HUD

Challenge

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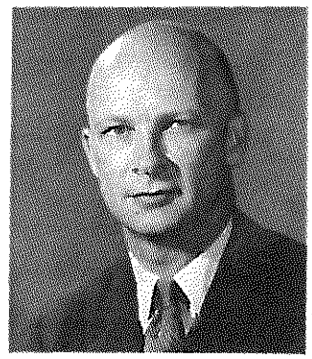
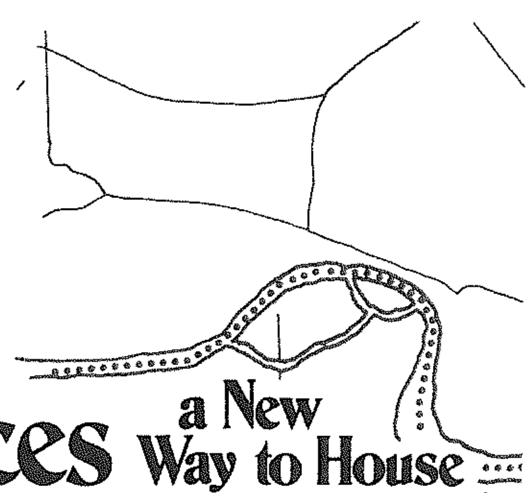
Housing for Older Americans

Housing Allowances a New Way to House the Poor

By Malcolm E. Peabody, Jr.





Malcolm E. Peabody, Jr., HUD's Deputy Assistant Secretary for Equal Opportunity, pioneered the Housing Allowance program at HUD and organized the demonstration in Kansas City with the cooperation of Irving P. Margulies, HUD Associate General Counsel and Otto Hetzel, then counsel for the HUD Model Cities program, which financed the demonstration. Others who played important roles in the demonstration's launching are Robert Baida, HUD Regional Administrator in San Francisco and Donald Patch and Warren H. Butler of the Community Development staff in Washington.

Is there a way to house the poor in decent housing without concentrating social problems and without paying an arm and a leg?

The taxpayer's cost of over $200 a month to subsidize rents of average new public housing units plus mounting difficulties of housing inner city residents via the subsidized housing programs are leading HUD to try other approaches.

Now being tried out in the Kansas City metropolitan area is a program of housing allowances the initial results of which are very encouraging. The families that participated in the program are located in good neighborhoods; the average monthly rent of $20 paid out of their own funds is about a third of the cost to the tenant in public housing; and the cost to the taxpayer is about 40 percent less than the annual cost for newly constructed public housing.

What are Housing Allowances?

Housing Allowances provide monthly cash payments to needy families who find and rent decent housing units on the private market. It's a simple concept but so far it seems to work. It differs basically from most other federally assisted programs in that assistance is delivered in cash rather than in kind.

Present housing programs tie subsidies to the units and families must move into these units to gain the benefits. Direct assistance in cash to families has several advantages over an in-kind program. For one thing, it is much more flexible. The Government is not committed to subsidize a unit for 40 years though the condition or location of the unit may render it unusable. For example, the Pruitt-Igoe project in St. Louis has been partially demolished in a demonstration of controlled explosives.

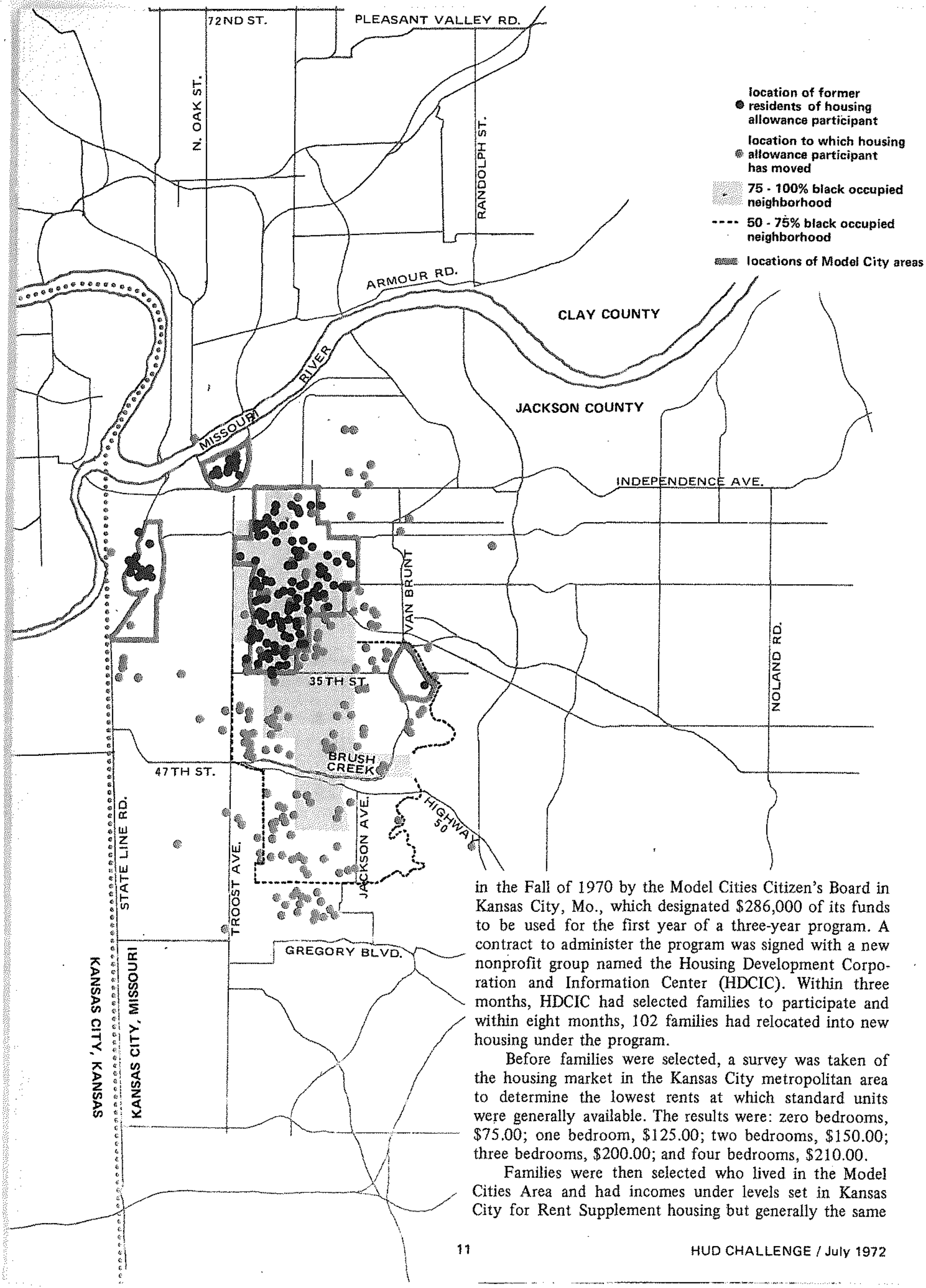
Our present housing programs, servicing the inner city poor, have run into increasing social and financial problems. Their concentration of problem families in projects has often created new, sometimes greater, community problems. In addition, rapid deterioration from vandalism, poor construction, and poor management have combined with inflation to put several housing projects into the red. As a result, HUD must now give them substantial additional subsidies to keep them going and to keep their rents low. Moreover, it's tougher and tougher to find decent locations for new projects without arousing angry citizen protests which can stall or frustrate development. This is particularly true in larger cities where the need for low rent housing is greatest but where our statistics show that the rate of public housing construction is declining rapidly. For all these reasons, the housing allowance concept is being considered as an alternative to present programs.

Under the program families can be assisted whether or not their community has a public housing program. Administration is simpler since there are fewer middlemen through which funds flow and since the private market provides the housing services on a competitive basis, it reduces the need for regulation.

However, it should be emphasized that housing allowances do not reduce the need for new construction. Without an increasing supply of housing rents will be driven up, particularly in tight markets, so Government support for new construction will continue.

How it Started

The Housing Allowances demonstration was launched with the support of HUD Assistant Secretary Floyd Hyde and Under Secretary Richard Van Dusen. It was adopted

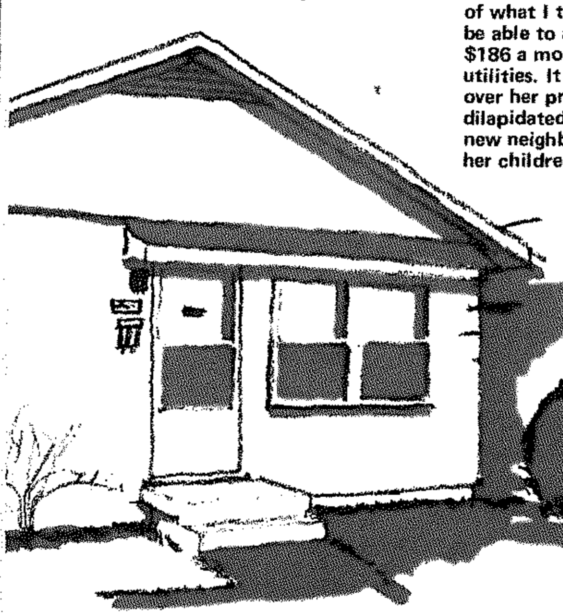


in the Fall of 1970 by the Model Cities Citizen's Board in Kansas City, Mo., which designated $286,000 of its funds to be used for the first year of a three-year program. A contract to administer the program was signed with a new nonprofit group named the Housing Development Corporation and Information Center (HDCIC). Within three months, HDCIC had selected families to participate and within eight months, 102 families had relocated into new housing under the program.

Before families were selected, a survey was taken of the housing market in the Kansas City metropolitan area to determine the lowest rents at which standard units were generally available. The results were: zero bedrooms, $75.00; one bedroom, $125.00; two bedrooms, $150.00; three bedrooms, $200.00; and four bedrooms, $210.00.

Families were then selected who lived in the Model Cities Area and had incomes under levels set in Kansas City for Rent Supplement housing but generally the same income levels as for public housing. First priority was given to families living in substandard units or in public housing. Families had to move from present units to receive allowances. Seventy-one families were selected.

Mrs. Louise Garrett, age 27, attests to the program's value. She is typical of those who received allowances: A welfare mother with four children and an income of $150.00 per month, she was having a tough time surviving. Her children were hungry, her bills unpaid and she herself was recovering from an auto accident. But. . . "one night while I was drowning in my tears, I heard the announcement over the radio about this program that pays your rent, but I didn't believe it. I just forgot about it. A week or so later my neighbors started telling me about this same program. So we both went and applied together." When she was selected, Mrs. Garrett was astonished. "This is the type of thing you read about happening to others but I never imagined it would happen to me." Within 60 days, Mrs. Garrett had found a three-bedroom house in the southeastern part of the city.



Mrs. Louise Garrett says, "The neighborhood and the house exceeded my highest expectations of what I thought I would ever be able to afford." The rent is $186 a month, including all utilities. It is a big improvement over her previous one bedroom dilapidated apartment and her new neighborhood and school her children attend is a lot nicer.

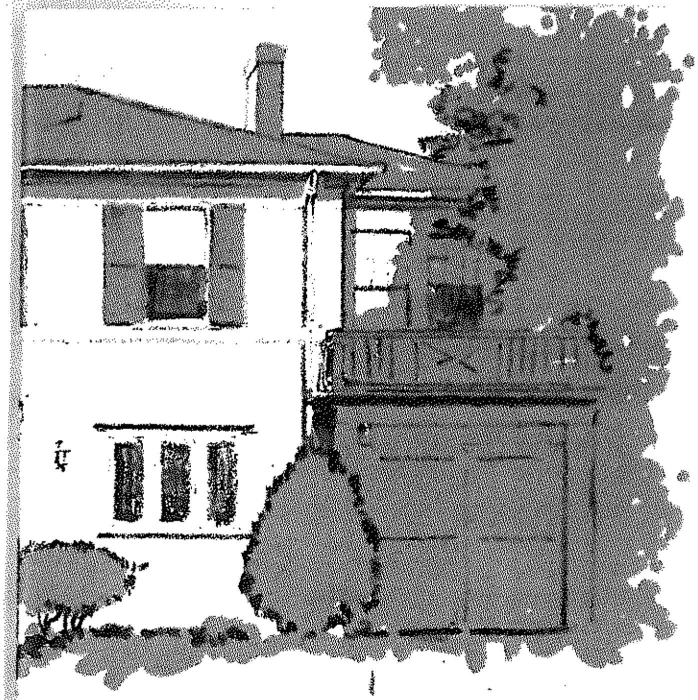
Allowance amounts were determined by deducting what the family could afford in rent (25% of their income, adjusted to family size) from the cost necessary to rent a suitably sized, standard apartment. For example, if a family needed a three-bedroom apartment (standard cost $200.00) and had income after adjustments of $300.00 a month, they would be entitled to an allowance of $125.00 (25% x $300.00 = $75.00, $200.00-$75.00 = $125.00). If families found apartments at less than the set amounts, they could keep the difference as long as the rent equaled or exceeded the allowance amount. For instance, using the above figures, if the family with the $125.00 allowance found an apartment for $150.00 instead of $200.00, they would have to pay only $25.00 out of their own funds for rent. The allowance would remain at $125.00. This gives families an incentive to find the bargains, but also allows them to choose higher quality housing if they are willing to pay more out their own pockets. If, on the other hand, they found an apartment for $100.00 the allowance would drop to $100.00.

Units were inspected prior to move-ins to assure that they met city code standards. Beneficiaries were required to show proof of the rents paid in the new units.

A short orientation course helped families to learn (1) that they could search anywhere in the metropolitan area for housing; (2) that they must rent standard housing; (3) how to recognize standard housing; (4) how to find listings; and (5) how to deal with landlords.

Between 30 to 60 days was allowed for the families to locate new accommodations. After they located a unit of their own choice, they notified the HDCIC to inspect it. The HDCIC then provided the family funds to cover rental deposits and moving expenses, and the family moved into their new home. If they became dissatisfied with their new accommodations, beneficiaries could move and take their subsidy with them, but the cost of the move would be deducted from their total subsidy. If another move was made the HDCIC had to be notified and the second units inspected before the move was made.

Most of the 102 persons who headed the first families selected were black (85%), female (79%), and on social welfare (75%); 70% were unemployed and their average annual income was under $3,000. Their average age was 32 years old and they had families of three to four children. In short, these were the families ordinarily judged toughest to house and the ones often excluded from public housing programs. The average housing allowance payment was about $120.00 per month. Families selected later had incomes closer to the limits listed above, which resulted in the lowering of the average payment to $105.00 per month.



Mary and Jim Robinson, by checking with various real estate companies and watching the papers daily, located the house of their choice immediately—a four bedroom house which could hold their six children. It is a spacious, well maintained house in an integrated neighborhood.

Armed with their prospective allowances, most of the families found housing within the 30 to 60 days allowed. For others it wasn't as easy, but they too managed to find housing promptly. Many had difficulty getting transportation to see available units; others couldn't find enough listings and when they did, had trouble finding housing which could pass inspection. The experience pointed up a need for additional help in the future, particularly in transportation and counseling.

Some trouble was experienced with landlords. Some refused to rent to families with children or to persons on welfare. Some practiced outright racial discrimination. The great majority, however, did not. Three out of four landlords were willing to decorate and make minor repairs to pass inspection and persuade tenants to move in. Six out of ten continued to make prompt repairs afterwards. Slow repair service was reported by 30% of the participants but only 8% reported that their landlords refused to make repairs or ignored their requests.

Tenants were so successful in finding rents below the standard rents, that the average rental paid by participants from their own funds was $18.96. Many, in fact, found housing at the allowance rates and thus paid no rent out of their own funds.

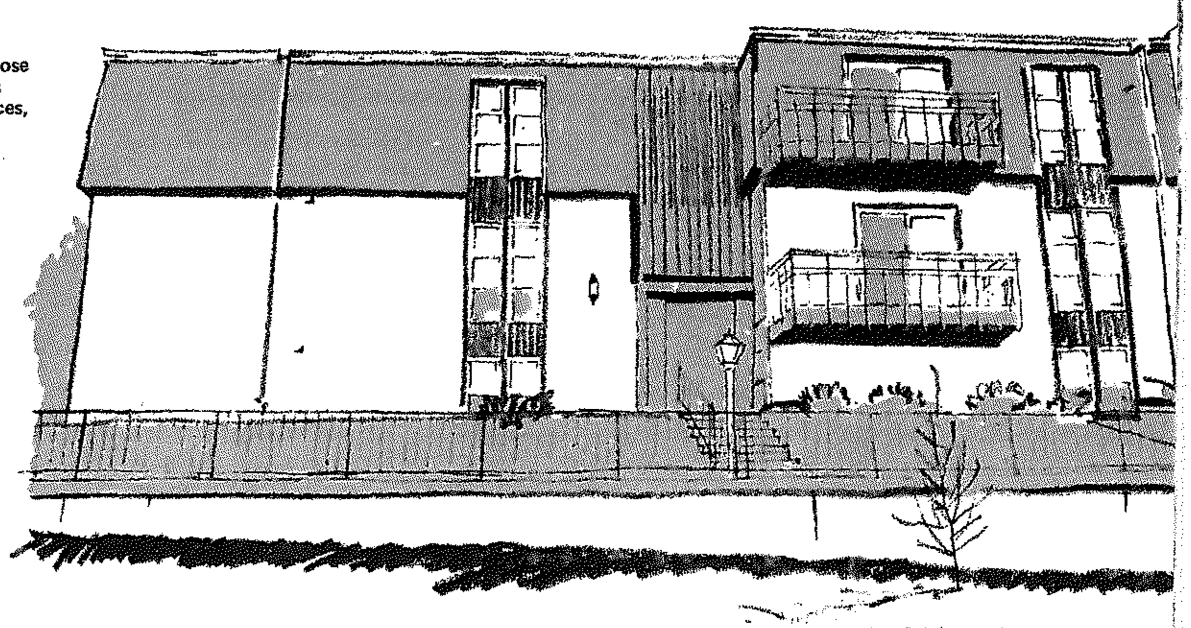
What the Demonstration Showed

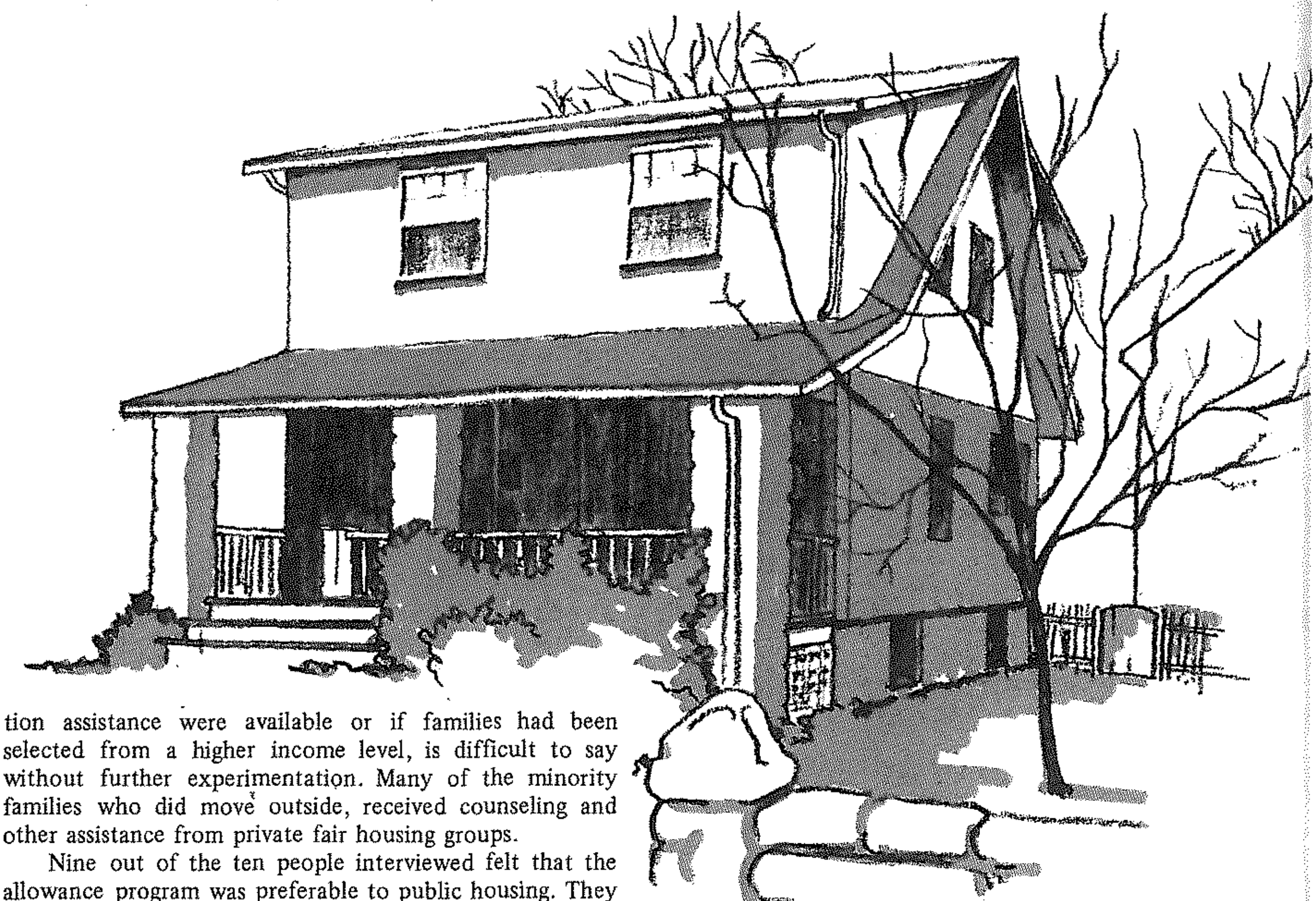
The results indicated a number of important things. First, that the standard rentals were set higher than proved necessary. Second, that given a choice, most lower income families will opt for paying less rent even if they can afford to pay for something better.

Where families moved is also fascinating. The map in the inset shows the Model Cities Area from whence all participants came and the dots where they all located. As can be seen, an overwhelming number moved out of the Model Cities Area and most of them into areas considered middle and lower middle income. Most minority families remained within the minority community and of 18 families who moved to white areas, seven were black and one was Latin American.

The pattern seems to show that when decent housing is available in neighborhoods within their own ethnic community, poor minority families are less likely to move outside. Peter Gomez illustrates this point. He was reluctant to leave the Spanish community in Kansas City but had difficulty finding decent housing within it, so he chose a home in the southwestern part of the city near his job. He and his family had some adjustment problems, but now prefer their new community to the one that they left. How many more families would follow Mr. Gomez' example if additional counseling and transporta-

Although many families chose to rent single family homes with their housing allowances, apartments were rented by some of the participants.





tion assistance were available or if families had been selected from a higher income level, is difficult to say without further experimentation. Many of the minority families who did move outside, received counseling and other assistance from private fair housing groups.

Nine out of the ten people interviewed felt that the allowance program was preferable to public housing. They were pleased with the freedom to choose their own home. They mentioned frequently the pleasure of privacy, peace, and quiet of their larger house in less crowded neighborhoods and the feeling of pride they got from living there.

The children were not interviewed, but they seemed to be thriving in their new communities. Said Mrs. James Robinson, "My children and the neighborhood children play together, eat together, and, of course, occasionally fight. The new environment has had such a positive influence that I notice it more and more each day, even in such things as their table manners. I don't worry about them as I used to; since they have become active in church clubs, Boy Scouts, Little League baseball, it leaves them little time to get into trouble," and, she noted, "even I have changed."

In general, tenants' satisfaction was clear. But there are some continuing problems. Many participants find transportation cost higher in their new neighborhoods, and this has limited their visits to other parts of the community. About a third still have problems with landlords.

About half of the participants hope to stay in their new homes even after their allowances run out in two years. Taking advantage of their lower rent outlays, the Robinsons are putting money aside and hope to buy their present house with a GI loan. Mrs. Robinson is hoping to get a job in a day care center. Both Mrs. Gomez and Mrs. Garrett are also determined to stay. They are enrolled with a number of other allowance participants in a training program to become licensed practical nurses and will seek full-time employment when their children are all in school. They don't intend to slip back into their previous hopeless and helpless way of living, or as Mrs. Garrett put it, "not if I can help it."

Almost without exception, allowance recipients are pleased with their new homes and neighborhoods, particularly the extra spaciousness and dependable heat. The Peter Gomez family moved to a three-bedroom house. He now recalls, "Our house was always cold in winter and believe me, with a wife and four children in one bedroom, I know what sardines must feel like."

Despite the initial success of the Kansas City Program, a number of questions have yet to be answered before housing allowances can be instituted on a nationwide basis. Kansas City has a relatively high vacancy rate—6.2 percent in the metropolitan area and higher within the city-which makes mobility possible. Can a full scale housing allowance program be used in tighter markets without driving rents up and if so, to what extent? Should housing allowances be used to subsidize people who already live in standard housing and who wish to remain there but are paying more than 25% of their income to do so? What would happen if better counseling and supportive services were available. . . and how much would it cost? Can the housing allowances be used in a home purchase plan? And what effect would allowances have on abandonment? And finally, through what local institution should housing allowances be delivered: local housing authorities, State housing authorities, nonprofit agencies, or a combination of all three?

To answer some of these questions, a much larger experiment is planned this year in a number of cities around the United States.