is likely to change residence 13 times in a lifetime.[2] Comparatively high, the U.S. residential mobility rates have been generally stable since 1948.[3] These data, however, reflect changes of residence that actually are realized—a survey of public attitudes in-

[1] See: Larry H. Long, "On Measuring Geographic Mobility," *Journal of the American Statistical Association,* Washington, D.C., September 1970.

[2] Bureau of Census, "Movers by Type of Mobility as Percent of the Population 1 Year Old and Over for the United States: 1948–1970," *Current Population Reports,* U.S. Department of Commerce, Series P–20, No. 210, Jan. 15, 1971; and Larry H. Long, "New Estimates of Migration Expectancy in the United States," *Journal of the American Statistical Association,* Washington, D.C., 1973.

[3] Bureau of Census, "Movers by Type of Mobility as Percent of the Population 1 Year Old and Over for the United States: 1948–1970," op. cit. A separate study conducted by Henry S. Shryock, Jr., noted that the exception to this trend occurred during the Depression when the annual migration rate was only about 2.4 percent. See Henry S. Shryock, Jr., *Population Mobility Within the United States,* Community & Family Study Center, Chicago, 1964.

dicates that more people may intend or want to move more often than they actually do.[4]

Distance of Population Migration: Migration involves both long- and short-distance moves. Table 1 shows the percentage of the population changing residence by distance of move from March 1970 to March 1971.

As indicated on Table 1:

- Sixty-four percent of all residential moves are within the same county.
- Thirty-six percent of all migrants move across county boundaries—about half change States and half do not. Further, the propensity of Americans for short-distance moves has been relatively constant since 1948.[5]

Types of Migration: Stability in both the mobility rate and the propensity for short (intracounty) movement should not create the impression that the migratory patterns are simple. There is, on the contrary wide variety in the types of migration. Particularly important are the following categories:

- Metropolitan to metropolitan.
- Nonmetropolitan to metropolitan.
- Metropolitan to nonmetropolitan.
- Nonmetropolitan to nonmetropolitan.
- Intrametropolitan: center city to suburbs, within center city, suburbs to central city, within suburbs.

Each of these migratory destination types is discussed in a variety of contexts in the sections that follow. Unfortunately we are unable to present data that segregate short-distance from long-distance moves for each of the above categories. Aggregate migration data are shown in Table 2, however.

Population Growth

The U.S. net population growth has varied within a narrow range since 1940. The average annual net increase between 1939 and 1940 was 0.9 percent. The population growth rate accelerated after 1945 and reached a peak of 1.8 percent in the mid-1950's. Since that time the annual net percent increase in population has continued to fall to near 1940 levels—in 1971 the percent net increase in population was only 1 percent.[6]

Table 1. Civilian Residential Migration Between States, Between Counties, and Within Counties, March 1971

	Percent Distribution of Migrants				
			Different County		
	Total Migrants	Same County	Total	Within State	Between States
Total Migratory Population 1 Year and Over	100.0	63.7	36.3	17.1	19.2
Male	100.0	62.8	36.6	17.4	19.2
Female	100.0	64.2	35.8	17.3	19.5

Source: Bureau of the Census, "Mobility of the Population in the United States: March 1970 to March 1971," *Current Population Reports*, Series P–20, No. 235, U.S. Government Printing Office, Washington, D.C.

Table 2. Summary of Residential Migration Patterns by Location

	Residential Migration, 1965–1970 (thousands)	
Total Residential Moves (Origin/Destination)	1965–1970 Number	Percent
	71,558.3	100.0
Metropolitan/ Metropolitan	11,487.3	16.1
Nonmetropolitan/ Metropolitan	5,809.4	8.1
Metropolitan/ Nonmetropolitan	5,457.1	7.6
Nonmetropolitan/ Nonmetropolitan	14,806.7	20.7
Intrametropolitan	33,997.8	47.5
Center City/Suburbs	5,297.3	7.4
Within Center City	14,412.3	20.1
Suburbs/Central City	2,103.6	2.9
Within Suburbs	12,184.6	17.0

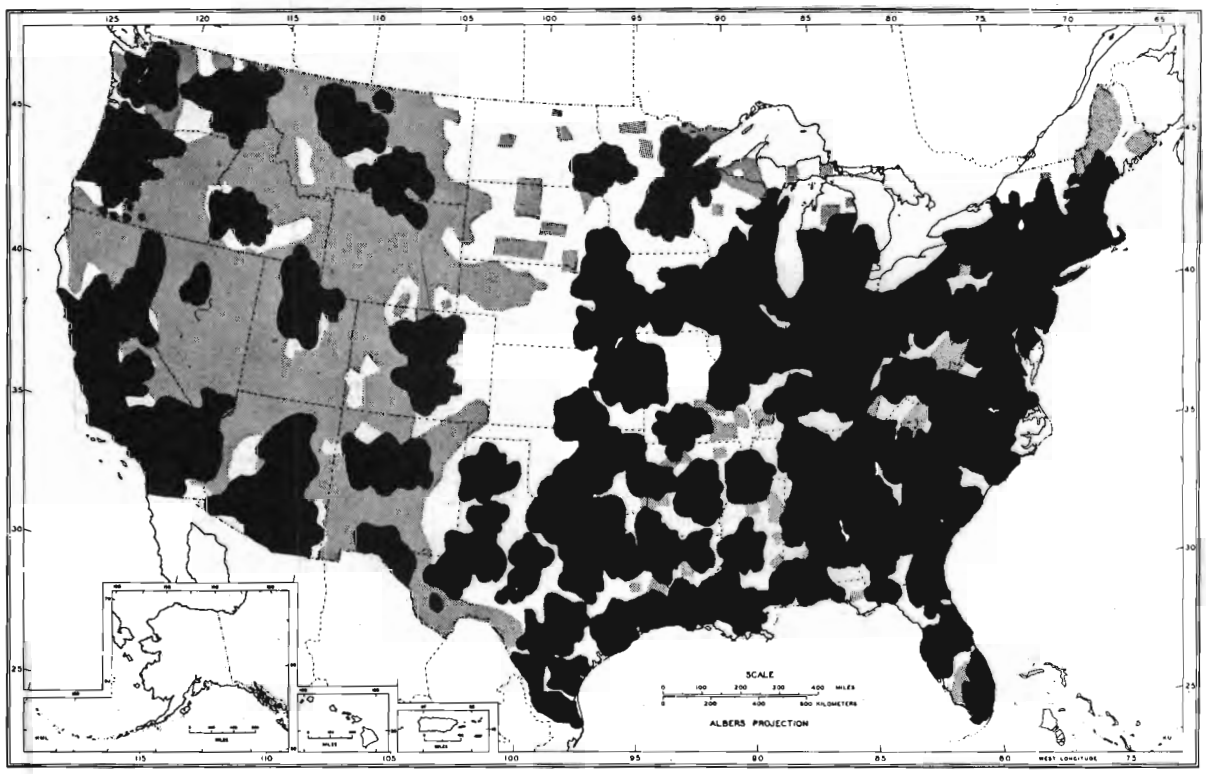
Source: Bureau of Census, "Mobility for Metropolitan Areas," *1970 Census of Population*, U.S. Government Printing Office, Washington, D.C., May 1973; and Bureau of Census, "Mobility for Metropolitan Areas," *1960 Census of Population*, U.S. Government Printing Office, Washington, D.C., 1963.

[4] In 1967, John B. Lansing and Eva Mueller conducted a comprehensive survey designed to distinguish between the level of mobility preferences and expectations and the level of actual migration. (Migration in the context of their study refers to Labor Market Areas as defined by the U.S. Department of Labor.) Their study concluded that about 20 percent of the respondents preferred to migrate to another Labor Market Area, but only 11 percent indicated an actual intention to move. The actual migration rate among Labor Market Areas is about 5 percent—this corresponds closely to the level of interstate migration. See John B. Lansing and Eva Mueller, *The Geographic Mobility of Labor*, Survey Research Center, Institute for Social Research, Ann Arbor, Mich., 1967.

[5] Bureau of Census, "Movers by Type of Mobility as Percent of the Population 1 Year Old and Over for the United States: 1948–1970," op. cit.

[6] Bureau of Census, *Statistical Abstract of the United States*, 1972.

Figure 1
Map Showing Spacial Distribution of Population*



Areas with some daily commuting to a metropolitan center.

National parks, Indian reservations, and areas with less than 1-2 persons per square mile.

Source: Bureau of the Census, "Metropolitan Area Definition: A Reevaluation of Concept and Statistical Practice," Bureau of the Census Working Paper No. 28, Washington, D.C., 1968.

* Map shows (1) all metropolitan areas and contiguous counties with some daily commuting to metropolitan area (black portions); (2) unpopulated areas reserved for national parks, Indian reservations, or with less than two persons per square mile (shaded portion); and (3) totally unpopulated areas.

Metropolitanization: Our population is concentrating in metropolitan areas.[7] In 1900 only 25 percent of the population resided in cities; in 1972, 75 percent resided within the boundaries of metropolitan areas and 95 percent were within commuting distance.[8] Table 3 records the progress of urbanization from 1910 until 1970. Figure 1 presents a map showing the spacial distribution of the population across the nation.

Natural Population Growth of Metropolitan Areas: The precise source of the rapid growth in metropolitan areas is difficult to isolate. Available demographic evidence suggests that metropolitan growth was caused primarily by natural

[7] The principal distinction between "urban places or populations" and "metropolitan areas or populations" is based on size and the relationship between a central city and contiguous areas. Rural areas are all nonurban areas and nonmetropolitan areas are all counties that do not meet the definition of "metropolitan." According to the 1970 census definition of the "urban population" it comprises all persons in (a) places of 2,500 inhabitants or more, incorporated as cities, villages, or boroughs (except Alaska), and towns (except in New England, New York, and Wisconsin), but excluding people living in rural portions of extended cities—an urbanized area containing one or more incorporated place; (b) unincorporated places of 2,500 inhabitants or more; and (c) other territory, incorporated or unincorporated, included in (the definition of) urbanized areas. A metropolitan area is an area designation used by the Office of Management and Budget (Standard Metropolitan Statistical Area) to denote a county or group of contiguous counties that contains at least one central city of 50,000 inhabitants or more or "twin cities" with a combined population of at least 50,000. Other contiguous counties are included in an SMSA if, according to certain criteria, they are essentially metropolitan in character and are economically and socially integrated with central cities.

[8] Change in the definition of "urban" in 1950 to include unincorporated places of 2,500 inhabitants or more may bias somewhat estimates of "urbanization." Prior to 1950, large or densely settled places would not have been included if they were unincorporated. Comparison of 1950 urban population under the old and new definitions shows a 700,000 increase in the estimated urban population—15 percent of the adjusted estimate. Bureau of Census, *Statistical Abstract of the United States*, 1972.

Table 3. Percent Distribution of the Population by Size of Place, 1910-1970

	Year			
	1910	1930	1950	1970
Size of Place				
Total U.S.	100.0	100.0	100.0	100.0
Total Urban	45.7	56.2	59.6/64.0[1]	73.5
Places of 1,000,000	9.2	12.3	11.5/11.5	9.2
Places of 500,000–1,000,000	3.3	4.7	6.1/6.1	6.4
Places of 250,000–500,000	4.3	6.5	5.5/5.5	5.1
Places of 100,000–250,000	5.3	6.1	6.5/6.3	7.0
Places with less than 100,000	23.6	26.6	30.0/29.7	38.3
Unincorporated Parts of Urban Areas	[2]	[2]	[2]/4.9	7.5
Total Rural	54.3	43.8	40.4/36.0	26.5

Source: Bureau of Census, *Statistical Abstract of the United* Source: Bureau of Census, *Statistical Abstract of the United* 1972.

[1] Columns show urban population according to old and new definitions, respectively. The difference in "total U.S. all urban categories" is due to the residual population in unincorporated parts of urbanized areas, not included in old definition.

[2] Does not apply.

population increase rather than by population migration. Table 4 shows the aggregate sources of metropolitan population growth.

Migration Between Metropolitan Areas: The importance of migration relative to natural population increases as the source of metropolitan population growth varies among metropolitan areas. For example, in 11 of the 19 most rapidly growing SMSA's, migration accounted for more than 50 percent of the net population growth. In four others, migration accounted for less than 10 percent.[9] Further, Table 5 shows, of the total number of migrants to metropolitan areas, the 19 most rapidly growing metropolitan areas and the relative contribution of migration to growth. A majority of people—especially long-distance migrants—comes from other urban areas,[10] rather than from rural areas.

[9] Bureau of Census, *Statistical Abstract of the United States,* op. cit.

[10] Peter A. Morrison, *Dimensions of the Population Problem in the United States,* A Working Paper Prepared for the Commission on Population Growth and the American Future, Rand Corporation, Santa Monica, February 1971. However, the major source of metropolitan population growth generally is natural population increase rather than migration. See William Alonso, "Policy Implications of Intermetropolitan Migration Flows," *Proceedings from Regional Economic Development Research Conference,* U.S. Department of Commerce, Washington, D.C. April 1972.

Table 4. Total Metropolitan Population Growth: Source of Growth

	Number (thousands)	Percent
Total Population Growth:		
All Metro Areas	19,824	100.0
Sources of Growth:		
Natural Increase ((Births)-(Deaths))	15,019	75.8
Net Migration	4,805	24.2

Source: Bureau of Census, *Statistical Abstract,* U.S. Government Printing Office, Washington, D.C., 1972.

Table 5. Distribution of Population Growth by Source by Selected SMSA—1960-1970 [1]

	Net Population Change 1960-1970 (thousands)	Net Migration (thousands)	Migration Percent of Net Increase
	9480	3514	37.1
Metropolitan Area			
Los Angeles	993	253	–5.5
New York	834	–87	–10.4
Washington, D.C.	797	417	52.3
Chicago	758	10	1.3
Anaheim-Santa Ana	716	551	77.0
Houston	567	310	54.7
Philadelphia	475	45	9.5
San Francisco	461	183	40.0
Detroit	438	–48	–11.0
Dallas	437	243	55.6
San Jose	422	283	67.1
Atlanta	373	200	53.6
Miami	333	254	76.3
San Bernardino	333	218	65.5
Minneapolis-St. Paul	332	99	29.8
San Diego	325	169	52.0
Seattle	315	184	58.4
Phoenix	304	188	61.8
Baltimore	267	52	19.5

Source: Bureau of Census, *Statistical Abstract,* U.S. Government Printing Office, Washington, D.C., 1972.

[1] SMSA's selection was based on largest net population change among metropolitan areas with populations greater than 1,000,000.

We also know that the amount of migration between metropolitan areas is substantially greater than the amount of migration from rural areas to metropolitan areas. This trend is likely to continue because:

- The rate of all rural migration is declining.
- The total U.S. population is becoming increasingly concentrated in metropolitan areas so that rural areas will contain a smaller portion of

the total population and, thus, cannot generate large numbers of migrants.

As the concentration of the population into metropolitan areas continues, rural migration will account for increasingly less migration, while intermetropolitan migration will grow.

Nonmetropolitan Migration: The rate of migration from nonmetropolitan areas to metropolitan areas, has declined in recent years.[11] Between 1950 and 1960, 5.5 million (or 10 percent of the total 1950 nonmetropolitan population) migrated to metropolitan areas. Between 1960 and 1970, the comparable figure was only 2.2 million people, or 3.6 percent of the 1960 nonmetropolitan area population.[12]

Intrametropolitan Population Migration and Growth: The sustained growth of metropolitan areas both from without (immigration) and within (natural population growth) conceals a good deal of intrametropolitan area movement. For example, there was substantial migration between suburbs in our metropolitan areas. Further, large numbers of persons left central cities for suburbs in the same metropolitan areas. Few persons left suburbs for any central city, however, although there appears to be a substantial number of persons who move among neighborhoods within the same central city. This movement within metropolitan areas varies substantially by age and by income. Further, the amounts and kinds of internal movement vary widely from one metropolitan center to another.

Table 6 indicates the distribution of intrametropolitan area changes in residence for the entire country. As shown, population movement is concentrated within central cities and between central cities and suburbs. Although movement from central cities to suburbs frequently appears in the literature of urban growth as a major determinant of urban growth patterns, these data do not indicate that such movement accounts for a large fraction of all changes in residence. A substantially larger portion of all intrametropolitan migration appears to result from moves by central city residents to different neighborhoods within the same city. Of all city dwellers who changed residence during 1960 to 1970 about three times as many relocated in cities as moved to suburbs. Table 7 shows the propensity for migration among all subareas within metropolitan areas based on survey data between the years 1960 and 1966.

Table 6. Movers Within Metropolitan Areas Between 1965 and 1970

	Distribution of Population	
	Number (in thousands)	Percent
Total Metropolitan Population	139,419.0	—
Mobility Status:		
Nonmovers (Same House in 1970)	88,124.4	—
Movers (Different House in 1970)	51,294.6	100.0
Intrametropolitan	33,997.8	66.3
Within Same City	14,412.3	28.1
From City to Suburb	5,297.3	10.3
Within Suburb	12,184.6	23.8
From Suburb to City	2,103.6	4.1
Other [1]	17,296.8	33.7

Source: Bureau of Census: "Mobility for Metropolitan Areas," *1970 Census of Population*, U.S. Government Printing Office, Washington, D.C., May 1973.

[1] Other moves include moves from one SMSA to another and moves from nonmetropolitan to metropolitan areas.

Suburbanization: Within metropolitan areas, people have continued to show a preference for suburban living. During the 1960's, a substantial number of central cities ceased to grow and, in fact, lost population. Of the 292 designated central cities of Standard Metropolitan Statistical Areas, 130 or 45 percent recorded a loss of residents in 1970.[13]

> The losers include 15 of the 21 central cities whose 1960 population exceeded 500,000 persons: Chicago, Philadelphia, Detroit, Baltimore, Cleveland, Washington, D.C., St. Louis, Milwaukee, San Francisco, Boston, New Orleans, Pittsburgh, Seattle, Buffalo and Cincinnati. Six of these reported losses of 10 percent or more . . . . The only substantial gains were reported by Los Angeles, Houston, Dallas, San Antonio and San Diego.[14]

It appears that the relative growth of suburban populations has increased slightly between 1950–1960 and 1960–1970. During the 1950 to 1960 period, the average annual growth rate for

[11] Peter A. Morrison, *Dimensions of the Population Problem in the United States*, op. cit.

[12] The increasing migration of urban dwellers to suburban fringes is hidden somewhat by the tendency of urban areas to increase in land area. Between 1960 and 1970 the total area defined as urban increased 40 percent to 35,000 square miles. See: Advisory Committee to the Department of Housing and Urban Development, op. cit. Moreover, the percentage of urban population residing in unincorporated areas exceeding 2,500 population has increased 53 percent during the 1960–70 period. Bureau of Census, *Statistical Abstract of the United States*, 1972.

[13] Peter Morrison, *The Impact of Population Stabilization on Migration and Redistribution*, Rand Corporation, Santa Monica, Calif., December 1971.

[14] Ira S. Lowry, *Housing Assistance for Low-Income Urban Families: A Fresh Approach*, The New York City Rand Institute, New York, May 1971.

Table 7. Distribution of Intrametropolitan Residential Mobility by Location

Mover Group (Origin and Destination)	Percent Distribution of Most Recent Moves, 1960-1966
Movers to the Central City	
Suburb to City (same SMSA)	1.8
Outside SMSA to City	5.8
Movers Within the Central City	
Same City Neighborhood (same SMSA)	19.4
Different City Neighborhood (same SMSA)	23.2
Movers to the Suburbs	
Central City and Suburb to Suburb (same SMSA)	18.2
Outside SMSA to Suburb	9.8
Movers Within Suburbs	
Same Suburban Neighborhood	7.8
Different Neighborhood (same suburban community)	8.6
Newly Formed Households Setting Up Initial Home	
In City	3.1
In Suburbs	2.3
Total, All Mover Groups	100.0

Source: Edgar W. Butler, et al., *Moving Behavior and Residential Choice: A National Survey*, A Report Performed For The American Association of State Highway Officials in Cooperation with the Bureau of Public Roads, University of North Carolina, Chapel Hill, 1969. Data based on a survey of 1,476 households in 43 metro areas across the United States, administered by the National Opinion Research Center, between 1960 and 1966. These data are consistent with similar data published by the Bureau of the Census.

Table 8. Relative Growth Among Center Cities and Suburbs in Major Metropolitan Areas

Metropolitan Area	(Net Change in Population, 1960–1970) Total Metropolitan (thousands)	Center City (thousands)	Suburban (thousands)
Metro Areas with Greatest Growth			
Los Angeles	993	337	656
New York	834	113	721
Washington, D.C.	797	— 7	840
Chicago	758	—183	941
Anaheim-Santa Ana	716	63	653
Houston	567	295	272
Philadelphia	475	— 54	529
San Francisco	461	— 24	485
Detroit	438	—159	597
Dallas	437	164	273
Metro Areas with Least Growth (With Population 1,000,000 or More)			
Boston	159	— 56	215
Buffalo	42	— 70	112
Cincinnati	116	— 50	166
Cleveland	155	—125	280
Kansas City	161	77	84
Milwaukee	125	43	82
Newark	167	— 23	190
Paterson-Clifton-Passaic	172	3	175
Pittsburgh	— 4	— 84	80
St. Louis	258	—128	386

Source: Bureau of Census, *Statistical Abstract*, U. S. Government Printing Office, Washington, D.C., 1972.

Standard Metropolitan Statistical Areas was 1.7 percent compared to 3.8 percent growth in the suburbs; the rate of population growth outside central cities exceeded that of central cities by a margin of 3.5:1. Although between 1960 and 1970, the average annual population growth rate declined for both central cities and suburbs, the ratio of the relative rates increased to 4:1.[15]

In nearly all cases, suburban areas adjacent to declining central cities reported population gains that offset central city losses; thus, all but 22 of the nation's 230 Standard Metropolitan Statistical Areas reported net growth in population during the decade.[16]

For selected metropolitan areas, Table 8 shows the relative growth of center cities and their suburbs. As indicated in nearly every location population growth is concentrated in the suburbs.

The magnitude and character of outmigration of people from the center city to suburbs indicates that:

- The trend toward suburban living is likely to continue.
- The suburban preference has limited the population growth of center cities in SMSAs regardless of sex, age, location, or level of economic opportunity.
- The decision to live in suburbs will be based to a lesser degree on lower residential density and will depend increasingly on perceived social and economic amenities.

Population Density: The tendency toward concentration of population—chiefly in metropolitan areas—is clearly the major force shaping

[15] Bureau of Census, *U.S. Census of Population*, U.S. Department of Commerce, U.S. Government Printing Office, 1960 and 1970.
[16] Ira S. Lowry, op. cit.

Table 9. Distribution of Metropolitan Population Growth by Size of Area

	Number of SMSAs, 1970	Population In Each Size Class Total (thousands)	Percent of total SMSAs	Population Change 1960-1970 Total (thousands)
Total SMSAs	243	139,419	100.0	19,824
3,000,000 or more	6	37,710	27.0	4,002
1,000,000-3,000,000	27	42,946	30.8	7,584
500,000-1,000,000	32	21,936	15.7	3,348
250,000-500,000	60	19,761	14.2	2,769
100,000-250,000	92	14,973	10.7	1,892
Less than 100,000	26	2,091	1.5	229

Source: Bureau of Census, *Statistical Abstract,* U.S. Government Printing Office, Washington, D.C., 1972.

the distribution of the U.S. population. The concentration of population appears to be marked by the following trends:

- Growth and decline appear to be confined to a set of identifiable areas.
- The distribution of population among metropolitan areas appears to be selective and uneven—favoring the larger metropolitan areas and those located in the coastal regions of the United States.
- There appears to be a trend toward increasing rates of concentration of growth around high growth metropolitan areas.

Concentration of Growth: Between 1900 and 1960, growth in metropolitan areas has absorbed over 78 percent of the total U.S. population growth. Since 1950, it appears that metropolitan areas have absorbed all of the net population growth.

Further, this generally rapid metropolitan population growth appears to be concentrated in a relatively few metropolitan areas. Five metropolitan areas accounted for 20 percent of the total net growth in SMSAs between 1960 and 1970—Los Angeles, New York, Washington, D.C., Chicago and Anaheim-Santa Ana. Fourteen others accounted for nearly 50 percent of the total metropolitan population growth.

There also appears to be a trend toward concentrations of populations in major metropolitan areas of more than 1,000,000 inhabitants. The portion of the U.S. population living in these areas increased from 38 percent to 44 percent between 1960 and 1970.[17] Table 9 shows the population growth by metropolitan size between 1960 and 1970.

Population growth also occurs at differential rates within metropolitan areas. As indicated earlier, individual metropolitan areas may have very different growth and migration patterns. Whereas, in some metro areas, populations may migrate outward from the central city with little migratory flow outside of the SMSA, other areas may represent a much more substantial portion of the intermetropolitan migration. Table 10 shows the portion of total metropolitan migration due to moves from other SMSA's and the portion due to intrametropolitan moves for selected metropolitan areas.

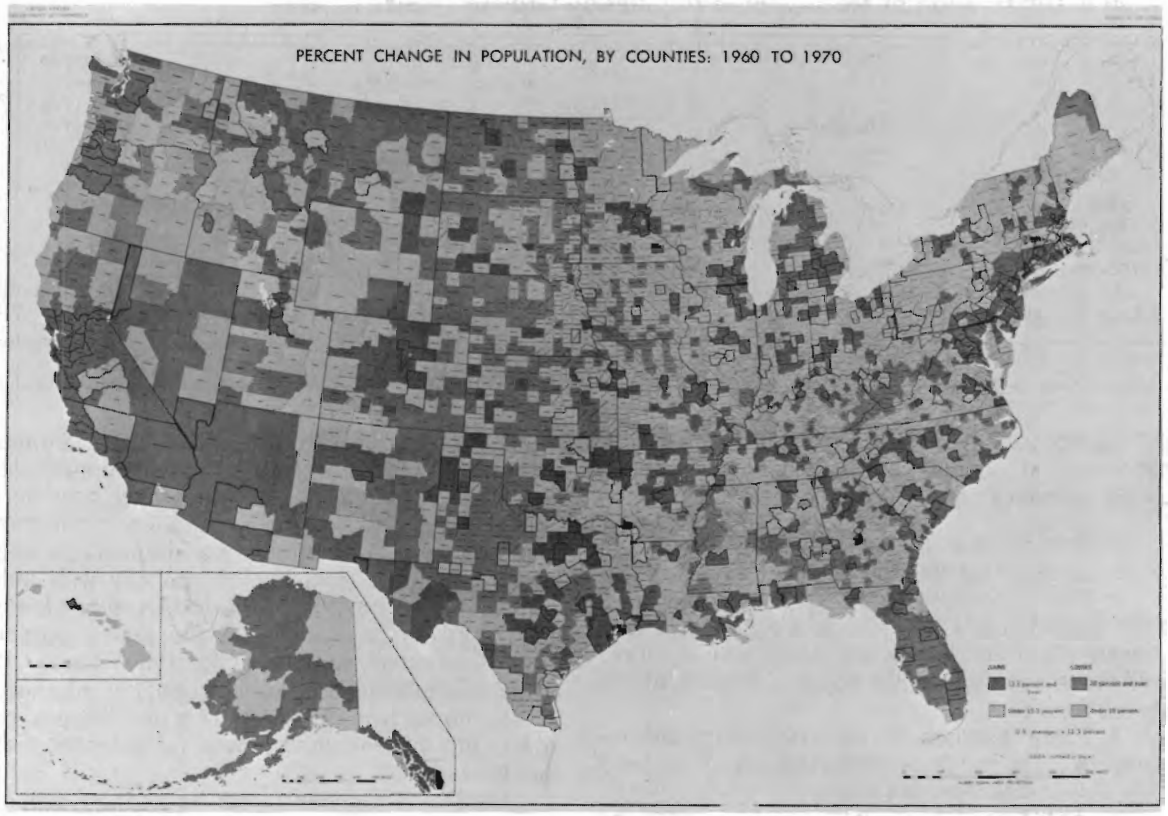
Decline is Concentrated: Population decline also appears to occur in a set of identifiable counties and metropolitan areas. During the 1960s, half of the 3,000 counties in the United States declined in population[18]—the majority of these are located in the north central and west central areas of the United States. Figure 2 presents a map showing the percentage change in U.S. population from 1960 to 1970, metropolitan areas having 100,000 population or more increased in population from 118.4 to 144.3 million, an increase of more than 20 percent. The remainder of the nation declined in population from 61.0 to 58.9 million, 3.6 percent.[19]

[17] Bureau of the Census, *Current Population Report,* Series, P–25, No. 427.

[18] Peter Morrison, *Dimensions of the Population Problem,* op. cit.

[19] This apparent decline was due to the annexation of counties to existing metropolitan areas and the emergence of new metropolitan areas. Measured on a constant geographical basis (using projected year 2000 metropolitan boundaries) nonmetropolitan areas show a small gain of 0.5 million and the growth rate for metropolitan areas is modified to 19.8 percent. See Jerome P. Pickard, *U.S. Metropolitan Growth and Expansion, 1970–2000 with Population Projections,* prepared for the Commission on Population Growth and the American Future, Washington, D.C., December 1971.

Figure 2



Source: Bureau of the Census, *Census of Population and Housing*, U.S. Summary, 1970.

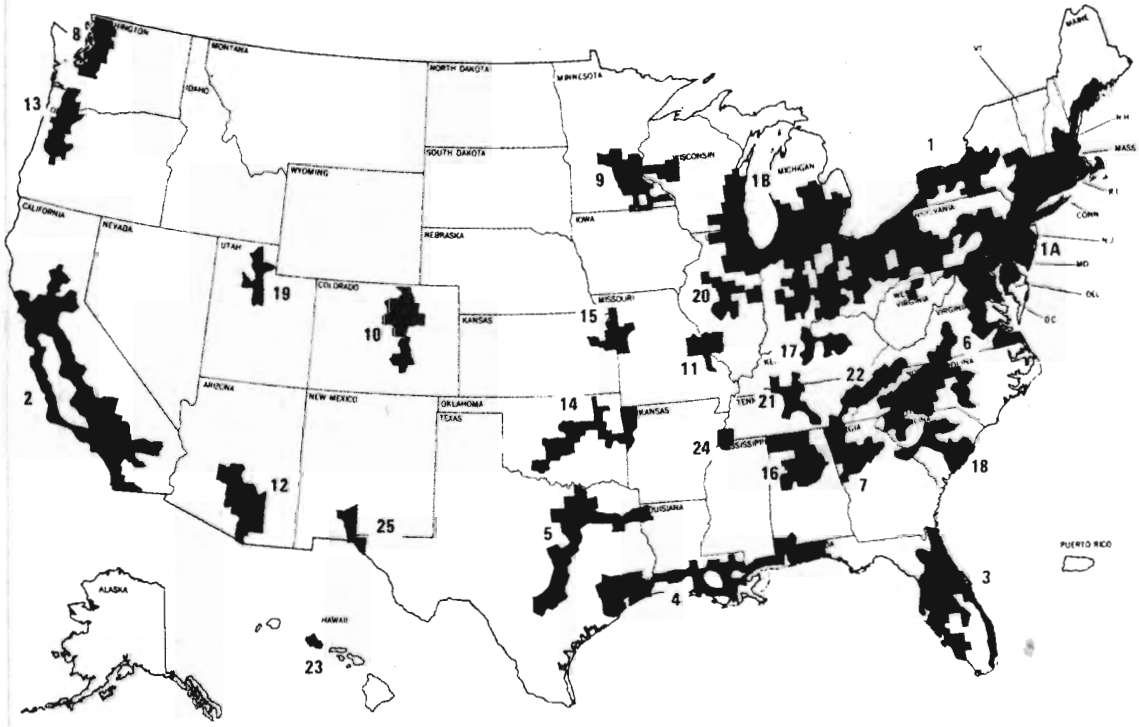
Future Population Growth

Future Metropolitan Growth: The major force that will dominate future population distribution patterns will be the continued concentration of population around major growth centers. The growing portion of the population living in metropolitan areas will be accompanied by the broadening of metropolitan jurisdictional lines. The trend toward metropolitan populations above 1 million is also likely to continue. It is estimated that by the year 2000, 65 percent of the population will live in metropolitan areas of greater than 1 million population.[20] Table 11 shows Bureau of the Census projections to the year 2000.

The combined effect of concentrated population growth and broadening jurisdictional boundaries on population distribution appears to be: (1) the development of a series of continuous regions of development, and (2) increased pressures on the metropolitan environment that result from an increase in the per capita demand for goods and services—both public and private—disproportionate to the growth in population.[21] Jerome Pickard, in his recent projections for the Commission on Population and the American Future, estimated that 26 to 29 major growth regions will likely develop, dominated by two major growth corridors—the Atlantic Seaboard Urban Region and the Lower Great Lakes Urban Region. The next largest region will be the California region, a continuous coastal strip with a projected population of 35 to 42 million. The emergence of major "growth corridors" will intensify the already disparate distribution of population between metropolitan and nonmetropolitan

[20] Jerome P. Pickard, op. cit.

[21] For example, while the U.S. population increased at 13 percent between 1960 and 1970, the total volume of goods and services grew at about 60 percent; total energy used grew at 50 percent; total number of car-miles driven grew at 40 percent. (Jerome Pickard, op. cit.). Between 1960 and 1970, total expenditures by Federal, State, and local government grew at nearly 400 percent. Total per capita government expenditures have almost doubled since 1960—per capita State and local expenditures have increased by nearly 125 percent (see Bureau of Census, *Statistical Abstract of the United States*, op. cit.)



1. Metropolitan Belt
   1.a. Atlantic Seabord
   1.b. Lower Great Lakes
2. California Region
3. Florida Peninsula
4. Gulf Coast
5. East Central Texas—Red River
6. Southern Piedmont
7. North Georgia—South East Tennessee
8. Puget Sound
9. Twin Cities Region
10. Colorado Piedmont
11. Saint Louis
12. Metropolitan Arizona
13. Willamette Valley
14. Central Oklahoma—Arkansas Valley
15. Missouri—Kaw Valley
16. North Alabama
17. Blue Grass
18. Southern Coastal Plain
19. Salt Lake Valley
20. Central Illinois
21. Nashville Region
22. East Tennessee
23. Oahu Island
24. Memphis
25. El Paso—Ciudad Juarez

Based on 2-child family projection

Figure 3.—Urban regions: year 2000.

areas.[22] Table 12 lists major urban regions and projected population, 1970 and 2000. Figure 3 presents a map showing the location of major growth centers in the year 2000.

Nonmetropolitan Growth: Nonmetropolitan population increased from 60.2 million in 1960 to 64.3 million in 1970. The dramatic migration of rural populations to urban areas in the 1950s has slowed. From 1960 to 1970, only 2.2 million people migrated from nonmetropolitan to metropolitan areas as compared to 5.5 million in the 1950s. Decline in nonmetropolitan migration in the 1960's was due almost entirely to the declining migration of the white population. Negroes, Indians, and other minority populations continued to migrate at only slightly less than the pace of the 1950s.

[22] The population density in the 12 largest urban corridors would average 715 per square mile, while the balance of the coterminous areas would enjoy a density of only 33 persons per square mile. See Peter Morrison, *Dimensions of the Population Problem in the United States*, op. cit.

Table 10. Percent Distribution of Metropolitan Migration by Source Inside and Outside Metro Area for Selected SMSA's, 1970 [1]

Metro Areas with Greatest Growth	Total Metropolitan Migration	Source of Move: Within Same Metro Area	Outside Metro Area: Other SMSA	Outside Metro Area: Non Metro Area
Los Angeles	100.0	74.5	20.7	4.8
New York	100.0	89.1	8.1	2.8
Washington, D.C.	100.0	60.3	28.2	11.5
Chicago	100.0	81.6	12.4	5.9
Anaheim-Santa Ana	100.0	44.3	49.6	6.1
Houston	100.0	64.5	23.8	11.7
Philadelphia	100.0	36.8	47.5	15.7
San Francisco	100.0	66.9	26.5	6.5
Detroit	100.0	80.6	13.2	6.2
Dallas	100.0	61.2	26.5	12.3
Metro Areas with Least Growth				
Boston	100.0	73.0	19.0	8.0
Buffalo	100.0	82.6	12.1	5.3
Cincinnati	100.0	76.8	15.7	7.5
Kansas City	100.0	68.1	16.9	15.0
Milwaukee	100.0	78.1	13.6	8.3
Newark	100.0	70.2	22.8	7.0
Paterson-Clifton-Passaic	100.0	62.3	33.4	4.3
Pittsburgh	100.0	79.7	13.3	7.0
St. Louis	100.0	76.2	13.7	10.1

Source: Bureau of Census, "Mobility of Metropolitan Areas," *1970 Census of Population*, U.S. Government Printing Office, Washington, D.C., May 10, 1973.
[1] Metro areas with populations of 1 million or more with greatest and with least population growth.

Despite the trends of the 1950's, the majority of "rural towns" or incorporated nonmetropolitan places increased in population in the 1960's. These rural small towns are not dying towns, but growing communities. They owe much of their development to the decrease in farming. In 1970, although only 27 percent of the nation's population remained classified as rural, 5 of every 6 rural inhabitants were nonfarm residents.[23] This trend generally has resulted from:

- Increased rural but off-farm employment opportunities; and
- Commuting to work from rural to urban places.[24]

During 1960 and 1970, the nonfarm population of nonmetropolitan areas increased more rapidly than did the metropolitan population—19.3 percent compared with 16.6 percent. Due to the decline in farm population during this period, however, the total population increase in nonmetropolitan areas was only 6.8 percent.

The movement of farm populations to urban places in nonmetropolitan areas, which has spurred the rapid growth rate of the rural nonfarm population, is not widely recognized. Manufacturing jobs have been growing faster in rural areas than in metropolitan areas, but this growth has been offset by declines in farm employment. Aggregate statistics mask these events.

[23] Advisory Committee to the Department of Housing and Urban Development, op. cit.
[24] Ibid.

Table 11. Past and Projected U. S. Metropolitan Growth

	1970	Census Series B Projection [1] 1980	Census Series B Projection [1] 2000	Census Series E Projection [2] 1980	Census Series E Projection [2] 2000
Total Population (millions)	203.2	236.0	320.0	224.7	265.5
Metropolitan Areas Over 100,000 Population					
Population (millions)	144.3	181.5	273.3	173.2	225.2
Number of Areas	216	222	236	216	219
Percent of the Population in Metropolitan Areas	71.0	77.3	85.4	77.1	84.8
Great Metropolitan Areas Over 1,000,000 Population					
Population (millions)	89.3	129.4	208.9	122.3	167.9
Number of Areas	29	40	50	39	44
Percent of U. S. Population in GMAs	44.0	54.8	65.3	54.4	63.2

Source: Jerome P. Pickard, *U.S. Metropolitan Growth and Expansion, 1970–2000, With Population Projections*, Urban Land Institute, Washington, D.C., 1971.
[1] Conforms to Census Series B Projection assuming three-child average family (high fertility).
[2] Conforms to Census Series E Projection assuming a two-child average family (low fertility).

Table 12. Urban Regions, 1970 and 2000

(Population in thousands)

Urban Region and Dominant Metropolis(es)	1970 Population	Projected Population, 2000 Census Series B	Projected Population, 2000 Census Series E	Land Area (sq mi)
Atlantic Seaboard (New York Region)	45,738	69,098	57,330	70,264
Lower Great Lakes (Chicago, Detroit)	40,190	62,915	52,199	109,864
California Region (Los Angeles Region)	19,291	42,211	35,022	54,986
Florida Peninsula (Southeast Florida)	5,892	15,453	12,819	22,195
Gulf Coast (Houston)	5,798	10,750	8,920	29,736
East Central Texas-Red River (Dallas, Fort Worth)	4,617	8,986	7,455	23,436
Southern Piedmont (Charlotte, Greensboro, Winston-Salem)	4,355	6,714	5,571	24,968
N. Georgia-S.E. Tennessee (Atlanta)	2,626	4,668	3,873	12,135
Puget Sound (Seattle-Tacoma)	2,167	4,380	3,634	6,333
Twin Cities Region (Minneapolis-St. Paul)	2,753	4,355	3,614	16,219
Colorado Piedmont (Denver)	1,791	3,890	3,228	11,320
St. Louis (St. Louis)	2,428	3,578	2,969	5,383
Metropolitan Arizona (Phoenix)	1,372	3,532	2,930	12,677
Willamette Valley (Portland-Salem)	1,656	3,110	2,580	9,651
Central Okla.-Ark. Valley (Oklahoma City)	1,764	2,867	2,378	14,974
Missouri-Kaw Valley (Kansas City)	1,640	2,497	2,072	5,665
North Alabama (Birmingham)	1,754	2,328	1,932	13,052
Bluegrass (Louisville)	1,378	2,167	1,798	5,377
Southern Coastal Plain [a]	1,099	1,891	1,569	7,814
Salt Lake Valley (Salt Lake Valley)	911	1,744	1,447	4,721
Central Illinois [a]	1,088	1,573	1,305	7,682
Nashville Region (Nashville)	943	1,401	1,162	6,692
East Tennessee (Knoxville)	1,011	1,321	1,096	5,869
Oahu Island (Honolulu)	630	1,290	1,071	593
Memphis (Memphis)	806	1,264	1,048	1,839
El Paso-Ciudad Juarez (El Paso) [b]	429	825	685	3,457
Platte Valley (Omaha)	776	1,190	987 [c]	3,851
Las Vegas (Las Vegas)	272	1,175	975 [c]	4,605
East Iowa-Mississippi Valley (Davenport, Rock Island, Moline)	772	1,145	950 [c]	5,447
Total, all urban regions (Census Series B projection of territory)	155,947	268,318	222,619	500,805

Source: Pickard, op. cit., Tables III–6 through III–8.

NOTE: An urban region as defined here is a coterminous area in which metropolitan and urban population predominates. It contains at least one million residents and is composed of contiguous metropolitan areas and adjacent or intervening counties with relatively high population density, or single counties of lower density that contain a major transportation corridor linking two or more metropolitan areas. (For detailed criteria, see source above, Part IV.) Census Series B Projection corresponds to a three-child average family (high fertility), Series E Projection to a two-child average family (low fertility).

[a] No dominant metropolis.

[b] U.S. portion only of an international urban region of over one million population.

[c] Not an urban region under Census Series E Projection, since population is under one million.

Future Farm Population: Special Problem: The decline in the farm population generally has been due to lower than average incomes and falling employment opportunities due to productivity growth and technology. Between 1947 and 1970, the median money income of farm residents remained at about 60 percent of nonfarm residents; in 1970, median money income of farm residents was $6,773 compared to $10,000 for nonfarm residents.

The level of output per farm man-hour has increased dramatically. Between 1947 and 1972, agricultural output per man-hour increased at an average annual rate of 5.7 percent—almost double the 3 percent average for the nation as a whole. During the same time period agricultural employment declined from over 7.1 million to 3.3 million. Table 13 shows the change in the U.S. farm population relative to total rural population and total U.S. population between 1920 and 1970.

The widespread decline of the farm population has created a trend toward total depopulation of some major agricultural areas. These

trends appear likely to continue. Affected areas are located principally in the northwest central regions of Montana and Nebraska, and in the west central regions of Idaho, Utah, North and South Dakota, and Wyoming.[25]

Mobility Patterns

The distribution of population among metropolitan areas and between urban and rural areas may affect:

- Utilization of existing housing stock.
- Incentives to increase or decrease the housing stock.
- The demand for public services.

public services, and other aspects of community development such as commercial development. The composition of populations migrating among metropolitan areas and between urban centers and suburbs is determined by:

- Overall mobility rates for specific demographic, socioeconomic groups.
- Residential preference.

Mobility Rates: Mobility appears to vary substantially according to age, occupation, and employment, educational attainment, race, and past mobility experience. There appear to be two definable groups that are more highly mobile and that appear to have identifiable residential mobility patterns:

Table 13. Trends in U. S. Farm Population: 1920 to 1970

	1920	1930	1940	1950	1960	1970
Farm Population as of April (thousands)	31,974	30,529	30,547	23,048	15,635	9,712
Net Change Since Preceding April Due to Migration (thousands)	(NA)	−477	−703	−1,537	−1,142	−642
Farm Population as a Percent of:						
Total Population	30.1	24.9	23.2	15.3	8.7	4.8
Total Rural Population	62.0	56.7	54.4	42.5	28.9	18.0

Source: Economic Research Service, *Farm Population, Estimates for 1910–62,* and *Farm Population Estimates,* U.S. Department of Agriculture, Washington, D.C., annual.

The effect of migration on the housing stock has several dimensions. Households may simply exchange housing—having no affect on the housing stock. A portion of migration may move from areas where there is a little demand for housing (e.g., rural areas) to one where housing is relatively scarce (urban/suburban areas). The latter may generate a demand for new housing. In addition, the total flow of migration, and the rate of population inflow and outflow in a community may affect the quantity and type of housing required (owner/rental, single/multifamily) and the life of the housing stock. The demographic and socioeconomic composition of migrant populations also affect community development—especially regarding residential moves within a metropolitan area. The demographic and socioeconomic composition and concentration of mobile and immobile populations determine, to a great extent, the ability of the resident population to support financially the cost of housing, attendant

- White, well-educated, employed in highly skilled occupations, likely to make long-distance moves.
- White or nonwhite, with little education, unemployed or employed in lesser skilled jobs, likely to move within a single community.

Those persons, in either group, who are young and/or who have moved recently are more likely to move than those who are older (35 years of age and older) and who have remained in the same residence for three years or more. In general, single individuals tend to move more frequently than heads of households—partly due to generally lower average age—and to move shorter distances.[26]

Age: Mobility rates differ among groups by age. Migration occurs most frequently among young adult households—during completion of education, entrance in the labor market, house-

[25] Calvin L. Beale, "Rural and Nonmetropolitan Population Trends of Significance to National Policy," Economic Research Service, U.S. Department of Agriculture, Washington, D.C., February 1972.

[26] The exception appears to be female-headed households, which seem to move frequently within one community. See: Bureau of the Census, "Mobility of the Population in the United States: March 1970 to March 1971," *Current Population Reports,* Series P–20, No. 235, U.S. Government Printing Office, Washington, D.C., 1972.

hold formation, etc.[27] The peak levels of mobility are reached between 20 and 30 years of age. Nearly 50 percent of the population between 20 and 25 changes residence in a given year. By the age of 30, an average person has completed 60 percent of the residential moves he can expect to make in a lifetime.[28]

the highest rates, blue collar and manual laborers have the lowest rates. Table 14 shows migration rates by major occupational category.

Mobility also is related to employment status —unemployed workers and workers who work fewer than 50 weeks a year, appear to be more mobile, within and among communities. Table 15 shows the mobility experience of employed and unemployed workers in March 1962 and March 1963.

Table 14. Annual Mobility of the Employed Civilian Male Population 14 Years Old and Over, March 1969 Through March 1970

Characteristic (as of March 1970)	Mobility Rates Per Hundred Population			
	Total	Migration		Local Mobility
		Intrastate	Interstate	
Total, Employed Males Age 14+	18.3	3.2	3.1	12.0
Major Occupation Group				
White collar workers	18.6 [1]	3.8	4.1	10.0
Manual workers	19.1	2.9	2.7	13.5
Service workers	16.0 [1]	2.0	1.8	12.1
Farm workers	10.5	2.2	1.1	7.2
Class of Worker				
Wage and salary workers	19.3	3.4	3.3	12.6
Self-employed workers	10.1	1.6	1.4	7.1

Source: U.S. Bureau of the Census, *Current Population Reports*, Series P-20, No. 210, Jan. 15, 1971, Tables 8 and 9.
[1] Intrastate, interstate, and local mobility rate may not add to total migration rate due to migration from abroad.

Table 15. Percent Distribution of the Employed and the Unemployed in March 1963 and in March 1962, by Type of Mobility: March 1963

Type of mobility	March 1963		March 1962	
	Employed	Unemployed	Employed	Unemployed
Total	100.0	100.0	100.0	100.0
Nonmovers	80.4	69.3	81.4	67.1
Intracounty Movers	13.0	18.7	12.8	21.9
Intercounty Movers	6.6	12.1	5.8	11.0

Source: U.S. Bureau of Census, *Current Population Reports*, Series P-20, No. 210, Jan. 15, 1971. For a more extensive analysis of mobility as it relates to employment status, see Samuel Sabin, "Geographic Mobility and Employment Status, March 1962, March 1963," *Monthly Labor Review*, Bureau of Labor Statistics, Washington, D.C., Volume 87, No. 8, August 1964.

Occupation and Employment: Migration rates vary systematically among occupational groups—white collar professional workers have

Educational Attainment: Educational attainment appears to affect the rate of mobility among counties and between States, but does not appear to be a great factor in local community residential changes. Furthermore, it appears that local moves are more likely to be made by persons with elementary educations than college educations; long-distance moves are much more likely to be made by persons with some college education. The direct relationship between education and longer distance moves appears to result from the tendency of the higher skilled occupations to draw from a regional or national market rather than solely from a local market.

Markets for highly trained personnel are not local. These people tend to cross "labor market" boundaries frequently because they actually sell their services in markets which are geographically broader. The "skill gaps" are more important than the "distance gaps" in the markets for trained personnel. Complex shifts of trained personnel from area to area, thus, may take place in order to balance out supply and demand for each type of speciality. There is no economic reason to transfer unskilled labor from one place to another, however, except when there is a general shortage of manpower in some areas and a surplus elsewhere.[29]

[27] Peter Morrison, *Population Movements and the Shape of Urban Growth*, op. cit.
[28] Larry H. Long, "New Estimates of Migration Expectancy in the United States," op. cit.
[29] John B. Lansing and Eva Mueller, *The Geographic Mobility of Labor*, op. cit.

Table 16. Rates of Moving (Percentages) and Expected No. of Years March 1966–1971 With Moves, by Type of Move, Age, and Years of School Completed

Age and Years of School Completed	Number of Persons (thousands)	Percent Moving				Expected No. of Years with Moves		
		Total[1]	Within Counties	Between Counties[2]	Between States	Total[3]	Within Counties	Between Counties	Between States
Ages 25–29[4]	36,793	37.9	13.5	13.5	7.0	7.27	4.53	2.46	1.17
Elem.: 0–7	1,736	39.8	11.9	11.9	5.2	8.38	5.87	2.17	0.90
Elem.: 8	1,876	28.2	12.6	12.6	5.7	7.58	5.09	2.29	0.88
H.S.: 1–3	5,719	24.3	11.6	11.6	5.2	6.94	4.74	2.08	0.92
H.S.: 4	14,844	21.5	10.7	10.7	5.2	6.51	4.07	2.17	1.01
College: 1–3	5,758	22.1	13.0	13.0	6.9	7.41	4.35	2.80	1.39
College: 4	3,888	20.2	20.5	20.5	11.3	7.74	3.82	3.43	1.92
College: 5+	2,972	22.4	23.9	23.9	15.6	8.47	4.11	3.80	2.30

[1] Includes movers from abroad.
[2] Includes movers between States.
[3] Expected years with moves in the age interval and all later years.
[4] Ages between 25 and 29 years are ages in which residential moves are most frequent.
Source: Special tabulations from March Current Population Surveys, 1966 through 1971.

Table 17. Population Change and Net Migration in the United States by Race and Metropolitan Status, 1969–70

Race Residence	Population (millions)		Percentage Change, 1960–70	Net Migration Amount (millions)		Net Migration Rate[1]	
	1970	1960		1960–70	1950–60	1960–70	1950–60
United States	203.2	179.3	13.3	3.0	2.7	1.7	1.8
Metropolitan[2]	138.9	119.1	16.6	5.2	8.1	4.4	9.0
Nonmetropolitan	64.3	60.2	6.8	−2.2	−5.5	−3.6	−8.9
White	177.6	158.8	11.8	2.2	2.7	1.4	2.0
Metropolitan[2]	120.1	105.4	13.9	3.1	6.5	2.9	8.0
Nonmetropolitan	57.6	53.4	7.8	−.8	−3.8	−1.4	−7.1
Nonwhite	25.6	20.5	24.7	.7	[3]	3.5	−.1
Metropolitan[2]	18.8	13.7	37.2	2.1	1.6	15.6	18.0
Nonmetropolitan	6.8	6.8	−.5	−1.4	−1.6	−20.9	−23.3

[1] Net migration as a percentage of population at beginning of decade.
[2] Metropoitan areas as defined in 1969 for the 1960–70 data and 1963 for 1950–60 data.
[3] Less than 50,000.

Table 16 shows the location preference of migration rates of various educational categories.

Race: The total annual mobility rates for nonwhites are higher than for whites. Because the vast majority of nonwhites now live in metropolitan areas—nonwhite moves are principally local moves. Table 17 shows the relationship of location of residential migration to race.

Past Mobility Experience: The likelihood of a residential move declines as the duration of stay in a given residence increases. Persons who moved during the past year show a higher propensity for future moves. Table 18 records the age specific mobility rates by duration of residence.

Composition of Mobile and Immobile Populations: The potential ability of some groups to choose freely a residential location may be limited by immobilizing forces, such as racial discrimination, poverty, and lack of transportation. It appears from existing evidence that:

- There is a decided separation based on race and income between center cities and suburbs.

Table 18. Prospective Annual Mobility Rate, Classified by Age, Previous Year's Residence, and Duration of Residence in Present County

Current Residents' Age and Previous Year's Residence	All Durations	Duration of Residence in Present County: Less than 1 Year	1–2 Years	3–4 Years	5 Years or More
All Ages					
Same	.15	—	.33	.24	.14
Different house	.45	.51	.56	.51	.38
Total, both residences	.20	.51	.40	.29	.16
17–19					
Same house	.28	—	.49	.33	.25
Different house	.67	.75	.76	.61	.63
20–24					
Same house	.37	—	.45	.39	.36
Different house	.56	.59	.61	.64	.50
25–29					
Same house	.26	—	.39	.28	.23
Different house	.44	.45	.55	.51	.39
30–29					
Same house	.16	—	.30	.23	.14
Different house	.37	.45	.46	.38	.29
40–49					
Same house	.10	—	.26	.17	.09
Different house	.40	.49	.60	.49	.31
50+					
Same	.10	—	.21	.17	.09
Different house	.33	.39	.52	.43	.29

Source: Peter A. Morrison, *The Propensity to Move: A Longitudinal Anaysis,* The Rand Corporation, Santa Monica, R-654-HUD, January 1971, Table 3.

• This trend is likely to continue—the vast majority of nonwhites will live in cities and the vast majority of whites will live in suburbs.

There appear to be marked similarities in mobility behavior of specific demographic groups, regardless of residential preference—for example, city destined vs. suburban destined.[30] Regardless of locational choice, married couples with similar numbers of children exhibit a similar tendency to move among neighborhoods. Moreover, there are similar portions of freely moving single individuals located in both cities and suburbs. Table 19 shows the household composition of mover groups.

Beyond these similarities, however, there are marked differences between urban and suburban migrants, among which are race and income. Nonwhites compose only a small portion of the suburban destined population; whereas the portion of freely moving nonwhite suburban households is only 8 percent, the comparable level of nonwhite movement in the center city is 39 percent. Similarly, for intraneighborhood movers, the figures for the city and the suburbs are 37 percent and 2 percent, respectively.[31] Table 20 shows moves by race in the sample population from 1960 to 1966. Table 21 shows similar data collected by the Bureau of the Census for the period of 1965 through 1970.

City mover groups appear to have the highest concentration of poor households. One-third of all movers from suburbs to cities recorded incomes below $3,000—30 percent of intraneighborhood families and 20 percent of out-of-State or out-of-SMSA movers. In general, the poverty level within the urban intraneighborhood group is 50 percent higher than mover groups from longer distances. In comparison, only 4 percent

[30] The data presented in the following discussion unless otherwise Indicated is based on a survey of 1,476 households in 43 metropolitan areas across the United States, administered by the National Opinion Research Center, University of Chicago. The purpose of the survey was to identify factors related to mobility of metropolitan populations, to identify choice of dwelling and neighborhood environment, and to develop specifications for a mathematical model of residential mobility and residential choices. See Edgar W. Butler, et al., *Moving Behavior and Residential Choice,* A National Cooperative Highway Research Program Report, Highway Research Board, National Academy of Sciences, Washington, D.C. No. 81, 1969.

[31] Edgar W. Butler, et al. op. cit.

Table 19. Household Composition of Mover Groups As a Percent of Total Respondents in Each Mover Category, 1960-1966

All Mover Groups (Origin and Destination)	Total	Household Status: Married with Children	Married with no Children	Single Person	Other[1]
City Destined					
Suburb to City	100.0	26.7	40.0	6.7	26.6
Outside SMSA to City	100.0	51.0	23.6	8.2	17.2
Same City Neighborhoods	100.0	52.1	12.3	14.1	21.5
Different City Neighborhoods	100.0	51.8	18.5	8.7	21.0
New City Households	100.0	50.0	38.5	7.7	3.8
Suburb Destined					
Central City and Suburb to Suburb	100.0	67.3	18.3	3.9	10.5
Outside SMSA to Suburb	100.0	70.7	14.6	2.4	12.3
Same Suburban Neighborhoods	100.0	60.6	12.1	9.1	18.2
Different Suburban Neighborhoods	100.0	61.6	17.8	8.2	12.4
New Suburban Households	100.0	47.4	42.1	5.3	5.2

Source: Edgar W. Butler, et al., *Moving Behavior and Residential Choice: A National Survey*, Highway Research Board, National Academy of Sciences—National Academy of Engineering, Washington, D.C., 1969.
[1] Other household types include extended families (with other relatives) and broken families.

Table 20. Moves by Race, 1960-1966

Mover Group (origin and destination)	Percent Moves Nonwhite
City Destined	
Suburb to city (same SMSA)	12
Outside SMSA to city	22
New city households	31
Same city neighborhood (same SMSA)	37
Different city neighborhood (same SMSA)	39
Suburban Destined	
Central city and suburb to suburb (same SMSA)	5
Outside SMSA to suburb	4
New suburban households	5
Same suburban neighborhood (same SMSA)	2
Different neighborhood, suburban (same suburban town)	8

Source: Edgar W. Butler, et al., *Moving Behavior and Residential Choice: A National Survey*, Highway Research Board, National Academy of Sciences, Washington, D.C., 1969.

Table 21. Negro Movers Within and to SMSA's of 1,000,000 Population or More—1970

	Number	Percent
Total Negro Population in SMSA's of 1,000,000 Population or More	9,758	100.0
Mobility Status:		
Non Mover (Same House)	4,630.5	47.5
Mover (Different House)		
From Other SMSA	407.9	4.1
From Nonmetropolitan Area	238.0	2.4
Within City	2,591.3	26.6
Between City and Suburb	243.1	2.5
Within Suburb	394.5	4.0
Between Suburb and City	166.8	1.7
Other[1]	1,085.9	11.2

Source: Bureau of Census, "Mobility of Metropolitan Areas," *1970 Census of Population*, U.S. Government Printing Office, Washington, D.C., May 10, 1973.
[1] Moved place of residence in 1965 not reported or moved from abroad.

of the suburban destined movers reported incomes below $3,000.[32]

In general, it appears that the urban and suburban communities represent very different race and income groups that exhibit different mobility patterns. Center cities appear to experience a high proportion of nonwhite migration—the majority of which is among neighborhoods.[33]

[32] The greatest concentration of households with incomes of less than $3,000 in suburban mover group was within the intra-neighborhood group—18 percent of families reported incomes under $3,000. Sixteen percent of newly formed families and only 10 percent of migrants from out-of-state and other SMSAs were poor. See Edgar W. Butler, et al, op. cit.

[33] It is not clear, however, given the racial and age composition of the resident population in center cities and age-race specific mobility rates, whether the level of intraneighborhood migration in central cities is due to natural migration patterns or is induced by inadequate housing, discrimination, or other outside forces.

Table 22. Percentage Distribution of Mover Groups by Income Groups

	All Classes	Income Class[1] $3000	$3000–6249	$6250–8749	$8750–12,499	$12,500–16,999+	N.A.[2]
All Mover Groups	100.0	16.3	34.7	19.8	17.2	11.2	0.8
City Destined							
Suburb to City	100.0	33.3	40.0	6.7	6.7	6.7	6.6
Outside SMSA to City	100.0	20.4	40.8	24.6	10.2	4.0	—
Same City Neighborhood	100.0	29.4	43.6	12.9	6.7	6.7	0.7
Different City Neighborhood	100.0	20.0	38.4	17.9	16.3	6.8	0.6
Suburb Destined							
Central City and Suburb to Suburb	100.0	4.6	26.1	23.5	25.5	19.6	0.7
Outside SMSA	100.0	9.8	20.7	24.4	25.6	19.5	—
Same Suburban Neighborhood	100.0	18.2	27.3	24.2	13.6	16.7	—
Different Suburban Neighborhood	100.0	2.7	30.1	23.3	31.5	11.0	1.4

Source: Edgar W. Butler, *Moving Behavior and Residential Choice*, Highway Research Board, National Academy of Sciences, Washington, D.C., 1969.
[1] Income reported for last 12 months.
[2] Data for income not reported.

Table 23. Percent Distribution of Mover Groups By Number of Years Education Completed for Metropolitan Areas of 1,000,000 Population and Over

	Total	Years of Education Completed <8 Yrs.	8 Yrs.	9–11 Yrs.	12 Yrs.	13 Yrs.
All Mover Groups	100.0	10.4	8.6	18.0	32.4	30.6
City Destined	100.0	14.2	9.8	20.2	29.3	26.5
Suburb to City	100.0	10.6	8.6	19.0	31.3	30.5
Other SMSA to City	100.0	7.1	5.6	13.8	28.0	45.5
Within City Neighborhood	100.0	16.4	11.1	22.0	29.5	21.0
Nonmetro to City	100.0	12.0	8.4	16.4	26.0	37.2
Suburb Destined	100.0	7.7	7.6	16.4	34.7	33.6
City to Suburb	100.0	9.0	8.5	18.0	35.5	29.0
Other SMSA to Suburb	100.0	9.0	5.1	11.9	31.1	47.3
Within Suburban Neighborhood	100.0	8.7	8.6	18.3	36.5	27.9
Nonmetro to Suburb	100.0	7.0	6.9	13.6	32.2	40.3

Source: Bureau of Census, "Mobility for Metropolitan Areas," *1970 Census of Population*, U.S. Government Printing Office, Washington, D.C., May 10, 1973.

Moreover, intraneighborhood migrants within cities frequently will be poor, unemployed or employed only part of the year, and in unskilled occupations.

Table 22 shows the significant differences existing between city and suburban groups with respect to income—and to a lesser extent among various intraneighborhood mover groups within cities and suburbs. Median income for central city movers ranges between $4,600 for intraneighborhood movers and $5,700 for newly formed households. For suburban movers the corresponding range varies from a low of $5,500 for newly formed households and a high of $8,200 for recent suburban movers moving into the community for the first time.

Suburban migrants, by contrast, are generally wealthier, better educated, and employed in white collar occupations. Suburban migrants frequently change communities, towns within an SMSA, or move from other SMSA's, but rarely move to a different neighborhood within a suburban community. Table 23 shows the educational distribution of intracity and intrasuburban migrants compared to those of migrants from cities to suburbs. Table 24 shows the occupational distribution of these groups.

Table 24. Percentage Distribution of Mover Groups by Occupational Classification

	Occupational Classification								
	Total	Prof.	Mgr.	Sales	Claim	Crafts	Oper.	Labor	Farm & Svc.
Total All Mover Groups[1]	100.0	20.1	12.2	8.3	9.1	18.8	17.1	5.5	8.7
City Destined	100.0	17.7	9.8	7.5	10.1	17.1	19.6	6.6	10.9
Suburb to City	100.0	19.4	11.7	8.5	9.8	18.5	17.8	5.7	8.6
Other SMSA to City	100.0	30.0	12.6	9.1	10.2	13.1	12.5	4.4	8.1
Within City Neighborhood	100.0	13.9	8.9	7.1	11.0	18.1	21.6	7.3	12.1
Nonmetropolitan	100.0	22.7	8.4	6.5	11.0	16.0	19.2	6.9	9.3
Suburb Destined	100.0	21.9	13.9	8.9	7.9	20.0	15.5	4.8	7.2
City to Suburb	100.0	19.3	12.9	9.4	8.9	21.4	16.3	4.4	7.4
Other SMSA to Suburb	100.0	31.4	18.0	10.4	7.4	14.1	9.7	3.2	5.8
Within Suburban Neighborhood	100.0	17.7	12.8	8.3	7.9	22.4	17.7	5.4	7.8
Nonmetropolitan	100.0	27.7	12.1	7.5	7.3	18.3	15.3	5.0	6.8

Source: Bureau of Census, "Mobility for Metropolitan Areas," *1970 Census of Population*, U.S. Government Printing Office, Washington, D.C. May 10, 1973.
[1] All male employed workers age 16 years and over.

Why People Move and an Evaluation of Population Change and Community Development/Decline

The previous chapter outlines the kinds of population changes there have been (and are likely to be) in the United States. We concentrate on where growth occurs and who moves, how frequently, at what point in their life, from where, and to what type of new location.

This chapter attempts to explain why this population change and movement transpired. Motives for selected types of movement are specified and the decison process surrounding changes in personal residence is examined. Secondly, this chapter evaluates the effect of population change on community development and decline.

The Decision to Move

The sections that follow attempt to show what is known and what is believed about why various segments of the population change residence. The decision to move appears to be related to family size, age, race, and family income. Further, deciding on a place to live appears to be a trade-off or compromise between: (a) availability and cost, and (b) the quality of the home structure and neighborhood, commuting distances, public services, and proximity of commercial developments.

Motives for Moving: Motives for moving vary directly according to the distance of the move. Long-distance moves appear motivated predominantly by job-related considerations, short-distance (intracounty) moves are generally due to noneconomic motives, primarily housing.

Employment-Related and Long-Distance Moves: For all demographic and socioeconomic groups, employment appears to be the major cause of long-distance (intercounty and intermetropolitan) moves. A study that divides economic motives according to occupation and employment status shows that job-related considerations dominate long-distance moves by both white collar and blue collar, employed and unemployed workers.[34] A Bureau of Labor Statistics survey in 1963 reported that "half of migrants reported work-related factors—to take a job, look for work, or make a job transfer—as reasons for their move." [35] It appears, however, that white collar and/or employed persons move to accept a new job or job transfer, while lesser skilled and/or unemployed persons move long distances to look for work.[36]

On the basis of people's own explanations, it appears that economic reasons for moving occur with particular frequency among the young, the college educated, the professional, and to a lesser extent other white collar groups.[37] Table 25 indicates the frequency of different reasons for changing residence.

[34] John B. Lansing and Eva Mueller, *The Geographic Mobility of Labor*, op. cit.
[35] See Samuel Sabin, "Geographic Mobility and Employment Status, March 1962–1963," *Monthly Labor Review*, Vol. 87, August 1964.
[36] This point is supported by Peter Morrison. See: Peter Morrison, *Dimensions of the Population Problem in the United States*, op. cit.
[37] Peter Morrison, *Dimensions of the Population Problem*, op. cit.

Table 25. Reasons for Move for Males 18-64 Years Old, by Distance of Move, March 1963

Distance of Move	All Reasons	Reason for Move: Job Related	Housing	Change in Marital Status or Family	Other Reasons and not Reported
Intercounty					
Total, 18 to 64 years	100.0	65.0	10.3	13.6	11.3
Single	100.0	60.2	5.2	25.9	9.2
Married, wife present	100.0	66.8	12.2	9.4	11.7
18 to 44 years	100.0	69.6	11.7	9.3	9.8
Married April 1962 to March 1963	100.0	52.8	4.9	34.1	9.4
Other	100.0	72.1	12.7	5.4	9.8
45 to 64 years	100.0	55.5	14.3	10.1	19.7
Other marital status	100.0	61.8	7.4	17.6	14.0
Intracounty					
Total, 18 to 64 years	100.0	12.4	61.9	18.2	7.7
Single	100.0	16.1	42.2	29.4	12.7
Married, wife present	100.0	11.4	68.8	13.5	6.4
18 to 44 years	100.0	11.3	67.6	15.4	5.8
Married April 1962 to March 1963	100.0	8.1	21.5	68.5	3.0
Other	100.0	11.8	75.6	6.3	6.3
45 to 64 years	100.0	11.9	72.9	6.6	8.8
Other marital	100.0	15.1	34.3	40.1	10.8

Source: Bureau of Census, "Reasons for Moving: March 1962 to March 1963," *Current Population Reports*, U.S. Government Printing Office, Washington, D.C., Series P-20.

Non Job-Related Motives and Short-Distance Moves: Non job-related motives appear to be the dominant force determining local (intracounty) moves. Noneconomic motives for moving include:

- Quantity and/or quality of housing.
- Quantity and/or quality of public services.
- Taxation.

Table 25 shows that nearly 80 percent of local residential mobility is due to other than employment factors. The most important is clearly housing. As indicated above, employment-related motives appear to be equally important in long-distance moves for all demographic groups. However, in short-distance movement, housing is substantially more important to married households than to those that are single especially for older age groups.[38]

Elements of Relocation Decision: As indicated, long-distance moves are determined predominantly by employment considerations. Once the choice of metropolitan area is made, however, long-distance movers and all other movers, rank neighborhood quality the strongest influence on location selection. Neighborhood quality is perceived in the context of these survey data as: (a) better general appearance, (b) better repair of dwellings, (c) kind of people, (d) reputation, (e) quietness, and (f) level of traffic. Among the major considerations are:

- Metropolitan households overwhelmingly prefer neighborhood quality over accessibility. Seventy-one percent would choose a very good neighborhood even if its location made travel to other parts of town difficult. Only 26 percent would prefer accessibility to a desirable neighborhood.
- Neighborhood quality also clearly dominates over housing unit quality. Respondents chose better neighborhood quality with less desirable housing units over a less desirable neighborhood with better housing, 69 percent to 27 percent. Among nonwhites, 53 percent prefer neighborhood quality.
- Metropolitan households also prefer a neighborhood with a better-than-average school system and higher-than-average taxes (78 percent) to a neighborhood with a below-average school system and lower-than-average taxes (15 percent). As would be expected, this preferred tradeoff is virtually universal for married couples with young children (95 percent). Even among

[38] Bureau of Census, "Reasons for Moving: March 1962 to March 1963," *Current Population Reports*, U.S. Government Printing Office, Washington, D.C., Series P-20, 1964.

other groups, such as the elderly, a majority still subscribes to the same preference.[39]

Neighborhood quality may be identified with the location of similar socioeconomic groups. Residential mobility patterns within a metropolitan area are dominated by a self-selection process wherein similar socioeconomic groups tend to locate near one another.

Population Change and Community Development/Decline

The remainder of this chapter specifies a particular framework for tracing community development and decline and attempts to use that framework to evaluate the development/decline phenomenon in the United States.

Sustained Profitable Investment Opportunity: An Analytical Framework: Community development is a complex and dynamic process that appears to occur when the level of demand for either residential, commercial, or industrial locations provides sufficient incentive for sustained profitable investment. Community development/decline can be viewed as a profit continuum on which development reflects the presence of profitable investment opportunity and decline reflects the absence of such opportunities.

Relative investment potential and its attendant effects appear to influence heavily population changes and movement motivations.

The outlets for investment (or disinvestment) are diverse. For our purposes the following major categories of community investment appear most useful:

- New construction
- Abandonment
- Retail sales and services
- Jobs
- Public services

Investment potential is an incentive for community development because it induces relocation and growth in a particular area. After movement and/or growth transpire, however, investment potential is also an indication of community development. As such, investment potential is both a cause and an effect of community development. This duality may be ambiguous for some analytical purposes, however. The five categories of investment listed in the last paragraph can be useful measures of community development. Fine distinctions between when each type of investment caused development and when it reflected development are unnecessary. We know that investment potential is strongly related to community development (before, after, and during) and that the absence of investment potential is similarly associated with decline.

The rate of investment/disinvestment depends upon the level of demand for residential, public, and commercial services generated in the community by its own residents and by residents of other communities. Demand for these services is a function of demographic mix and general income levels, which in turn depend on how much of what kinds of population growth and movement effect the area.

In this light, population growth and movement generate demand for essential services, which in turn induces investment (or disinvestment). The resulting investment (or disinvestment) is both a cause and reflection of the resulting community development (or decline). Without sustained investment potential we observe neither the cause nor the reflection, instead we observe community decline.

Components of Decline/Development Process: This section discusses each of the five indicated categories of investment/disinvestment in terms of its role in the development/decline process.

New Construction: Occasionally new construction is undertaken for an independent reason, such as building a special museum or memorial. But generally new construction is a response to one of the following kinds of needs:

- New residential households—either due to new household formation or residential relocation.
- Replacement of substandard housing.
- Replacement of units demolished due to "public actions" such as construction of transportation routes or urban renewal.

As such, new construction is a largely neutral force that responds to larger (causal) forces such as population growth or population movement.

New construction may serve a dual role, however, as both a cause and an effect of community development. Although new construction initially may result from a stronger developmental force such as population growth, new construction may itself help induce further development.

The present pattern of metropolitan Washington was formed in large part by the incidence of initial new construction. The radial

[39] Edgar W. Butler, et al., *Moving Behavior and Residental Choice*, op. cit.

extension of transportation patterns and accompanying commercial development appears to have induced and to continue to induce residential development in the same radial pattern. Two-thirds of District of Columbia regional population growth, and one-third of the employment growth, have occurred along these same radial transportation routes.[40]

a. New Construction and Metropolitan Growth: In areas other than Washington, new construction appears to serve as both a reflection and a partial cause of community development—25 percent of all new construction in 1971 occurred in metropolitan areas experiencing the most rapid population growth. Table 26 shows the distribution of new construction by major metropolitan area and by metropolitan area growth status.

Within metropolitan areas new construction appears to be concentrated in the areas of fastest development—suburban communities. In 1971, of the total number of new residential units constructed nationally, 63 percent were suburban. Table 27 shows the distribution of new construction within metropolitan areas—center city and suburban.

Table 26. Distribution of New Residential Construction in Selected Metropolitan Areas, 1971 [1]

Metropolitan Area	New Residential Construction Number (thousands)	Percent Distribution
Total All Metro Areas	1614.8	100.0
Metro Areas With Greatest Growth	402.3	24.9
Los Angeles	44.7	2.8
New York	54.5	3.4
Washington, D.C.	37.7	2.3
Chicago	63.5	3.9
Anaheim-Santa Ana	31.3	1.9
Houston	33.7	2.1
Philadelphia	32.5	2.0
San Francisco	38.8	2.4
Detroit	35.7	2.2
Dallas	29.9	1.9
Metro Areas with Least Growth	119.2	7.4
Boston	16.9	1.0
Buffalo	8.1	0.5
Cincinnati	14.3	0.9
Cleveland	12.2	0.8
Kansas City	16.4	1.0
Milwaukee	11.0	0.7
Newark	7.0	0.4
Paterson-Clifton-Passaic	4.6	0.3
Pittsburgh	9.8	0.6
St. Louis	18.9	1.2
Other Metro Areas	1093.3	67.7

Source: Bureau of Census, "Housing Authorized by Building Permits and Public Contracts," *Construction Reports*, U.S. Government Printing Office, Washington, D.C., 1971.

[1] Metro areas with populations of 1 million or more and with greatest and least population growth between 1960 and 1970.

Table 27. Relative Distribution of New Residential Construction Among Center Cities and Suburbs in Selected Metropolitan Areas, 1971 [1]

Metropolitan Areas	New Residential Construction[2] (thousands) Total Metropolitan	Center City	Suburban
Total All Metro Areas	1614.8	592.5	1022.3
Metro Areas With Greatest Growth			
Los Angeles	44.7	17.4	27.2
New York	54.5	28.1	26.4
Washington, D.C.	37.7	0.8	36.9
Chicago	63.5	12.2	51.3
Anaheim-Santa Ana	31.3	5.3	26.0
Houston	33.7	.26.7	7.1
Philadelphia	32.5	3.7	28.7
San Francisco	38.8	5.0	33.8
Detroit	35.7	2.4	33.4
Dallas	29.9	12.8	17.1
Metro Areas with Least Growth			
Boston	16.9	1.9	14.9
Buffalo	8.1	0.2	7.9
Cincinnati	14.3	3.8	10.4
Cleveland	12.2	1.8	10.5
Kansas City	16.4	5.1	11.2
Milwaukee	11.0	3.6	7.3
Newark	7.0	0.2	6.8
Paterson-Clifton-Passaic	4.6	.3	4.3
Pittsburgh	19.8	1.2	8.6
St. Louis	18.9	1.3	17.6

Source: Bureau of Census, "Housing Authorized by Building Permits and Public Contracts," *Construction Reports*, U.S. Government Printing Office, Washington, D.C., 1971.

[1] Metropolitan areas with populations of 1 million or more and with greatest and least population growth 1960–1970.

[2] Number of new housing permits granted during 1971.

[40] See: Metropolitan Washington Council of Governments, *Areawide Land Use Element—1972*, WCOG, Washington, D.C., 1972.

Table 28. Housing Conditions in Metropolitan and Nonmetropolitan United States, 1970

	United States		Metropolitan		Nonmetropolitan	
	Total	Pct. of U.S.	Total	Pct. of U.S.	Total	Pct. of U.S.
Occupied Housing Units, 1970	63,449,747	100.0	43,862,993	69.1	19,586,754	30.9
Lacking Complete Plumbing						
Number	3,772,817	100.0	1,387,282	36.8	2,385,535	63.2
Percent	5.9	—	3.2	—	12.2	—
Crowded						
Number	5,210,874	100.0	3,405,318	65.4	1,805,556	34.6
Percent	8.2	—	7.8	—	9.2	—
Lacking Complete Plumbing and/or Crowded						
Number	8,237,184	100.0	4,579,356	55.6	3,657,828	44.4
Percent	13.0	—	10.4	—	18.7	—
Mobile Homes						
Number	2,072,887	100.0	931,721	44.9	1,141,166	55.1
Percent	3.3	—	2.1	—	5.8	—

Source: Bureau of Census, *1970 Census of Housing*, U.S. Government Printing Office, Washington, D.C., Series A, (Mobile Homes, Series B), 1971.

b. Substandard Housing: Substandard housing affects communities by (1) reducing the effective housing stock and (2) in some circumstances exacerbating the social and economic problems.

In 1970, substandard housing, that is, housing that is considered overcrowded and lacks complete plumbing facilities comprised about 1.2 percent of the total housing stock.[41] About 14 percent of the housing stock was either crowded or lacking plumbing facilities.

Substandard housing represents nearly 20 percent of the nonmetropolitan housing stock. In metropolitan areas, 10 percent of the housing stock may be classified as substandard. There is evidence that deteriorating and dilapidated structures encompass an even larger portion of the housing stock in some central cities.[42] Table 28 shows the distribution of substandard housing among metropolitan and nonmetropolitan areas.

In nonmetropolitan areas, substandard housing may be a neutral and harmless force, the mere result of a declining farm population that requires fewer housing units. In metropolitan areas, however, it appears that substandard housing and the continued deterioration of standard housing may be removing needed housing from the housing stock. The elimination of needed housing may accelerate community decline by compounding problems of poverty, crime, and drugs, which are bred by excessive concentration by low-skilled, unemployment-prone persons. Again, urban housing dilapidation (or new construction disinvestment) is initially a result of community decline, but later often is an independent cause of further decline. At all times, however, housing deterioration is a concomitant part of the absence of sustained profitable investment opportunity.

Investment by landlords and homeowners in the maintenance of residential property and increasing unwillingness on the part of investors to undertake new ventures are the salient aspects (causal and resultant) of community decline. Table 29 compares recent construction activity investment to the quantity of substandard and dilapidated housing in the housing stock for cities within major metropolitan areas. As indicated, new construction investment is inversely related to dilapidation and general decline.

Abandonment: Abandonment is a major, highly visible form of disinvestment in a community. The single family homeowner "abandons" when he deserts the structure, ceases to pay local property taxes, or ceases to meet monthly mortgage payments. Tenant "abandonment" occurs in multifamily units when, after several months of vacancy and rent arrears, no new tenants can be found to fill the vacancy. Abandonment by owners of multifamily units occurs when

[41] Bureau of Census, "General Housing Characteristics: U.S. Summary, *1970 Census of Housing*, U.S. Government Printing Office, Washington, D.C., 1971.

[42] A recent study of housing In Philadephia concluded that as much as one-third of the housing in some neighborhoods could be considered to be deteriorating. See Housing Association of Delaware Valley, *Housing Abandonment: The Future Forgotten*, HADV, Philadephia, 1972. Other studies have recorded similar observations, especially in the older Eastern and Midwestern cities. See: William Grigsby, et al., *Housing and Poverty*, Institute for Environmental Studies, University of Pennsylvania, Philadelphia, 1970; and The Finance Commission, *A Special Report on Abandoned and Related Programs*, City of Boston, Boston, Mass., 1970.

Table 29. Comparison of the Impact of New Residential Construction, Substandard Housing on Vacancy Rate and Total Central City Housing Stock in Selected Metropolitan Areas [1]

	Housing Characteristics of Central Cities							
	Total Central City Housing Stock, 1970	New Residential [2] Construction 1971		Substandard Units Without Some or All Plumbing		With More Than One Person/Room		Vacancy [3] Rate (Percent)
		Number	Percent	Number	Percent	Number	Percent	
Total All Metro Areas	22,593.9	592.5	2.6	768.2	3.4	1,717.1	7.6	
Metro Areas with Greatest Growth								
Los Angeles	1,077.3	17.4	1.6	20.2	1.9	90.2	8.4	3.7
New York	2,924.4	28.1	1.0	83.8	2.9	290.7	9.9	1.7
Washington, D.C.	278.4	0.8	0.3	6.4	2.3	32.2	11.6	4.1
Chicago	1,208.8	12.2	1.0	52.1	4.3	102.6	8.5	4.6
Anaheim-Santa Ana	56.2	5.3	9.4	0.6	1.1	4.2	7.4	4.3
Houston	427.9	26.7	6.2	9.2	2.2	39.3	9.2	6.2
Philadelphia	673.5	3.7	0.5	15.6	2.3	40.5	6.0	5.8
San Francisco	310.4	5.0	1.6	23.8	7.7	20.7	6.7	2.8
Detroit	529.2	2.4	0.4	14.5	2.7	37.4	7.1	4.7
Dallas	303.3	12.8	4.2	4.9	1.6	25.2	8.3	6.2
Metro Areas with Least Growth								
Boston	232.4	1.9	0.8	14.7	6.3	16.4	7.0	4.5
Buffalo	166.1	0.2	0.1	5.7	3.4	7.6	4.6	3.0
Cincinnati	172.6	3.8	2.2	9.3	5.4	15.2	8.8	5.4
Cleveland	264.1	1.8	0.7	7.4	2.8	18.4	7.0	4.7
Kansas City	250.5	5.1	2.0	9.2	3.7	51.9	20.7	6.1
Milwaukee	246.1	3.6	1.5	10.1	4.1	17.2	7.0	2.6
Newark	127.4	0.2	0.2	7.6	6.0	17.6	13.8	3.6
Paterson-Clifton-Passaic	49.4	0.3	0.6	1.2	2.4	5.4	10.9	2.0
Pittsburgh	189.8	1.2	0.6	13.4	7.1	11.3	6.0	4.4
St. Louis	238.4	1.3	0.5	15.8	6.6	27.4	11.5	8.0

Source: Bureau of Census, "General Housing Characteristics: U.S. Summary," *1970 Census of Housing*, U.S. Government Printing Office, Washington, D.C., 1971; and Bureau of Census, "Housing Authorized by Building Permits and Public Contracts," *Construction Reports*, U.S. Government Printing Office, Washington, D.C., 1971.

[1] Metropolitan areas with populations of 1 million or more and with greatest and least population growth, 1960–1970.

[2] Number of new housing permits granted during 1971.

[3] Total number of vacant units for sale or for rent as a percent of all housing units.

a landlord stops providing maintenance, ceases to pay local property tax, stops meeting monthly mortgage payments, or no longer collects rent payments. Abandonment is usually associated with a high vacancy rate and the refusal or inability of tenants to pay rents.[43]

Individual decisions to abandon arise from changes in the cash-flow, asset-value of the property involved. Abandonment can also stem from changes in the economic status of the abandoner. For example, an individual homeowner or tenant may be unable to meet monthly cash outlays for housing because maintenance costs have risen unexpectedly, perhaps due to misinformation provided by a speculator, zoning changes, code enforcement, illness, job termination, family problems that have led to reduced income, or to new claims on the abandoner's income, such as reduction in services provided by the landlord. Of these, the last (reduction in landlord-provided building services) appears most significant. In September 1970, a HUD survey of defaulting Detroit homowners showed that added building costs accounted for nearly 70 percent of all defaults.[44] GAO audit data presented at that time showed maintenance expenses also are an important factor.

Changes in the socioeconomic and financial structure of a neighborhood that tend to deter new or continued investment occur because of:

- Inmigration of lower socioeconomic persons, relative to present inhabitants.
- Decline in the level and quality of public services, especially sanitation, public safety, and transportation.

[43] See: Herbert S. Winokur, et al., *Urban Housing Abandonment: Problem Description, Causal Hypotheses, and Policy Levers*, a report performed for the Department of Health, Education, and Welfare, ICF Incorporated, Washington, D.C., August 1972.

[44] See: Subcommittee on Housing, "Housing and Urban Development Legislation," *Hearings before the Committee on Banking and Currency*, House of Representatives, U.S. Government Printing Office, Washington, D.C., 92–2, Feb. 22 and 24, 1972.

• Structural decay in the unit itself, possibly due to lack of adequate maintenance.

• Removal of existing refinancing sources and financial resources.

• Increase in number of nearby abandoned units, etc.

To date, abandonment has been primarily an urban phenomenon affecting communities in large, aging industrial centers in the East and Midwest. Rural abandonment does exist, however, and the rate of rural abandonment is twice that of the cities. Rural abandonment seems to be a less serious economic and social problem, however, because the farm population is declining so some loss of housing units probably is desirable and prudent.[45]

Present empirical evidence indicates that the critical point of concentration of abandonment seems to be reached when 5 percent of a neighborhood's structures become vacant and derelict.[46] In many cities, vacant and derelict housing is concentrated within a handful of relatively confined geographical boundaries; in other cities, abandonment is spreading at an increasing rate, as in St. Louis, where up to 20 percent of the housing inventory is threatened.[47] Table 30 presents a summary of current research on the extent of abandonment.

The impact of abandonment, and the social and economic forces that accompany it, on center city tax revenues has been dramatic. For example, the mean assessed value of taxable property in central cities increased 24.4 percent during the years 1961 through 66, as compared to a 63.1 percent increase in suburban areas during the same period. Moreover, the major share of the growth in central city property values occurred in Western and Southern central cities. Northeastern and Midwestern central cities either showed a decline in assessed property value or showed increases of less than 5 percent.

Abandonment affects community development/decline in two ways:

• By setting in motion a self-perpetuating process that when it becomes concentrated and contagious, endangers the financial stability of the housing in the remainder of the community.

• Eroding the community tax base and the corresponding ability of the community to provide public services (e.g., education, transportation, solid waste disposal, etc.).

Abandonment therefore serves both as a cause and result of community decline. In both capacities, abandonment reflects the absence of profitable investment opportunity. Economic inadequacy transfuses the abandonment phenomenon—starting it, maintaining it, and serving as the basis for its impact on the community. Mere abandonment of a building without attendant social and economic problems has little impact; for example, an empty home in Beverly Hills has little community-wide impact. The underlying economic malaise is the ultimate source of both the impact of abandonment on a community and the general decline we associate with urban abandonment.

Retail Sales: Retail sales, or more accurately the commercial investments behind retail sales, represent a third category of investment in communities. Total retail sales in all metropolitan areas grew substantially between 1963 and 1967. Retail sales in center cities grew substantially less rapidly than in the total metropolitan areas. As a result, retail sales in all central cities (regardless of population growth) declined as a percent of total metropolitan retail sales. Table 31 shows the trend in retail sales for major metropolitan areas between 1963 and 1967, and the change in share of retail sales between center city and suburb between 1958 and 1967.

We can follow the simultaneous growth of suburban retail sales, suburban populations, and median suburban income (see Table 32). Further, the pattern of suburban retail sales around suburban population centers, transportation centers, and housing suggests that commerce follows community development where development may occur.

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[45] Bureau of Census, "General Housing Characteristics: U.S. Summary, *1970 Census of Housing*, U.S. Government Printing Office, Washington, D.C., December 1971. Many rural abandoned units are substandard. Nearly 15 percent lack plumbing facilities. Data on population migration indicate that these rural dwellings are vacated for housing in metropolitan areas. In the decade between 1960 and 1970, nonmetropolitan counties grew only 4.5 percent, compared to the 15.3 percent increase in metropolitan areas. At least for the present, a housing "problem" similar to that of the cities does not exist in rural areas. (These data and a lengthy discussion of rural housing were presented in a speech before the National Housing Conference—entitled "Dimensions of Rural Housing Problems," Atlanta, Ga., Nov. 17, 1970.)

[46] Linton, Mields and Coston, Inc., *A Study of the Problems of Abandoned Housing*, A Report Performed for the Department of Housing and Urban Development, Washington, D.C., November 1971.

[47] Ibid.

Table 30. Existing Data on the Scope and Extent of the Abandonment Problem

City (and neighborhood if identified)	Baltimore	Boston [8]	Chicago		Cleveland (Hough)	Detroit	New York [6]	Philadelphia [9]	St. Louis (Montgomery)
			No. Lawndale MCA	(City as a whole)					
Number of Units Abandoned	4,000 [1] 4,000–400 [2] 7,000 [3]	1,300	750	2,772 [3]	2,000–3,000 [7]	6,129 [7]	4,000–30,000 30,000–	34,271	650
Percent of Total Number of Dwelling Units	1.3 1.3–1.4 2.3 [4]	1.0	2.6	0.7 [4]	0.8–1.1 [4]	1.24	100,000 0.1–1.0 1.0–3.4	5.0	20.3
Type of Structure and/or Housing Unit	Single and Family Houses	NA	Single Unit: 4% 2 Units: 58% Multi: 38%	NA	NA	Single Family Houses	Multi-Unit Structures	Row Houses 1 or 2 Units	Single Unit: 18% 2 Units: 38% Multi-Unit: 44%
Median Value of Single Family Homes for city or neighborhood specified	$10,000	NA	$15,200	NA	NA	$15,000 [5]	NA	NA	$6,000
Median Rent	$88 [5]	NA	$97	NA	NA	$80 [5]	NA	NA	$47

[1] William Grigsby et al., *Housing and Poverty: An Abstract,* Institute for Environmental Studies, University of Pennsylvania, and the Urban Studies Institute, Morgan State College, June 1970.

[2] Henry B. Schechter and Marian K. Schiefer, *Housing Needs and National Goals,* paper submitted to the Subcommittee on Housing Panels, Committee on aBnking and Currency, June 1971.

[3] George Sternlieb, op. cit.

[4] 1970 Census of Housing, *General Housing Characteristics, U.S. Summary,* Table 5. Percentages calculated on basis of total no. of year-round housing units.

[5] Ibid. Table 17; Data expressed for the city as a whole only in those instances where character of abandonment and housing market indicate they are representative of the value in abandoned neighborhoods.

[6] A study recently completed by Frank Kristof indicates that the rae of housing abandonment in New York City may be as high as 30,000 housing units per year. See Frank Kristof, *Economic Facts of New York City's Housing Problems,* prepared for the Institute of Public Administration, January 1970.

[7] The National Urban League, op. cit.

[8] The Finance Commission of the City of Boston, *A Special Report on Abandoned Buildings and Related Programs,* City of Boston, November 1971.

[9] Housing Association of Delaware Valley, unpublished, 1972.

The structure of retail sales may have changed. Previously, commercial establishments generally served narrow local markets. Extensive high speed metropolitan transportation networks, however, have facilitated the growth of area-wide commercial centers—shopping malls and the like—which serve tens of thousands of consumers.

Larger market areas have not changed the underlying economics of commercial ventures. Even with wider markets, the new, larger, more concentrated commercial centers remain competitive and (except for developers) low margin operations. These circumstances oblige commercial investors to expand only as fast as their markets. Therefore, any particular retail firm tends to reflect (rather than cause) population growth, population movement, and community development.

Aggregate commercial activity may have some role in sponsoring community development, however. Rapid commercial investment in suburbs reflects the suburban community development inherent in family investment in homes and family consumption of suburban goods and services. New commercial centers make the suburbs more attractive for further population growth and further population in-movement, however, suggesting that retail sales (commercial activity) eventually cause community development in addition to responding to it.

Like new construction, the investment in commerce (represented by growing retail sales) stems initially from stronger, more basic forces such as population growth. Eventually the growing availability and scope of commercial services themselves become a partial cause of further

Table 31. Leading Metropolitan Areas Ranked by 1967 Retail Sales, 1963 and 1967

Rank	Standard Metropolitan Statistical Area	Sales SMSA's 1963	SMSA's 1967	SMSA's Percent change	Central cities 1963	Central cities 1967	Central cities Percent change	Percent of SMSA Sales in Central City 1958	1963	1967
1	New York, N.Y.	15,646,307	18,633,533	19.1	10,493,016	12,073,250	15.1	72.9	67.1	64.8
2	Los Angeles-Long Beach, Calif.	10,687,367	12,802,850	19.8	5,022,083	5,996,085	19.4	53.2	47.0	46.6
3	Chicago, Ill.	9,889,061	12,464,539	26.0	5,630,930	6,423,804	14.1	65.3	56.9	51.5
4	Philadelphia, Pa.-N.J.	5,737,442	7,425,418	29.4	2,489,876	2,985,336	19.9	51.1	43.4	40.2
5	Detroit, Mich.	5,393,024	7,053,264	30.8	2,303,323	2,546,118	10.6	51.1	42.7	36.1
6	San Francisco-Oakland, Calif.	4,511,342	5,584,291	23.8	2,167,614	2,424,030	11.9	54.5	48.0	43.4
7	Boston, Mass.	3,972,873	4,838,625	21.8	1,230,052	1,437,095	15.9	38.9	31.2	29.7
8	Washington, D.C.-Md.-Va.	3,366,022	4,731,442	40.6	1,417,703	1,603,432	13.0	52.1	42.1	33.9
9	St. Louis, Mo.-Ill.	2,847,475	3,665,836	28.8	1,068,322	1,199,066	12.3	48.1	37.5	32.7
10	Pittsburgh, Pa.	2,878,235	3,545,127	23.2	979,597	1,187,447	21.2	37.5	34.0	33.5
11	Cleveland, Ohio	2,715,566	3,369,425	24.1	1,278,144	1,332,630	4.3	60.6	47.1	39.6
12	Newark, N.J.	2,582,485	3,037,050	17.6	665,252	643,596	−3.3	30.0	25.8	21.2
13	Baltimore, Md.	2,265,647	3,050,228	34.6	1,316,945	1,539,006	16.9	71.4	58.1	50.5
14	Minneapolis-St. Paul, Minn.	2,194,393	3,030,622	38.1	1,349,662	1,647,199	22.0	71.6	61.5	54.4
15	Houston, Tex.	1,961,557	3,010,093	53.5	1,616,038	2,251,970	30.4	84.1	82.4	74.8
16	Dallas, Tex.	1,809,047	2,540,108	40.4	1,288,155	1,738,098	34.9	77.7	71.2	68.4
17	Seattle-Everett, Wash.	1,747,818	2,505,647	43.4	1,110,495	1,503,064	35.4	71.7	63.5	60.0
18	Paterson-Clifton-Passaic, N.J.	1,871,210	2,386,796	27.5	447,428	486,980	8.8	29.0	23.9	20.4
19	Atlanta, Ga.	1,628,757	2,337,125	43.5	1,015,750	1,345,551	32.5	71.5	62.4	57.6
20	Anaheim-Santa Ana-Garden Grove, Calif.	1,462,613	2,215,940	51.5	734,566	905,203	23.2	(1)	50.2	40.8
21	Milwaukee, Wis.	1,706,994	2,183,019	27.9	1,076,475	1,274,798	18.5	73.1	63.1	58.4
22	Kansas City, Mo.-Kans.	1,682,887	2,180,727	29.6	1,064,536	1,201,100	12.9	70.0	63.3	55.1
23	Miami, Fla.	1,618,114	2,174,663	34.4	654,770	815,024	24.8	54.9	40.5	37.5
24	Cincinnati, Ohio-Ky.-Ind.	1,650,885	2,106,372	27.6	770,748	948,173	21.6	58.0	47.2	45.0
25	Buffalo, N.Y.	1,675,205	2,048,828	22.3	670,754	796,124	18.7	52.2	40.0	38.9

[1] Anaheim-Santa Ana-Garden Grove, California not classified as an SMSA in 1958.
Source: Bureau of the Census, *Major Retail Center Statistics Series,* R.C. 72–C–1.

Table 32. Trends in Population Growth and Money Income 1960 and 1970

	Total Population (ooo) 1960	1970	Percent Change	Median Family Income 1959	1969	Percent Change
Total Population	178.7	202.5	13.3	7,058	9,433	33.6
All Metropolitan Areas	112.3	131.5	17.1	7,880	10,261	30.2
Inside Central Cities	57.8	58.6	1.4	7,417	9,157	23.5
Outside Central Cities	54.6	72.9	33.5	8,351	11,003	31.8
Nonmetropolitan	66.3	71.0	7.1	5,647	7,982	41.3

Source: Bureau of Census, "Social and Economic Characteristics of the Population in Metropolitan and Nonmetropolitan Areas: 1970 and 1960," *Current Population Series,* U.S. Government Printing Office, Washington, D.C., June 24, 1971.

community development. The central point, however, is not the dual role of commerce (as both result and cause) but the role of commerce as a basis for sustained profitable investment in the community. Suburban community development (as opposed to decline) results not merely because retail sales are made there, but because commercial investors have confidence in the underlying economic viability of the suburban community.

Employment: The distribution of U. S. employment has been remarkably constant in recent years—both in terms of geographic location across the country and in terms of distribution between urban, suburban, and rural areas. Table 33 shows the distribution of jobs by geographic area and community type. As indicated all changes in the period 1964 to 1969 were less than 2 percent (absolutely). The fraction of jobs in the suburbs changed negligibly; the fraction of jobs in central business districts fell less than one percent.

In the entire period 1947 to 1963, the areas surrounding major industrial centers increased their share of all jobs by 4.7 percent. The rate of growth in employment was much faster in suburbs than in cities (37 percent versus 12 percent). Satellite cities experienced the most rapid rate of growth in the number of jobs (110 percent). These rapid growth rates were possible because the base number of jobs outside central cities was low.

U. S. manufacturing and nonmanufacturing jobs are still heavily concentrated in urban areas. Sixty-three percent of all jobs were in such areas in 1964 compared to 61.2 percent in 1969. The suburbs continue to have only a small fraction of all jobs—13.3 percent in 1964 and 13.6 percent in 1969.

Nationally, people still work in the cities. In various parts of the country this pattern is quite different. The East South Central States and the West North Central States, for example, show a strong tendency to generate new jobs in the suburbs and nonmetropolitan areas.

Employment opportunities, or more precisely the business investment behind employment, perhaps best characterize the role of sustained profitable investment opportunity in community development and decline. Jobs represent purchasing power which: (a) attracts commercial investment in service providing amenities, (b) expands local tax bases, which permits quality public services (schools, law enforcement, sanitation, and transportation), and (c) creates demand for new construction—all of which in turn attract more jobs, more population, and more of other kinds of investment.

Conversely, loss of jobs breeds falling purchasing power, lower tax bases, poorer commercial and public services, construction deterioration, less population growth, and further loss of jobs, etc.

Table 33 may suggest the extent the job market did follow (or lead) the general dispersion of community development from the Northeast cities to the Lakes region and the Pacific coast. In this national sense, employment opportunities—or more precisely the business investment behind employment opportunities—appear responsible for and indicative of the shift of community development forces from one part of the country to another.

More generally, however, the metropolitan growth distribution of jobs between cities and suburbs is pronouncedly stable. Within any particular region the increase in suburban jobs is far less than the increase in suburban population.

Table 33. Percent Distribution of All U. S. Jobs

	Year	
	1964	1969
Region:		
Pacific	10.1	10.3
Mountain	1.6	1.8
West South Central	5.3	6.1
East South Central	5.4	5.8
South Atlantic	12.8	13.3
West North Central	6.0	6.3
East North Central	26.7	26.5
Middle Atlantic	23.8	22.1
New England	8.3	7.8
	100.0	100.0
Within Metropolitan Areas:		
Central Business Districts	52.0	50.0
Central City	11.0	11.1
Suburb	13.3	13.6
Nonmetropolitan	23.7	25.2
	100.0	100.0

Therefore, in an intermetropolitan sense, business investment/disinvestment is a good predictor and reflection of community development. But in an intrametropolitan sense, business investment (or jobs) does not appear to reliably explain or measure community development and decline.

Public Services: Public services is yet another form of investment in a community. Public services can be viewed as a form of investment

Table 34. Growth in State and Local Government Expenditures 1950-1970

	Year ($ billions)			Percent Change
	1950	1960	1970	(1950–1970)
Total Government Expenditure	28	61	148	+428.6
State	11	22	56	409.1
Local	17	39	92	441.1
Per Capita Expenditures both State and Local	150	288	646	330.1

Source: Bureau of Census, *Statistical Abstract of the United States*, U.S. Government Printing Office, Washington, D.C., 1972.

by local governments in maintaining the environment and the quality of a community. Such investment may yield measurable returns in terms of an increasing tax base and greater local government revenues. Public services include:

- Education
- Fire protection
- Police protection
- Sanitary and waste disposal
- Health
- Housing and urban development
- Transportation services

As metropolitanization has increased in recent years, so also have local government expenditures for public services. Table 34 shows the growth in State and local expenditures between 1950 and 1970.

Public services expenditures may affect community development or decline by:

- Making a community more (or less) attractive toward investment, by improving (or failing to improve) neighborhood quality.
- Affecting directly the cost of locating in a community primarily through local income and property tax.

a. Effect on Neighborhood Quality: The level and quality of public services appear to be important to all houshold types and socioeconomic groups.[48] The relative importance of public services in residential location decisions, however, may vary among different household types. Households with families appear to place more importance on public services than households of single individuals.[49] The relative attractiveness among communities as perceived in terms of their public service packages may determine, in part, the socioeconomic composition of the resident population. The extent to which a community attracts high income residents through public services, increases its tax base, and expands the investment potential for continued residential, commercial, and industrial investment.

The level and quality of public services may be perceived, to some degrees in terms of neighborhood quality. The quality and repair of streets, cleanliness, neighborhood reputation, amount of traffic, maintenance of public grounds, and trash disposal are all neighborhood quality factors that depend on public services. In general, neighorhood quality is considered to be as important in the individual investment decision (if not more important among some groups —e.g., owners versus renters) as the physical characteristics of the housing structure itself—age, number of rooms, size of lot, etc.[50] Table 35 shows that white residents purchasing, as opposed to renting, a house in the suburbs, indicate the strongest preference for neighborhood quality among all socioeconomic groups.

It appears that household preference for neighborhood quality, in general terms, has been a major force drawing higher income residents to suburbs. In general, lower density locations, with less traffic, relatively efficient sanitation and fire services, and higher perceived levels of personal security have induced families, who could afford it, to move to suburban communities.

[48] In a recent survey for *Look Magazine* of national attitudes on the quality of life in American cities, those cities that were perceived to provide higher quality recreation, transportation, and police services generally ranked higher in quality than those that did not. See Development Alternatives, Inc., *The Quality of Life in American Cities*, Washington, D.C., 1972 (unpublished).

[49] The Edgar Butler survey of residential preferences showed substantial emphasis on the quality of education among households of married couples with young children. It is noteworthy that the preference for quality schools does not vary by location—city or suburb—and varies only moderately among different households types—the weakest preference being among single individuals. See: Edgar Butler, op. cit.

[50] Recent research by John Kain and J. M. Quigley studies the behavior of individuals in valuing housing quality to determine price. In addition to neighborhood variables, Kain and Quigley consider the quality of the overall condition of the structure's exterior (landscaping, drive and walks, trash). The results imply that quality of the structure is as least as important in determining price as the number of rooms, square footage, and other quantitative factors. Moreover, the premium for quality increases as unit size (number of rooms) increases, although the exact relationship is not determined. See: John Kain and J. M. Quigley "Measuring the Value of Housing Quality," *Journal of the American Statistical Association*, Washington, D.C., June 1970.

Table 35. Household Preferences for Housing and Neighborhood Quality

Household Factor	Strongest Preference	Weakest Preference	Significance Level
Family type	NS [1]	NS	NS
Age of head	NS	NS	NS
Household	NS	NS	NS
SES index	NS	NS	NS
Race	White 72.4%	Nonwhite 53.2%	0.001
Tenure	Buying 74.1%	Renting 62.4%	0.01
Central City vs. suburb	Suburb 74.4%	Central City 63.9%	0.001

Source: Edgar W. Butler, *Moving and Residential Choice*, Highway Research Board, National Academy of Sciences—National Academy of Engineers, Washington, D.C., 1969.
[1] Not significant.

There is some indication that the perceived quality of education may be a second important factor in determining residential location. Survey data presented by Edgar Butler show that demand for quality educational services cuts across all socioeconomic household groups regardless of center city or suburban residence. Table 36 shows that young families with children prefer better than average education and are willing to pay higher taxes to receive it.[51]

Table 37 compares per capita public services expenditures for educational and noneducational services between central city and suburban communities. Clearly, suburban communities invest more per capita on education than do central cities. The direct return on this investment to suburban communities appears to be the relatively higher median income of suburban residents—in 1970 median suburban income was $11,003 compared to $8,351 for central cities.

The relative emphasis of central cities on direct benefit services, and relatively higher per capita expenditures appears to be a response to demand for services by: (1) relatively large numbers of single individuals and the elderly, (2) relatively large numbers of people who are dependent on government services because they cannot afford private services, and (3) persons who reside in the suburbs but use city services. Because central cities respond to the public service needs not only of resident populations but also to the needs of the metropolitan area as a whole—especially sanitation, transportation, and health—central cities are generally unable to give preference to education services, which appear to be necessary to attract high income resident households and continued community investment.[52]

Table 36. Household Preference for Better Education With Higher Taxes vs. Lower Quality Education and Lower Taxes

Household Factor	Strongest Preference	Weakest Preference	(x^2) Significance Level
Family type	Full family 94.8%	Single individual 52.3%	0.001
Age of head	25–29 93.0%	Over 65 57.3%	0.001
Household size	6 persons 92.8%	1 person 63.2%	0.001
SES index	NS	NS	NS
Race	NS	NS	NS
Tenure	Buying 84.4%	Owners 64.6%	0.001
Central city vs. Suburb	NS	NS	NS

Source: Edgar Butler, Edgar W. Butler, et. al, *Moving Behavior and Residential Choice*, A National Cooperative Highway Research Program Report, Highway Research Board, National Academy of Sciences, Washington, D.C., No. 81, 1969.

b. Cost of Locating: The cost of locating, in terms of local property and income taxes, also affects financial incentives to invest in a given community. Long term public service maintenance costs, in terms of taxation, can be a locational consideration, especially for real estate and commercial developers who are concerned directly with profit. Households, to a lesser ex-

[51] A cross sectional analysis of New Jersey communities showed that prospective residents weigh public service packages vs. the tax burden in selecting a community. They tend to select public service packages that match their own preference—e.g., education vs. noneducational services—and to make a trade-off in terms of higher taxes. See Wallace E. Oates, "The Effects of Property Taxes and Local Public Spending on Property Values: An Empirical Study of Tax Capitalization and the Tubout Hypotheses," *Journal of Political Economy*, Vol. 77, November-December 1969.

[52] Roy W. Bahl, in a recent paper for the President's Commission on Population Growth and the American Future, discusses the effect of the distinct public service packages offered by central city and suburban communities on their relative tax bases. He emphasizes that education expenditures by suburban communities combined with other amenities—recreation, low density, etc.—affect the resident socioeconomic composition and the level of taxation (one kind of resident reinvestment in the community) residents are willing and able to bear. See: Roy W. Bahl, "Metropolitan Fiscal Structures and the Distribution of Population Within Metropolitan Areas," A Paper Prepared for the President's Commission on Population Growth and the American Future, Syracuse University, Syracuse, N.Y., 1971.

Table 37. City-Suburb Disparities for 37 Largest Metropolitan Areas in 1968

	Central City	Outside Central City	Metropolitan Area
Per Capita Total Expenditures	$ 408	$ 332	$ 367
Per Capita Educational Expenditures	137	178	158
Per Capita Non-educational Expenditures	271	158	220
Per Capita Taxes	226	173	198
Per Capita Aid	133	99	—
Taxes as Percent of Income	6.3%	4.2%	—
Median Family Income	$8,351	$11,003	$9,923

Source: Seymour Sacks, "Fiscal Disparities and Metropolitan Development," in *Papers Submitted to Subcommittee on Housing Panels on Housing Production, Housing Demand, and Developing a Suitable Living Environment*, Part 2 (Washington, D.C.: U.S. Government Printing Office, 1971).

tent, also must make a trade-off between the level of public services and cost—taxation becomes more important as resident income declines.

Table 38 shows the relative total property tax burden experienced by central cities vs. suburban residents. Although both total and per capita taxes are higher in suburban areas, taxes as a percent of income are one-third lower in the suburbs. Moreover, the primary difference in the composition of the tax burden, as shown in Table 38, is due to relatively higher school taxes, which, as indicated previously, appears to be a price suburban residents are more than willing to pay.

lation composition. Long-distance transport services, such as highways, airports, railroads, etc., appear to increase a community's accessibility to other communities and, thereby, increase the potential level of commercial traffic and/or the number of residential households.

In general, it has been shown that cities that are located near metropolitan areas and have greater accessibility to the interstate highway system, experience more rapid growth than cities that are the same distance from metropolitan areas, but are not as accessible.[53] Table 39 shows that at almost every distance, varying levels of highway accessibility are positively associated with population growth.

Table 39. Average Population Growth of All Places, Population 10,000 and Over by Distance from Nearest SMSA and Accessibility to Interstate Highways, 1960

	Percent Population Growth by Level of Access			
Distance	High[1]	Access[2]	Low[3]	No Access[4]
Within 50 miles of nearest SMSA	27.6%	16.7%	15.5%	14.6%
From 50 to 100 miles	15.0	13.8	5.6	2.2
100 to 150 miles	15.4	15.1	10.0	6.7
150 miles and over	14.7	17.2	4.2	7.1

Source: Richard B. Sturgis, *Selected Factors Influencing City Growth, 1960–1970*, Oak Ridge National Laboratory, Oak Ridge, Tenn., 1972.
[1] Two interstates intersect within county in which city is located.
[2] One interstate intersects within county.
[3] At least one interstate in an adjoining county.
[4] No interstate within county or adjoining county.

Table 38. Median Property Taxes on a $25,000 House [1] in 1962-63, 1964-65, and 1968-69

	Total Tax			Municipal Tax			School Tax		
	1962 1963	1964 1965	1968 1969	1962 1963	1964 1965	1968 1969	1962 1963	1964 1965	1968 1969
Total, all cities[2]	491	519	608	124	129	140	259	275	333
City type									
Central	484	505	568	169	169	180	229	236	289
Suburban	524	543	646	94	96	105	282	302	372
Independent	478	480	574	132	135	167	262	277	318

Source: International City Management Association, *Municipal Yearbook*, ICMA, Washington, D.C., 1972.
[1] Estimation of the property tax on a home which presently sells for $25,000.
[2] 305 cities reported.

c. Transportation Services: The provision of transportation services affects the distribution of populations among communities as well as popu-

[53] Richard B. Sturgis, *Selected Factors Influencing City Growth, 1960–1970*, Oak Ridge Laboratory, Oak Ridge, Tenn., 1972.

Highway expenditures also have affected community development by extending the implicit boundaries of metropolitan areas by increasing the accessibility of metropolitan industry and commerce to less developed areas. For example, in 1960 over 61 percent of all cities experienced some annexation to metropolitan areas—these cities had an average growth rate of 32.2 percent. Cities outside of metropolitan areas, however, that did not annex grew at an average rate of only 10.2 percent.

Major transportation routes appear to be the focus of both residential and commercial development in metropolitan areas. In urban and regional planning, highways are considered an important determinant of metropolitan growth patterns. In the Washington, D.C. Standard Metropolitan Area, the urban corridors that run radially from the center city to suburban areas along interstate highway routes contained 94 percent of all of the regional population growth and 99 percent of all employment growth. The impact of highway development on center city growth generally has been to draw residential and commercial development from the central city to surburban communities.

Highways also may affect the composition of metropolitan populations as a result of the primary reliance on automobile transportation. The dependency of low income groups on mass transit—train or bus—limits their residential alternatives to central cities. The segregation of populations by income, which appears to have been a partial effect of highway construction and suburbanization in recent years, has enhanced suburban community development potential—through expanding the consumer base—at the cost of central city development.[54]

Other Theories of Growth and Decline: The previous sections of this chapter treat "sustained profitable investment opportunity" as a theoretical system for considering development/decline issues. This system represents only one of many theories in the area. Several schemes have been developed with far more rigor than was possible in the short period available for this report.

[54] Roy W. Bahl discusses the impact of highways on the metropolitan fiscal disparities. In addition to emphasizing the barrier posed by highways to low income groups locating in suburbs, he asserts that highways increase demand for center city public services by suburban commuters. This additional demand further undermines center city governments' fiscal stability and constrains the provision of pubic services to center city residents. See: Roy W. Bahl, "Metropolitan Fiscal Structures . . .," op. cit.

Some alternative theories dwell on housing and others on housing, population, and prices. Most of these theories overlap each other and the "sustained profitable investment" model.

The leading and (and most fully developed) theoretical models of the community development decline process are:

- David Birch's Model of New Haven, Conn.
- The Urban Institute's (UI) Housing Model
- The National Bureau of Economic Research's (NBER) Model of Housing Demand and associated work by John F. Kain
- The Forrester Model of Urban Dynamics

Each of these works represents a unique approach to simulating community systems and each has a somewhat different focus.

The data for these models are basically all U.S. census tract data for Standard Metropolitan Statistical Areas (SMSA's) for 1960 and/or 1970. The Census Bureau is the primary source of consistent detailed population and housing data available at reasonable cost. Birch, with the help of Census field offices, also utilized data from a special census of the New Haven region taken in 1967 for the express purpose of the Birch modeling effort. Kain employed data from a previous transportation study of the Pittsburgh area in which he tested his model. The original Urban Institute model was applied on a rather general basis to 1960 census data for 16 major SMSA's to obtain initial values for the model's parameters, but more recently, attempts have been made at specific applications to four other metropolitan areas with quite different characteristics. These analyses involve such diverse areas as Durham, N.C.; Austin, Tex.; Portland, Oreg.; and Pittsburgh, Pa., and they attempt to explain the intraregional population shifts that were observed from 1960 and 1970 census data.

Methodology: The Birch Model of New Haven is probably the most complete effort. It analyzes a greater number of subsectors and influencing variables than do the other models, and it includes parameters to describe land use, employment, population trends including both interregional and intraregional migration, housing demand, and household characteristics, but it excludes governmental variables. The Birch model attempts to provide a basis for understanding these regional phenomena.

On the other hand, the Forrester and Urban Institute models allow for governmental variables, and forecast the impact of government policy

changes on regional population and housing patterns. But while the Urban Institute's work emphasizes intraregional migration and the effects of neighborhoods and housing quality on the mobility of household types, the Forrester effort looks more toward interregional population migration as it is influenced by the relative attractiveness of a region with regard to its employment opportunities. The Forrester model is less housing oriented than any of the other models, and it does not address the characteristics of households.

In contrast, the Kain (NBER) model is almost strictly an analysis of housing demand and residential price geography. This model includes neither parameters nor variables to explain the role of government and indicate effects of its policies. The Kain work is important in that it thoroughly examines the effects of changes in explanatory variables (income, education, employment status, race, and family size) on the mean consumption of each component of a "housing bundle" (dwelling quality, interior space, neighborhood quality, and exterior space). In addition, the NBER model provides a basis for comparing the demand for like bundles of housing across neighborhoods.

Each of these models also has other strengths and weaknesses that should be identified. Birch's New Haven simulation is based heavily on a series of behavior probabilities that he derived from observed shifts in the region's demographic characteristics between 1960 and 1967. Yet, these probabilities have no historical basis, and nothing has been done to assure that these observations are not abnormally observed.

Also, the Birch model fails to treat the concept of "housing services bundles" and their associated characteristics. The quantity and quality of any particular bundle of housing services is only measured to the extent that it is reflected in the purchase or rental price of a unit. The use of only a price variable does not allow differentiation between changes in housing quality and housing quantity that may be of interest in studying community development and decline. Table 40 shows the characteristics of housing that are directly examined by each of the models under review.

Birch's work stands out because it is the only one to consider in any depth the concepts of land use and commercial development. The Kain-NBER model looks at housing density, but makes no allowance for the related densities of competing forms of land use. An improvement on Kain's effort is made in the Urban Institute model, but this simply provides a parameter to explain removal of units from the total housing stock. No analysis of the use of this land after its removal is attempted. Birch, however, takes a complete inventory of land in the New Haven region and identifies each parcel as to its present employment using the following categories:

Residential	Vacant, Easy to Build
Light Manufacturing	Vacant, Hard to Build
Heavy Manufacturing	Unavailable
Trade and Service	Total

With data for these groupings, Birch develops a parameter which measures the maximum residential density of each census tract in New Haven by simulating the political process underlying zoning ordinance. This density parameter includes a threshold value of some importance. Assuming there is no previous history of substantial apartment building in a given tract, no new apartment construction is permitted unless the value of this parameter is attained.

Table 40. Characteristics of Housing Examined Directly by Each Model

	Birch	UI	NBER-Kain	Forrester
Price (Rental or Purchase)	x	x	x	x
Age	—	x	x	—
Interior Space	—	—	x	—
Exterior Space	x	—	x	—
Housing Quality	—	x	x	—
Neighborhood Effects	x	x	x	x
Accessibility (Commuting or Transportation Costs)	x	x	x	—
Substandard Housing	—	—	x	—
Housing Stock	x	x	x	x

Both Birch and Forrester employ an iterative methodology in developing their models that involves repeated testing of data samples, comparison of results to the real world, and revision of the model's parameters. This procedure assumes that either the data are consistent and reliable and/or the hypothesized behavior relations are accurate. Otherwise, poor data could cause an improper adjustment in parameters or misstructured parametric relations could result in a rejection of good sample data. In these models, the assumption that census data is consistent and reliable must be made, for there are practically no alternative sources of detailed data.

In contrast, the Kain-NBER model presents a basically static analysis, and the Urban Institute simulation is an attempt at comparative statistics with a form of game theory employed to explain the intermediate process of change. This game theory strives to attain a simultaneous profit and utility maximization function for each owner of housing services and each household respectively. No solution is reached as long as any of the actors in the model has incentive to change his position. It is a highly competitive process in which household income plays an important role in the determining size and quality of the housing bundle consumed by each household.

Table 41 shows the methodology, outputs, and application of each model.

Implications and Conclusions: The results of the three applications of the Urban Institute model completed thus far, lead to several points about households and housing patterns:

- Estimates of the parameters of the model do not vary significantly across the cities and over time, except in the case of the price responsiveness of households.
- Estimates depict varying degrees of nonresponsiveness among households to changes in the price of housing. Of the three cities examined, households in Portland were almost completely unresponsive to price changes; those in Durham and Austin were slightly more responsive.
- Estimates of the ratio of housing expense to income are relatively constant across racial groups, but they are significantly higher for elderly single households than for nonelderly families.
- There is a consistently strong tendency for households to locate in a zone in which a high percentage of the existing households are of the same racial group as the relocating household.
- The model gives no indication of the relative importance of the various household behavioral parameters in location decisions.

In contrast, the Birch analysis shows that minorities do not always prefer to locate in areas in which a majority of the households are of minority groups. Though he found this tendency holds for white households, Birch discovered that this is only true for minorities in the New Haven area past a given level of minority concentration. After the number of minority households in a given tract surpasses 50 percent of the total households, the probability that other minority households will relocate into that tract begins to decline sharply. In fact, the model indicates that the rate of change in the minority population of a tract has a stronger positive correlation with the probability that other minority households will locate in that tract than does the percentage of minority households.

In addition, Birch is able to derive for each of 27 household types rankings of the relative importance of seven factors (present population concentration, growth, social class, stage of development, racial concentration, racial change, and distance from present tract) that are influential in determining intraregion migration patterns. Of these factors, growth and stage of development were consistently ranked low by all household types with one exception. Households with heads who are white, native born, and between 20 and 39 years of age tend to place a greater value on growth. Particularly, those in this group who possess less than a high school education rank growth above all factors. The present concentration of population ranks very high for most household types. This factor ranked first in importance for 14 of the 27 consecutive household groupings, and it ranked among the top three factors for over 75 percent of the groups. Only older (65 and over) minority household heads with a high school education or greater and young (20–39) foreign born household heads with just 12 years of schooling saw the present concentration as being of lesser importance. Racial concentration varies greatly as to its effect on the location decisions of different groups. Households with heads in the following classifications tend to put more emphasis on this factor than other types of households:

1. Households with young (20–39) minority heads regardless of educational attainment.

2. Households with middle-aged (40–64) native and middle-aged minority heads for all levels of education.

3. Households with elderly (65 and over) minority heads possessing less than a high school education.

Households with young native born, elderly native, and elderly foreign born heads tended to give the least importance to the racial concentration of a neighborhood in making their relocation decisions.

The distance between a tract selected for relocation and the tract in which a given house-

Table 41.

	Birch	UI	Kain-NBER	Forrester
OUTPUTS	A series of probabilities that given household types will be affected by a given factor, and the effects of these probable actions on neighborhood development and land use patterns.	1. Estimates of ratios of housing expense to income for various household types. 2. Estimates of household behavior parameters. 3. Estimates of housing supply parameters. 4. Policy simulations of the effects of certain housing policies.	1. Estimates of the effects of given changes in explanatory variables on the mean consumption of each component of housing bundles by households. 2. Estimates of dwelling prices by census tract, by dwelling types. 3. Analysis of housing prices by neighborhood categories, by dwelling type. 4. Interneighborhood variations in dwelling prices by type.	The evaluation of the effects of governmental programs on attractiveness of a community for interregional migration.
INPUTS	1. 1960 Census of Population data. 2. 1967 Special Census of New Haven. 3. Employment data from Connecticut Labor Department. 4. Census of Metropolitan Housing. 5. Consumer Price Index. 6. Land use data from State, regional, and city sources.	1. 1960 and 1970 census data. 2. FHA data on new construction costs. 3. "Model" dwelling data. 4. "Model" household data. 5. Average commuting times, central business district.	1. 1960 and 1970 census data. 2. Local housing price data. 3. Lot size data.	No real world applications.
APPLICATIONS	Application to New Haven, Conn. with potential for universal application with minor adjustments and tuning.	Applications to Durham, N.C., Austin, Tex., and Portland, Oreg. completed. Application to Pittsburgh, Pa. in process. Possible universal application.	Applications to Pittsburgh, Pa. and Detroit, Mich. Application to other areas possible.	No real world applications.
METHODOLOGY and SOPHISTICATION	City examined from individual organization point of view. Iterative technique employed with automatic tuning adjustments made in parameters system of computational routines to simulate and use, employment, housing, and the national economy.	Game theory approach to explanation of change. Only four actors in model: households, landlords, builders, and government.	Comparative static analysis using multiple regression estimates of submarket demand equations for housing bundles and their components.	Master planner viewpoint assumed. Iterative model with handmade adjustments in parameters. Less detailed, aggregate variables employed along with a system of interrelated multipliers to show the effects of changes in governmental urban assistance policies.
KEY ASSUMPTIONS	1. Neighborhood quality is adequately described by the mean educational attainment of the household heads. 2. Interregional migrants are attracted mainly by employment opportunities. 3. Households have free choice of the housing units on the market. 4. The price of vacant land influences what can be built on that land. 5. There is a maximum residential density allowed for any given tract. 6. The national economy has a direct effect on the local labor market.	1. All households are renters, and owner-occupants rent from themselves. 2. All government regulations are fully enforced. 3. The quantity of housing services provided by any given housing unit declines proportionately with each year of age. 4. Newly constructed dwellings are concentrated in a single zone. 5. There is a minimum price per unit of housing service that must be met or the unit will be withdrawn from the market. 6. All actors attempt to maximize profit and/or utility.	1. Location is not an attribute of a housing bundle. 2. Location enters housing choice only as a cost that must be incurred by households. Location provides no utility to housing consumers. 3. There are 4 components of a housing bundle: interior size, exterior size, dwelling quality, and neighborhood quality. 4. The components of a housing bundle can only be purchased as part of a bundle. Seldom do households have the opportunity to buy individual attributes.	1. There are basically three classifications of workers, managers and professionals, skilled workers, and underemployed who reside in premium housing, worker housing, and underemployed housing, respectively. 2. All workers must live in the city in which they work. 3. Everything outside the city is an infinite plane and city area is a fixed quantity of land. 4. Housing types are assumed to be segregated by neighborhoods.

hold presently resides was also an interesting factor in intraregional migration decisions. It was interesting because it was observed to be either very important or relatively unimportant as a factor in relocation decisions. Only rarely was it ranked in the middle. Among those giving this factor a high rating were young foreign born, middle-aged foreign born with 12 years of education or more, and all classifications of elderly household heads. Native and minority, young and middle-aged groups were much less concerned with this factor on the average.

The factors of social class and racial change displayed only slight variation over household types, and neither received a single ranking as either the most important or least important variable.

Summary

We have reviewed what is known and what is believed about the decision to move and about the impact of movement on affected communities. The sustained profitable investment theory seems to explain community development and decline in a summary manner, as do the more elaborate computer simulation models.

One of the conclusions that seems to emerge from all the studies and analyses presented in this chapter is that housing alone is only one of many factors affecting population movement and community development/decline. Further, movement and development/decline forces vary substantially regionally, representing complex and dynamic forces that probably cannot be fully captured in a single unified theory.

Impact of Federal Housing Programs on Community Development

The impact of Federal housing programs is difficult to measure with available data. We can measure the proportion of all housing stock that was either insured or subsidized by a Federal program. Also, we can measure the annual production of new units that was federally assisted. Further, the impact of individual programs (sections 203 and 23) or types of programs (mortgage insurance and low income housing) can be compared to appropriate categories of housing stock and production. Regional variations can be examined, as well as variations by age of occupant, type of thrift institution responsible for financing, type of unit (multi or single family), and whether the housing is located inside an SMSA.

Data to support these analyses are fragmented and often heterogeneous. We have arrayed and anlyzed the data we could assemble in the comparative formats outlined in the last paragraph. The data leave rather substantial analytical gaps, but the general magnitude and nature of the impact of Federal housing programs does, we believe, emerge.

We turn first to the broad aggregate impact of Federal housing programs, then to an examination of FHA's role in the growth of suburbs, and finally, to an assessment of Federal low and moderate income programs.

Aggregate Impact of Federal Housing Programs

Our analysis of the aggregate impact of Federal housing programs has three components:

- Cumulative impact of Federal housing programs on the total housing stock.
- Impact of Federal housing programs on the flow of (annual additions to stock) housing units.
- The stability of the flow of the Federal housing dollar.

We have attempted to determine whether Federal housing programs have been responsible for a significant proportion of total U. S. housing stock and flows. We have identified those Federal insurance and subsidy programs that appear to have accounted for significant proportions of total new housing in specific years.

FHA Impact on Total Housing Stock: Our analysis of the impact of FHA programs on the total housing stock by region—as opposed to flow—is summarized in Table 42. Cumulative FHA mortgage activity by units from 1935 to 1971, is shown as a proportion of the total U.S. housing stock in 1970. Total FHA mortgages represent 18.2 percent of the total housing stock—15.6 percent are represented by single family housing programs and 2.6 percent by multifamily housing programs. Table 43 shows FHA single family programs by legislative section. By far the largest volume of units were financed under section 203. Eighty-two percent of all homes financed by FHA were insured under section 203. Units insured under this section alone represent 12.8 percent of the Nation's total housing stock.

Table 44 shows the impact of FHA single family insurance and subsidy programs on the total stock of one unit structures. In 1970, there were 48 million one-unit year-around structures

Table 42. Regional Analysis of Single and Multifamily FHA Mortgages, 1935 to 1971

Region	Total Year Around Housing, 1970	Total FHA Mortgages		Single Family All Sections		Multifamily All Sections	
		Number	Percent	Number	Percent	Number	Percent
U. S. Total	67,656,566	12,341,978	18.2	10,576,129	15.6	1,811,964	2.6
Northeast	16,174,966	2,187,848	13.5	1,693,532	10.5	494,316	3.0
New England	3,843,833	447,129		358,677		88,452	
Mid-Atlantic	12,331,083	1,740,719		1,334,855		405,864	
North Central	18,666,874	2,990,103	16.0	2,596,438	13.9	393,665	2.0
East N. Central	13,107,883	2,166,196		1,872,519		193,627	
West N. Central	5,558,991	823,907		723,919		99,988	
South	20,876,068	3,818,838	18.3	3,239,185	15.5	579,653	2.8
South Atlantic	10,142,242	1,782,282		1,440,009		342,273	
East S. Central	4,169,104	639,654		563,412		76,242	
West S. Central	6,564,722	1,396,902		1,235,764		161,138	
West	11,938,658	3,167,351	26.5	2,847,735	23.9	319,616	2.6
Mountain	2,718,244	751,742		681,152		70,590	
Pacific	9,220,414	2,415,609		2,166,583		249,026	

Sources: Bureau of Census, *General Housing Characteristics*, Table 1; HUD, *1971 Statistical Yearbook*, Tables 174 and 175.

in the U.S. About 10 million, or 22.1 percent, were financed with FHA aid from 1935 to 1971.

Table 45 illustrates the impact of FHA multifamily programs on the total multifamily housing stock. About 20 million multifamily units were identified in the 1970 census. FHA programs have financed about 1.8 million, representing 9.1 percent of the total stock.

Regional Distribution of FHA Programs: The impact of FHA programs varies substantially by region. The percentage of the total housing stock financed with FHA aid in the region of greatest activity, the West, is almost twice as great as the region with the least FHA activity, the Northeast. The percentages are 26.5 for the West and 13.5 for the Northeast. Financing the multifamily units also varies substantially by region. FHA financed units represent only 6.7 percent of the total stock in the Northeast and 13.0 percent in the South.

The distribution of FHA single and multifamily mortgages inside and outside SMSA's is shown in Table 46. The 1970 Census identified about 46 million housing units inside SMSA's—about two-thirds of the total housing stock. FHA insured about 22.7 percent of those homes inside SMSA's. In contrast, FHA insured only 8.9 percent of the total housing stock outside SMSA's.

Table 47 shows the impact of FHA single family programs on the total housing stock inside and outside SMSA's. Units financed under all sections represented 19.3 percent of the single family stock inside SMSA's. Section 203 above, financed 15.8 percent of the single family stock inside SMSA's.

Table 45. FHA Multifamily Home Mortgages, 1935 to 1971

Region	Total Units in Multifamily Structures, 1970	Total FHA Multiunit Mortgages	
		Number	Percent
U.S. Total	19,993,320	1,811,964	9.1
Northeast	7,391,960	494,316	6.7
New England	1,598,486	88,452	
Mid-Atlantic	5,793,474	405,864	
North Central	5,208,058	393,665	7.6
East N. Central	3,779,782	293,677	
West N. Central	1,428,276	99,988	
South	4,450,587	579,653	13.0
South Atlantic	2,515,061	342,273	
East S. Central	737,626	76,242	
West S. Central	1,197,900	161,138	
West	3,492,333	319,616	9.2
Mountain	665,404	70,590	
Pacific	2,826,929	249,026	

Table 43. Regional Analysis of FHA Insured Home Mortgages by Section, 1935 to 1971

Region	Total Year Around Housing	Total		FHA Single Family Home Mortgages By Section													
				203		213		220		221		232		235		603 & 608-610	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
U. S. Total [2]	67,656,566	10,576,129	15.6	8,680,085	12.8	33,660	—[1]	5,654	—	534,420	.8	241,936	.4	75,090	—	628,015	.9
Northeast	16,174,966	1,693,532	10.5	1,438,007	8.9	0	0	1,588		114,505	.7	28,050	.2	13,691		85,953	.5
New England	3,843,833	358,677		316,830		0		333		4,053		16,495		4,898		13,786	
Mid-Atlantic	12,331,083	1,334,855		1,121,177		0		1,255		110,452		11,555		8,793		72,167	
Northwest	18,666,874	2,596,438	13.9	2,180,912	11.9	3,849	—	1,157	—	153,765	.8	23,621	.1	62,470		93,981	.5
East N. Central	13,107,883	1,872,519		1,549,220		2,295		1,016		134,355		11,651		45,380		62,584	
West N. Central	5,558,991	723,919		631,692		1,554		141		19,410		11,970		17,090		31,397	
South	20,876,068	3,239,185	15.5	2,561,126	12.3	7,339	—	1,118	—	134,487	.6	127,441	.6	135,760		217,936	1.0
South Atlantic	10,142,242	1,440,009		1,130,514		4,377		425		55,045		77,579		53,288		95,495	
East S. Central	4,169,104	563,412		442,113		513		207		28,798		9,775		31,444		34,797	
West S. Central	6,564,722	1,235,764		988,633		2,449		486		50,644		40,087		51,028		87,644	
West	11,938,658	2,847,735	23.9	2,370,338	19.9	22,403	—	1,808	—	125,422	1.1	57,752	.5	58,379		180,221	1.5
Mountain	2,718,244	681,152		590,881		9,285		1,018		4,214		14,699		24,750		26,674	
Pacific	9,220,414	2,166,583		1,779,457		13,118		790		121,208		43,053		33,629		153,547	

[1] — indicates volume less than one-tenth of 1 percent.
[2] U.S. total includes Guam, Puerto Rico, and the Virgin Islands, and includes adjustments not made for individual States.
Sources: Bureau of Census, *General Housing Characteristics: U.S. Summary,* Table 1; HUD, *1971 Statistical Yearbook,* Table 174.

Table 44. FHA Insured Home Mortgages by Section, 1935 to 1971

Region	Total One Unit Year Around Structures	Total		FHA Single Family Home Mortgages By Section													
				203		213		220		221		232		235		603 & 608-10	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
U. S. Total [1]	47,663,246	10,576,129	22.1	8,680,085	18.2	33,660	.1	5,654	—[2]	534,420	1.1	241,936	.5	275,090	.6	628,015	1.3
Northeast	8,783,006	1,693,532	19.3	1,438,007	16.4	0	0	1,588		114,505	1.3	28,050	.3	13,691	.2	85,953	1.0
New England	2,245,397	358,677		316,830		0		333		4,053		16,495		4,898		13,786	
Mid-Atlantic	6,537,609	1,334,855		1,121,177		0		1,255		110,452		11,555		8,793		72,167	
North Central	13,458,816	2,596,438	19.3	2,180,912	16.2	3,849	—	1,157	—	153,765	1.1	23,621	.2	62,470		93,981	.7
East N. Central	9,328,101	1,872,519		1,549,220		2,295		1,016		134,355		11,651		45,380		62,584	
West N. Central	4,130,715	723,919		631,692		1,554		141		19,410		11,970		17,090		31,397	
South	16,425,481	3,239,185	19.7	2,561,126	15.6	7,339	—	1,118	—	134,487	.8	127,441	.8	135,760	.8	217,936	1.3
South Atlantic	7,627,181	1,440,009		1,130,514		4,377		425		55,045		77,579		53,288		95,495	
East S. Central	3,431,478	563,412		442,113		513		207		28,798		9,775		31,444		34,797	
West S. Central	5,366,822	1,235,764		988,633		2,449		486		50,644		40,087		51,028		87,644	
West	8,446,325	2,847,735	33.7	2,370,338	28.1	22,403	.3	1.808	—	125,422	1.5	57,752	.7	58,379	.7	180,221	2.1
Mountain	2,052,840	681,152		590,881		9,285		1,018		4,214		14,699		24,750		26,674	
Pacific	6,393,485	2,166,583		1,779,457		13,118		790		121,208		43,053		33,629		153,547	

Sources: Bureau of Census, *General Housing Characteristics: U.S. Summary.* Table 1; HUD, *1971 Statistical Yearbook,* Table 174.
[1] U.S. total includes Guam, Puerto Rico, and the Virgin Islands, and includes adjustments not made for individual States.
[2] — indicates less than one-tenth of 1 percent.

Conclusion: FHA Effect on Total Stock: Based on the fraction of total units insured or subsidized by FHA since the program's inception in 1934 to 1971, it would appear that FHA's influence is measurable but not determinant or even substantial. Less than one-fifth of the nation's housing stock appears to have been financed with FHA aid. Section 203, which has financed 12.8 percent of the total housing stock, is the only program that appears to have attained significant volume.

Impact of Public Housing and Housing for the Elderly on Total Stock: About 1.2 million public housing units (for all ages and designated for elderly) were under ACC in 1971. Table 48 shows the impact of the public housing program on the total housing stock and the low income housing stock. Although the 1.2 million units represented only 1.7 percent of the total stock in 1971, they accounted for 13 percent of the low income housing stock. In the Northeast, public housing units represent almost one-fifth of the low income housing stock.

Table 49 presents a similar analysis for housing programs for the elderly—public housing units designated for the elderly (about one-fourth of all units) and section 202 units. The 324,861 housing units for the elderly represent only .5 percent of the total stock but 3.6 percent of the low income stock. In the region of greatest impact, the Northeast, housing for the elderly represents 5.5 percent of the low income housing stock.

We conclude that the public housing program and section 202 have had only minor impact on the total housing stock—representing about 2 percent of the total. The impact of these programs on the low income housing stock, although much greater, is not substantial. Only about 13 to 14 percent of low income housing has been constructed under the public housing and section 202 programs.

Table 46. FHA Single and Multifamily Mortgages, 1935 to 1971

	Total Year Around Housing Units, 1970	Total FHA Mortgages For Single Family Homes		Total Multifamily Mortgages		Total FHA Mortgages	
		Number	Percent	Number	Percent	Number	Percent
Inside SMSA's	46,075,866	8,894,804	19.3	1,576,140	3.4	10,470,944	22.7
Outside SMSA's	21,580,700	1,681,325	7.8	235,824	1.1	1,917,149	8.9

Source: Bureau of Census, *General Housing Characteristics*, Table 10; HUD, *FHA Home and Project Mortgage and Property Improvement Loan Insurance Operations*, SOR 13–1971.

Table 47. FHA Insured Home Mortgages by Section, 1935 to 1971

	Total Year Around Housing Units 1970	Total		FHA Home Mortgages							
				203		213		Section 220		222		235	
		Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Inside SMSA's	46,075,866	8,894,804	19.3	7,277,981	15.8	31,777	—	5,318	—	194,867	.4	211,080	.5
Outside SMSA's	21,580,700	1,681,325	7.8	1,404,843	6.5	1,883	—	341	—	47,069	.2	64,010	.3

Table 48. Regional Analysis of Public Housing, Status as of December 31, 1971

Region	Total Year Around Housing, 1970	Total Low Income Housing, 1970 [1]	Public Housing Units Under ACC	Public Housing Units as Percent of Total Stock	Public Housing Units as Percent of Low Income Stock
U. S. Total [2]	67,656,566	9,016,658	1,175,861	1.7	13.0
Northeast	16,174,966	1,698,375	321,386	1.1	18.9
New England	3,843,833	355,166	79,548		
Mid-Atlantic	12,331,083	1,343,109	241,838		
North Central	18,666,874	1,121,187	248,114	1.3	11.7
East N. Central	13,107,883	1,251,502	179,646		
West N. Central	.5,558,991	869,685	68,498		
South	20,876,068	4,329,664	426,132	2.0	9.8
South Atlantic	10,142,242	1,780,166	198,165		
East S. Central	4,169,104	1,022,947	112,195		
West S. Central	6,564,722	1,526,551	115,772		
West	11,938,658	867,532	123,495	1.0	14.2
Mountain	2,718,244	340,584	28,084		
Pacific	9,220,414	526,948	95,411		

Source: *HUD Statistical Yearbook, 1971,* Table 152.
[1] Owner occupied homes valued at less than $7500, and rental units with monthly rentals less than $60.
[2] U.S. total includes Guam, Puerto Rico, and the Virgin Islands.

Table 49. Regional Analysis of Housing Programs for the Elderly

Region	Total Year Around Housing, 1970	Total Low Income Housing, 1970	Housing For the Elderly			Total Housing for Elderly as Percent of Total Stock	Total Housing for Elderly as Percent of Low Income Stock
			Total	Public Housing	Section 202 [2]		
U. S. Total [1]	67,656,566	9,016,658	324,861	279,586	45,275	.5	3.6
Northeast	16,174,966	1,698,375	93,032	83,883	9,149	.6	5.5
New England	3,843,833	355,166	30,499	27,769	2,730		
Mid-Atlantic	12,331,083	1,343,109	62,533	56,114	6,419		
North Central	18,666,874	1,121,187	104,731	92,624	12,107	.6	4.9
East N. Central	13,107,883	1,251,502	67,068	59,127	7,941		
West N. Central	5,558,991	869,685	37,663	33,497	4,166		
South	20,876,068	4,329,664	91,555	77,561	13,994	.4	2.1
South Atlantic	10,142,242	1,780,166	43,992	35,642	10,350		
East S. Central	4,169,104	1,022,947	19,738	17,990	1,748		
West S. Central	6,564,722	1,526,551	25,825	23,929	1,896		
West	11,938,658	867,532	34,188	24,524	9,664	.3	3.9
Mountain	2,718,244	340,584	7,561	4,873	2,688		
Pacific	9,220,414	526,948	26,627	19,651	6,976		

Source: *HUD Statistical Yearbook, 1971,* Tables 146 and 152.
[1] U.S. Total includes units in Guam, Puerto Rico, and Virgin Islands.
[2] Includes housing for the handicapped.

Table 50. Annual Housing Starts, 1940 to 1971

Year	Housing Starts			Federally Assisted Housing Starts (000 omitted) Privately Owned									
				Total		FHA Ins.		VA Guar.		USDA		Pub. Owned	
	Total	Constructed	Mobile Homes	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
1940													
1945												1	
1950	2,014,748	1,951,648	63,100									44	2.2
1951	1,558,507	1,491,207	67,300										
1952	1,587,520	1,504,520	83,000										
1953	1,515,272	1,438,372	76,900			1,558	18.8						
1954	1,626,445	1,550,445	76,000									19	1.1
1955	1,757,615	1,645,715	111,900										
1956	1,450,539	1,345,739	104,800										
1957	1,329,247	1,221,647	107,600			1,262	16.4						
1958	1,475,988	1,375,588	100,400										
1959	1,649,336	1,528,836	120,500										
1960	1,375,837	1,272,137	103,700			261	19.0	75	5.5			44	3.2
1961	1,455,200	1,365,000	90,200			261	17.9					52	3.6
1962	1,610,400	1,492,400	118,000			244	15.2					30	1.9
1963	1,792,840	1,642,000	150,840			221	12.3	71	4.0			32	1.8
1964	1,752,320	1,561,000	191,320			205	11.7	59	3.4			32	1.8
1965	1,725,600	1,509,600	216,000			197	11.4	49	2.8			37	2.1
1966	1,412,900	1,195,900	217,000			158	11.2					31	2.2
1967	1,561,817	1,321,817	240,000			180	11.5	52	3.3			30	1.9
1968	1,863,500	1,545,500	318,000			220	11.8	56	3.0			38	2.0
1969	1,912,920	1,499,920	413,000	343	17.9	233	12.2	51	2.7	26	1.4	33	1.6
1970	1,867,759	1,466,759	401,000	557	29.8	421	22.5	61	3.3	40	2.1	35	1.9
1971	2,581,070	2,084,500	496,570	728	28.2	528	20.4	94	3.6	74	2.9	32	1.3

Sources: Downs, Anthony, *Summary Report: Federal Housing Subsidies,* Prepared for NAHB, NAMSB, and U.S. SLL. 1972, p. 11; Bureau of Census, *U.S. Statistical Abstract,* 1972, Table 1143; HUD, *1971 HUD Statistical Yearbook,* Tables 341 and 342.

Impact of All Government Programs on the Total Housing Flow: We also attempted to determine if Federal housing activity appeared to represent a significant proportion of new residential construction in any year. Individual programs were examined to see which represented the most substantial proportion of new housing construction (flow) over time.

Federally assisted housing starts as a proportion of total new housing (including mobile homes) are shown in Table 50 from 1950 to 1971. FHA insured new homes represented almost one-fifth of the total from 1951 to 1954. Its share declined in all subsequent years except 1970 and 1971, when the FHA's share of new homes financed was 22.5 percent and 20.4 percent, respectively. During the 1960's, the FHA's share of all new construction averaged about 12 percent.

Although the proportion of new homes financed with VA guaranteed loans has also fluctuated, the 1960's have been characterized by an overall decline in the importance of VA loans. Five and one-half percent of all new homes were financed with VA guaranteed loans in 1960, contrasted with only 2.7 percent in 1969. By 1971, the percentage had increased again to 3.6 percent.

The fraction of all new units that were publicly owned has also declined since about 1960. In 1960, 3.2 percent of all housing starts were publicly owned; by 1971 this percentage had dropped to 1.3 percent. This decline largely reflects the relative importance of the leasing program in adding to the public housing stock. These units are not owned by the government and thus do not appear (statistically) as "public."

1970's: Major Change: In 1970, total federally assisted housing starts increased substantially over the preceding year—from 343,000 units to 557,000 units, a 63 percent increase. This increased the proportion of federally insured or subsidized housing starts to 29.8 percent from 13.1 percent the year before. This volume was generally maintained in 1971 when 28.2 percent of all new starts were federally insured or subsidized.

Table 51. Value of New Residential Housing, 1940 to 1972 ($ millions)

Year	Total	Housing Constructed	Mobile Homes	Federally Assisted Housing Starts Privately Owned: Total Value	Total Percent	FHA (Aid) Value	FHA (Aid) Percent	VA Guar. Value	VA Guar. Percent	Publicly Owned Value	Publicly Owned Percent
1940						601					
1945											
1950					—	2,794		1,865			
1951											
1952											
1953											
1954											
1955					—	1,245		4,582			
1956											
1957											
1958											
1959											
1960		16,357		4,990	30.5	2,908	17.8	1,554	9.5	528	3.2
1961											
1962											
1963											
1964		20,396			—	2,502		1,023			
1965	21,740	20,528	1,212	3,638	16.7	2,296	10.6	876	4.0	466	2.1
1966	18,208	16,969	1,239	3,689	20.3	2,312	12.7	980	5.4	394	2.2
1967	20,442	19,072	1,370	3,551	17.4	2,011	9.8	1,143	5.6	397	1.9
1968	25,061	23,153	1,908	4,656	18.6	2,695	10.8	1,430	5.7	531	2.1
1969	27,789	23,292	2,497	4,845	17.4	2,867	10.3	1,493	5.4	485	1.7
1970	22,655	22,655	NA	7,662	33.8	5,845	25.8	1,310	5.8	507	2.2
1971			NA		—						
1972											

Sources: Bureau of Census, *U.S. Statistical Abstract, 1972,* Tables 1142, 1144, and 1164.

It appears that, with the exception of 1970 and 1971, total federally assisted housing starts have not represented a substantial proportion of new residential construction. During the 1950's and 1960's, the proportion was about one-fifth; in 1970, the Federal role increased dramatically, primarily due to increases in FHA assisted housing starts. Except for the FHA, Federal programs played a minor role, each representing about 2 to 3 percent of annual new starts.

Table 51 shows the impact of FHA and VA on new residential construction as measured by value of the new unit. Where data are shown, the Federal new housing dollars appear to represent a slightly higher proportion of the total value of new housing units, suggesting that FHA and VA financed homes have a greater average value than all new homes. FHA new housing dollars represented 25.8 percent of the total in 1971, compared to 22.5 percent of total units.

A summary of annual mortgage activity in nonfarm residential housing—new and existing units—by source of financing from 1955 to 1971 is shown in Table 52. FHA's share of total mortgage dollars declined steadily during this period from 18.3 percent in 1955 to 14.4 percent in 1971. VA mortgages declined much more substantially, from 23.8 percent in 1955 to only 8.9 percent in 1971. Conventional financing grew in importance as the role in these Federal programs diminished. A similar analysis by type of lending institution is shown in Table 53.

Table 54 shows the percentage of Government insured mortgages held by each type of lending institution relative to total loans outstanding. The percentage of VA guaranteed and FHA insured mortgages held by each type of institution has declined since 1960. In 1971, only about one quarter of all outstanding loans were government insured; mutual savings banks held the highest proportion, 55 percent, and savings and loan institutions held the least, 14 percent.

The fluctuation of VA guaranteed loans, of course, reflects the increased activity in periods immediately after wars, as returning veterans started families and purchased homes. Other Federal programs were also erratic but so small relative to FHA and VA as to be inconsequential.

Flow of the Federal Housing Dollar: In addition to determining the impact of Federal hous-

Table 52. Summary: Mortgage Activity in Nonfarm Residential Housing ($ millions)

Year	Total Loans Value	Total Loans Percent	FHA Value	FHA Percent	VA Value	VA Percent	Conventional Value	Conventional Percent
1940								
1950	45,916	100	NA		NA		NA	
1955	90,036	100	16,509	18.3	21,441	23.8	52,086	57.9
1960	143,527	100	25,481	17.8	25,968	18.1	92,078	64.1
1965	237,979	100	38,706	16.3	26,780	11.3	172,493	72.4
1966								
1967								
1968	283,156	100	42,622	15.1	27,707		212,827	75.2
1969	292,741	100	44,002	15.0	21,173	7.7	227,566	77.3
1970	314,633	100	45,603	14.5	28,485	9.1	240,545	76.4
1971	349,326	100	50,232	14.4	31,208	8.9	267,886	76.7

Source: Bureau of Census, *1972 U.S. Statistical Abstract,* Table 707.

Table 53. Mortgage Activity in Nonfarm Residential Housing by Type of Lending Institution: Loans Outstanding ($ millions)

				FHA Insured By Type of Lending Institution						VA Guaranteed By Type of Lending Institution				Total Conventional		Conventional By Type of Lending Institution			
Year	Total Loans Outstanding	Total FHA Value	Percent	Comm. Banks	Mutual Sav. Banks	Life Ins. Co.	S&L's	Total VA Value	Percent	Comm. Banks	Mutual Sav. Banks	Life ins. Co.	S&L's	Value	Percent	Comm. Banks.	Mutual Sav. Banks	Life Ins. Co.	S&L's
1950	45,916	NA		NA	$ 1,615	$ 4,573	$ 848	NA		$ NA	1,457	$2,026	$ 2,973	NA		$ NA	$ 3,982	$ 8,176	$ 9,836
1955	90,036	16,509	18.3%	4,560	4,150	6,395	1,404	21,441	23.8%	3,711	5,773	6,074	5,883	52,086	57.9%	7,617	5,645	14,703	24,121
1960	143,527	25,481	17.8	5,851	7,074	9,032	3,524	25,968	18.1	2,859	8,986	6,901	7,222	92,078	64.1	11,652	8,246	22,856	49,324
1965	237,979	38,706	16.3	7,702	13,791	12,068	5,145	26,780	11.3	2,688	11,408	6,286	6,398	172,493	72.4	21,997	14,897	36,836	98,763
1968	283,156	42,622	15.1	7,926	15,569	12,469	6,658	27,707		2,708	12,033	5,954	7,012	212,827	75.2	30,800	19,146	45,749	117,132
1969	292,741	44,002	15.0	7,960	15,862	12,271	7,909	21,173	7.7	2,663	12,166	5,701	7,643	227,566	77.3	33,950	20,654	48,282	124,680
1970	314,633	45,603	14.5	7,919	16,087	11,419	10,178	28,485	9.1	2,589	12,008	5,394	8,494	240,545	76.4	35,131	21,842	51,913	131,659
1971	349,326	50,232	14.4	8,704	16,970	10,760	13,798	31,208	8.9	2,833	12,520	5,007	10,848	267,886	76.7	39,968	23,951	54,228	149,739

Source: Bureau of Census, *1972 U.S. Statistical Abstract,* Table 707.

Table 54. Percent of Mortgages Insured by FHA or VA 1950 to 1971 ($ millions)

Year	Commercial Banks Total	Commercial Banks Percent FHA and VA	Mutual Savings Banks Total	Mutual Savings Banks Percent FHA and VA	Life Insurance Co.'s Total	Life Insurance Co.'s Percent FHA and VA	Savings and Loan Total	Savings and Loan Percent FHA and VA
1950	N.A.	N.A.	13,033	23.6	14,775	44.7	13,657	30.0
1955	15,888	52.1	15,568	63.7	27,172	45.9	31,408	23.2
1960	20,362	42.7	24,306	66.1	38,789	41.1	60,070	17.9
1965	32,387	32.1	40,096	62.8	55,190	33.3	110,306	10.4
1968	41,434	25.7	46,748	59.0	64,172	28.7	130,802	10.4
1969	44,573	23.8	48,682	57.6	66,254	27.1	140,232	11.1
1970	45,639	23.0	49,937	53.3	68,726	24.5	150,331	12.4
1971	51,505	22.4	53,441	55.2	69,995	22.5	174,385	14.1

ing programs on the total housing stock and flow, we also reviewed the flow of funds in Federal housing programs to assess whether program activity appeared to be volatile or was characterized by steady growth or decline.

The FHA multifamily housing programs are characterized by the greatest fluctuation of funding of Federal housing programs, as shown in Table 54. The value of mortgages increased dramatically from $19.8 million in 1945 to $1.16 billion in 1950. By 1955, however, their value had dropped to $76 million. Within this aggregate instability, FHA grew fairly evenly. The volume of FHA single family mortgages increased every year from 1935 to 1971 with the exception of 1967. VA guaranteed loans were the source of aggregate volume instability. VA insured $7.2 billion mortgages in 1955. By 1960, volume had fallen to about $2.0 billion. In 1971, volume again was high at $5.9 billion.

The Role of Federal Mortgage Insurance

The Federal Government has on balance been a minor factor in the vast U.S. housing market, as elaborated in the previous section. One program—home mortgage insurance—stands out, however, as the major Federal contribution to housing. FHA and VA are among the oldest and clearly the most heavily funded Federal housing programs. As such, assessing the impact of Federal housing activity requires close examination of FHA and VA, particularly because these programs are sometimes considered responsible for one of the major housing/population phenomena of our times, suburbanization.

FHA and the Suburbs: The Federal Government has been insuring home mortgages since 1955, first under FHA (section 203) and later under VA as well. The previous section indicates that with very few exceptions (FHA 203 in 1971) Government mortgage insurance has always been a small part of the dollar value and number of U.S. housing units, both in terms of new production and total stock. Further, in every region of the country the Government role in mortgaging financing has been minor.

Nevertheless, there is a school of thought that contends that FHA and VA mortgage insurance caused or at least significantly influenced the rapid growth of suburbs. The bases for this contention are:

- Government insurance concentrated disproportionately (five to one) in single family housing, which is concentrated in suburbs.
- FHA and VA insurance started growing and continued growing along with the rapid suburban growth.
- FHA objectives of providing sustained levels of credit insurance—particularly during periods of tight money—and protecting Federal insurance reserves, drove FHA to safe suburban home insurance.
- FHA could only act on applications it received, and the applications came from the suburbs.

These factors certainly helped make FHA and VA largely single family programs that concentrated on stable and growing neighborhoods, but it cannot be shown that these factors rendered FHA or VA causes of or even significant influences on the growth of suburbs. The rise of the suburbs seems to stem from forces more complex and far more powerful than Federal mortgage insurance.

Sources of Suburban Growth: In the thirties and early forties, suburban housing grew slowly, although FHA had been operating since 1934. The ravages of war and the Depression dampened demand for housing and reduced the amount of capital available for financing new housing construction during that period. FHA was operational but little construction developed —suburban or otherwise. Macroeconomic failures and foreign policy uncertainties overwhelmed the early years of the agency's operations. FHA had little perceivable impact.

During the first years of the postwar economic recovery, returning soldiers were forming families. Rising incomes created demand for new housing and supplied personal savings for the high interest-paying thrift institutions, such as savings and loans. The thrift institutions in turn were obliged to find high yield investments for their new deposits, and home mortgages provided a prudent answer. The suburban mortgage market grew rapidly and FHA participated. But this phenomenon cannot be linked to a change in FHA policies. FHA followed the same operat-

ing procedures that had financed relatively little suburban construction during the period 1934 to 1946. Economic and diplomatic forces did change, and seem to have dwarfed, the influence of FHA in starting the rapid growth of suburbia.

Furthermore, the emergence of mass transit systems, high speed multilane highway networks, rapid growth in family formation, increasing birth rates, and gains in real family incomes all seem to rival FHA as partial causes of suburban growth.

Shortly after the large increase in the FHA's insurance activities during 1945 to 1955, private firms began offering mortgage insurance on terms competitive with FHA's. By 1955, FHA was insuring only about half of all new homes. By 1963, private insurance largely equalled FHA. Private mortgage insurance is (and always has been) profitable. Financial institutions know how to provide this type of service well. Private insurance grew rapidly in volume and spread to all States. In 1973, New York became the 50th State to allow the sale of private mortgage insurance by thrift institutions. It seems appropriate to assume that this highly profitable industry was bound to emerge as private housing starts grew after World War II.

Passive Nature of FHA Influence: Additionally, FHA operated passively. Applications were submitted to the FHA for approval by individual home buyers and builders. FHA reviewed these randomly submitted applications and insured solvent (and only solvent) applicants from whatever community they happened to come. Therefore, FHA reviewed applications rather than planned development. Congress did not mandate otherwise. To protect reserves, FHA financed homes and projects that would complement and profit from identifiable growth trends. No efforts to plan communities were initiated, and only recently have projects been encouraged for declining neighborhoods.

FHA financing decisions were based on financial viability on individual investment proposals, not suburbanization, nor metropolitanization, nor arresting decline, nor any of the other trends we observed in the first chapter of this paper.

Conclusions: We thus conclude that FHA's participation in suburban growth was the result of diplomatic and economic forces, not the reflection of a desire to build or not to build any particular type of community. The FHA's need to maintain Federal insurance reserves was successfully met by financing suburban construction. But the FHA did not actively encourage nor discourage suburban construction. In its review of randomly filed mortgage applications, FHA generally financed single family homes in stable neighborhoods to meet its goal of financial viability, not to meet a goal of building suburbia. Perhaps the FHA allowed suburban growth to begin somewhat earlier than otherwise would have occurred, but this appears to be the extent of FHA impact.

In this light, FHA may not have been significantly responsible for suburban housing. Rather, the sweeping forces of time, historical events, and economics seem to have dictated FHA participation in financing suburban construction once (long after the FHA's inception) conditions grew receptive to suburban growth.

Perhaps FHA served a catalytic function by allowing the inevitable phenomenon of suburban growth to start earlier and grow more rapidly in the early postwar years. But in the broad sweep of decades, world politics, and macroeconomics, the FHA seems at best a marginal contributory influence on the growth of suburbs.

Federal Housing Programs in Declining Areas

The Federal Government has sponsored several housing programs in declining areas. The mortgage insurance operations just described were intended to help satisfy (or at least had the effect of helping to satisfy) housing demand for the vast majority of consumers who could afford mortgage payments. As indicated earlier, the insurance programs blended nicely with the growth of single family housing in stable and growing neighborhoods.

In contrast, the Federal programs in declining areas were intended to satisfy the unmet housing demand of a segment of the population —chiefly the poor and the elderly. Generally, these programs had to confront, and attempted to resist, broad community trends, unlike the insurance programs that were consistent with the trends in their constituent communities.

General Impact on Low Income Housing: The data on low income housing production are particularly heterogeneous and incomplete. For example, we were unable to estimate how much, if any, low income housing production stems from Model Cities and urban renewal appropriations Further, the definition of "low income" strongly affects the number of Federal programs that can be considered to produce low income housing.

We know, however, that in 1970 there were 4.8 million housing units in the United States that

rented for under $61 per month and 4.2 million units that were valued at under $7,501. We know that about 1.17 percent of these units were built by the Federal Government in 1970, and that during 1970 there was no significant other (State, local, and private) construction of housing in these income categories.

Table 55 assumes that $60 monthly rentals and $7,500 household valuation is a useful standard for "low income." The table shows that the rate of low income housing construction (new production divided by total stock) was substantially lower than the rate of all housing construction in 1970. Without Federal programs the rate of low income housing production would have been negligible. State governments built only 2,000 low income units in 1969, 3,000 in 1970, and 10,000 in 1971. There is no substantial private (unassisted) low income housing construction. Therefore, Federal programs have played a substantial, in fact determinant, role in the limited but measurable expansion of low income housing in recent years. Also, about 90 percent of recent Federal efforts in this area are in multifamily public housing programs—conventional, leasing, and Turnkey.

Table 55. Production of Low Income Housing (000 Units)

	1971	1970	1969
Conventional	25	29	36
Lease and Turnkey	67	55	28
Rent Supplements	15	21	16
Total	107	105	80
		1970	
	Total Year Round		Total Low Income
Housing Stock (units)	67,656,000		9,016,000
New Starts (units)	2,083,000		105,000
Percent (new starts ÷ total stock)	3.08		1.17

Gross Impact on Low and Moderate Income Housing: We know that in 1970 there were 13.3 million units valued at less than $15,001 and 15.7 million units renting for less than $120. We could not find data to establish the average values and rents of sections 235 and 236 housing. But it would appear that these programs contribute to the housing that sells for less than $15,001 or rents for less than $120.

Table 56 estimates recent production of low and moderate income housing under Federal programs. The indicated 1970 production of 186,000 units represents 0.66 percent of the 1970 low and moderate stock. In 1970 all housing production was about 3.08 percent of all housing stock.

It would appear, therefore, that in gross aggregate terms Federal programs played a rather minor role in the entire low and moderate housing market in 1970. Data sufficient to perform this analysis for other years were not found.

Impact Evaluation: As mentioned, these programs sought to intervene in the community decline process and, unlike the mortgage insurance programs, reverse or at least deflect trends. The programs confronted powerful forces of decline, notably the lack of sustained profitable investment opportunity, which discouraged new construction, commercial and business investment, and weakened public services. Although the low income programs sought to reverse—not reinforce—trends, they received substantially less funding than the mortgage insurance programs. FHA and VA accounted for 622,000, or 85 percent, of the 728,000 units constructed under Federal programs in 1971, the year in which the most low income housing was completed.

Table 56. Production of Low and Moderate Income Housing Under Federal Programs

Production	1967	1970	1971
1-4 Family Units			
Section 235	8	70	136
USDA	24	38	71
Multifamily Units			
Conventional Public	36	29	25
Leasing and Turnkey	28	55	67
Section 236	1	49	100
Rent Supplements	16	21	15
Section 221(d)(3)	39	24	11
Section 202	7	6	1
USDA	2	2	3
Total Federal Activity	129	186	212

Federal commitment was therefore somewhat asymmetric—the programs that intended to confront the powerful trends of community decline received far fewer resources than the programs that reinforced the strong trends of community development.

The relatively small aggregate impact of Federal low and moderate income programs seems to have destined the programs to a minor impact. If in their strongest and best funded year, the HUD programs added only about 0.7 percent to the low and moderate income stock, it is difficult to expect that the programs would have much impact.

Conventional Public Housing: About 32,000 public housing units have been produced annually under the conventional public housing program. This annual production represents one-third of 1 percent of the 1970 stock of low income housing, defined as valued above $7,501 or renting for less than $61. In addition to serving a minor aggregate role, the public housing program has structural limits on its ability to affect the low income housing market:

- Municipalities were required to tax abate properties in order for the local housing authority (LHA) to qualify for Federal annual contributions which amortize the bonds issued by the FHA. The locality receives a payment in lieu of taxes of 10 percent of rent payments, which is generally less than the property taxes for which the property would be liable. In spite of this revenue loss, local governments must execute a "Cooperation Agreement" that commits them to provide full services to the project. As a result, most communities regard public housing as a financial drain. This is in contrast to the FHA programs and the section 23 leasing program which pay full taxes in nearly all communities.
- The building and banking sectors were reluctant to support public housing projects.

Leasing Program: Under the section 23 leasing program, LHA's use program funds to lease units from private owners and then sublease these to public housing tenants on a subsidized basis. Two major benefits were intended:

- The LHA could provide housing without the necessity of undertaking a time consuming construction program.
- A degree of integration would be achieved by introducing public housing tenants into the private housing stock.

Data are unavailable for a full assessment of the impact of section 23 on the total low and moderate income housing stock. For example, we cannot measure the extent to which substandard units were rehabilitated or chains of moves were caused that eventually resulted in increased demand for new housing.

Since its enactment, about one-fourth of all new public housing units have been section 23 units. The approximately 85,000 units currently maintained house about 1 percent of the nation's poor families. As of mid-1970:

- 62 percent were existing units without major rehabilitation.
- 23 percent were existing rehabilitated units.
- 15 percent were newly constructed units.

Although section 23 units are apartments in scattered sites within older, modest neighborhoods, it is impossible to assess the program's effect on reducing racial discrimination. The average leased unit is located in a census tract where slightly fewer than 20 percent of the households are black. We do not know where leasing tenants lived previously, however. In addition, the ability of local housing authorities to lease units is restricted to territories over which they have jurisdiction. Communities wishing to exclude section 23 public housing simply fail to organize an LHA. With the present scale of the program any effects to diminish racial segregation have been small.

Turnkey: The Turnkey program is responsible for most new public housing in the United States. The Turnkey approach of leasing or purchasing completed units eliminates much of the LHA planning procedures and allows developers to select project sites.

Although simplifying procedures, the Turnkey approach has the effect of reducing the planning capability of the Federal Goverment. Under Turnkey or under FHA, Federal administrators review applications from private developers. Government authorities do not rigorously plan site location, project size, architectural style, rentals, and occupant income mix. Instead, these decisions are made largely by the applicants.

Urban Renewal and Model Cities: Urban renewal and Model Cities sought to impact on communities as a whole income group, although an important subsidiary objective was to improve the housing stock. The focus of both programs was on urban residential neighborhoods, although commercial and industrial areas were considered if their rehabilitation could be shown to improve the quality of adjacent deteriorating neighborhoods.

It was recognized that private developers could not rebuild central city neighborhoods because they faced two major obstacles:

- Assembling a large number of parcels under diverse ownership to create a tract large enough to support efficient, modern development.
- High costs, including cost of existing structures and of their demolition.

Communities readily accepted the urban renewal program. At its inception, only larger cities initiated urban renewal projects. Increasingly, smaller communities also perceived the desirability of participating. In 1954, 44 percent of the communities had populations of 100,000 or more; by 1964 this proportion had dropped to 14 percent, and more than half had populations of less than 25,000.

The urban renewal program's impact on arresting the deterioration of the central cities appears to have been minimal:

- Of all construction occurring during 1950 to 1960, in cities with populations over 100,000, only 1.3 percent was on urban renewal sites, and a proportion of this may have occurred in the program's absence.
- The average project takes about 12 years to complete.
- Tracts suitable for luxury housing were quickly rebuilt, but developers were reluctant to use less desirable land for high and middle income housing.
- The tax base was not strengthened in most cities.
- The housing stock for low income families was not materially increased by this program and may have been negatively affected.
- Low income relocatees frequently paid more for housing after moving, thus compounding their predicament.
- Renewal even caused new slums by pushing relocatees into areas that subsequently became overcrowded and substandard.

Sections 235 and 236: The most rapidly rising component of the Federal housing programs is clearly the 230 programs. Although together they represent only 11 percent of all 1971 housing starts, they have grown rapidly since their inception in 1968, as shown in the table below. The 230's went from a negligible fraction of Federal housing efforts to about half of all Federal production in a 2-year period.

Table 57. Sections 235 and 236 Programs as a Percent of all Housing Starts

	Thousands of Units		
	1967	1970	1971
Section 235	8	70	130
Section 236	1	49	100
Total Federal	163	297	469
Percent 235 and 236 of total	6	40	49

The 230 programs are new and it may be, therefore, premature to assess their operating methods. But it appears that the 230's, like FHA and, recently, Turnkey, largely rely on applications submitted in random fashion by developers. As such, the 230 program does not actively plan site location, income mix, architecture, and rental levels. Rather, developers make these decisions, and the Federal administrators ratify or deny them.

The developers are obliged for financial reasons to seek safe environments for their investments, or at least as safe as 230 regulations allow. It is probably unrealistic to expect a program so predicated to confront successfully strong trends of community decline.

The 230 programs, therefore, appear too small a fraction of total production and too reliant on developer needs to meaningfully alter the prevailing trends of community development and decline.

Summary and Conclusions

Although, as indicated at several points herein, data on Federal housing programs are incomplete, several points seem to emerge from the foregoing analysis. Most clear is the enormous size of the U.S. housing market; there are 68 million homes. Over two million new homes are produced every year. There are multibillion dollar annual investments, and every individual is involved every day with his shelter requirements.

Second, even large sums of money—billions of dollars—do not affect the aggregate housing supply in the long run. Perhaps a single year investment of $80 billion—about 5 percent of present residential stock value—would make a visible difference in the long run.

Third, Federal programs at present magnitudes do not make nearly this kind of contribution. The recent rapid increase in Federal participation is dwarfed by the aggregate problem. The sum of all Federal housing efforts affects only small parts of the stock and flow of all U.S. housing. The insignificance of Federal efforts is true in all years, in all locations, for all housing types, and for all housing occupants, all financing institutions, and all Federal programs.

Fourth, with the exception of a few of the Federal Government's least funded programs, Federal housing policy has been passive. Programs are structured to receive applications randomly submitted by developers who are constrained for financial reasons to reinforce existing patterns of community development and

decline. In such a mode, Federal programs can do very little but ratify and abet development processes that most likely would happen anyway.

Fifth, the diversity in community development/decline problems is enormous. This is true of housing and other components of the development/decline issue. Half of all abandonment happens in New York City, yet mass transit is extensive in that city; Philadelphia has vast areas of substandard housing, little abandonment, and extremely poor transportation. And the two cities are within a few hundred miles of each other. There obviously are no general solutions to a problem this diversified.

Sixth, housing does not appear to be an independent solution. Constructing housing units, per se, seems to be a weak remedy. Rather, the underlying economic viability of a community—its potential for sustained profitable investment—must be elevated to certain minimums, it would appear, before development can replace decline. Economic viability induces the business and commercial investment, new construction, and public services that are associated with community development.

In this light, it would appear that community development policymaking should proceed in a particular order; namely, if economic viability is the ultimate determinant of development and the proper (or only) way to terminate decline, then decisions should first be made about how and where to increase employment opportunities, strengthen job training, and improve transportation to and from job sites. After these decisions are made—and only after—sensible decisions can be made about where to locate housing.

For example, it would appear to be a mistake to build moderate and low income housing in the center of a city and not to aid mass transit, if the low skilled jobs are situated in the outskirts of the metropolitan area where low land costs often force manufacturers to locate. More broadly, central city housing may only be sensible if there is a specific prior plan to get the occupants of that housing to work, either by transit, by bringing the jobs into the city, or by some combination of both.

Further, the diversity of U.S. metropolitan centers suggests that prior economic planning must be done on a metropolitan center by metropolitan center basis, and housing policy should be similarly tailored to each center's peculiarities. The National housing act syndrome of 1949 and 1968 may not be appropriate.

There may be valid reasons to construct housing in areas of economic malaise even though in the long run only economic viability arrests decline. Better housing does alleviate suffering. Although painful adjustments are made to restore (or relocate) economic viability, new housing can postpone for a while inevitable further decline and reduce the discomfort and agonies of economic failure. New housing in areas of economic depression can therefore serve a legitimate transitional role.

Finally, it is clear that the size of housing demand exceeds the likely financing capabilities of the U.S. Government. Even Department of Defense-like investments would not satisfy annual housing replacement requirements. The private sector must be effectively harnessed. Even with the private sector, construction and land cost inflation may require less housing space per family in the future.

Appendix

Biographies of Contributors

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Papers Prepared for the National Housing Policy Review

Following is a list of papers prepared by persons or organizations, other than those in the Department of Housing and Urban Development, for the National Housing Policy Review. The papers are available at the National Technical Information Service (NTIS), part of the Department of Commerce, and can be obtained by writing National Technical Information Service, Department of Commerce, Washington, D.C. 20036.

Title	Author	Affiliation	NTIS No.	NTIS Price
Housing Information Services		Abt Associates, Inc.	PB229 107/LK	$4.50
Legislative Commitment to Housing	Robert Agus	The Urban Institute	PB229 887/LK	$4.50
Limitations on the Use of Housing Revenue Sharing Funds	Robert C. Alexander	McKinsey & Co., Inc.		
Implications of Short Term Funding of Housing Revenue Sharing	Robert C. Alexander Donald J.Gogel	McKinsey & Co., Inc.	PB233 027/LK	$4.00
Interest Groups and the Potential Consequences of Federal Housing Subsidies to the State	Robert A. Alford Nancy DiTomaso	University of Wisconsin	PB240 266/LK	$5.00
Public Responses to Several Increasingly Important and Newer Forms of Housing	Susan Anderson Richard Coleman	Massachusetts Institute of Technology	PB230 191/LK	$4.00
Expected Participation Rates in the Housing Allowance	David M. Austin Robert Mendelson	Joint Center for Urban Studies	PB229 405/LK	$4.00
Implications of the Experience with the Shelter Component in Public Assistance for the Design of a National Housing Allowance	David M. Austin	Joint Center for Urban Studies	PB229 214/LK	$4.50
A Preliminary Memorandum on Interface Issues Between a National Housing Allowance and Existing Public Assistance Programs	David M. Austin	Joint Center for Urban Studies	PB229 216/LK	$4.50
Program Description Shelter Component in Federal-State Categorical Public Assistance Program	David M. Austin	Massachusetts Institute of Technology		
Administrative and Implementation Guidelines for the Housing Allowance Alternative	David Barrett	Joint Center for Urban Studies		
Code Enforcement and Rehabilitation		Barton-Aschman Associates	PB228 980/LK	$4.00
Economic Analysis of a Proposed Multi-Family Production Program	Sheldon L. Baskin		PB229 420/LK	$4.50
Evaluation of a Proposed Elderly Condominium Program	Sheldon L. Baskin		PB228 891/LK	$4.00

Title	Author	Affiliation	NTIS No.	NTIS Price
Evaluation of a Proposed Shallow Subsidy Rental Housing Production Program	Sheldon L. Baskin		PB229 108/LK	$4.00
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