The corruption scandal at the Department of Housing and Urban Development (HUD) has been popularly reported as a story of how Reagan Administration officials steered scarce subsidies to political insiders. That picture is accurate, but the real issue at HUD concerns the roles that government, private developers, and community organizations ought to play in an effective national program for affordable housing.

The public is rightly skeptical of programs that offer big profits to politically connected developers and consultants in the name of housing the poor. However, the solution is not to scrap federal housing programs, as some conservatives suggested in the wake of the HUD uproar. Instead, we should learn from the successes of our neighbors in Canada and of other industrial nations like Sweden, Holland, and France, which target government housing funds to nonprofit community developers. Unlike HUD, their programs are virtually corruption-free, and they do a better job of supplying housing to the poor and near-poor than do programs emphasizing incentives to commercial developers.

The Canadian Approach

The housing systems of the United States and Canada are similar in many respects. Most housing is constructed by private builders and financed by private lenders. Almost two-thirds of households own their own homes, primarily single-family houses. In Canada, as in the United States, housing prices have skyrocketed in the largest urban areas, particularly in Vancouver and Toronto. Middle-class citizens in both countries complain about the increasingly elusive dream of homeownership. But for Canada's poor and working-class residents, housing conditions are considerably better than they are for their U.S. counterparts. Canada has no slums to match the physical and social deterioration in our inner cities. Nor are Canada's cities overwhelmed with citizens sleeping in shelters, streets, and subways. Of course, there are homeless people in Canada and many lower-income households have great difficulty affording the housing they need, but they are relatively fewer in number.

What accounts for these differences? Put simply, Canada's governments -- federal, provincial, and local -- have made a commitment to assist those not served by the private housing marketplace. There is widespread agreement that the market cannot do some things well, even if massive subsidies are handed to private firms. An official report by the Canada Mortgage and Housing Corporation (CMHC) acknowledges that "the private market, even if operating efficiently, [is] incapable of providing adequate housing at an affordable cost for every Canadian." It is hard to imagine HUD (CMHC's counterpart) making such a statement.

After experimenting with U.S.-style public housing programs in the 1950s and 1960s, Canada's federal government switched to what Canadians call "social housing." Since the mid-1970s smaller-scale, socially mixed housing projects have replaced big government-owned public housing projects. Social housing is developed and owned by the "third sector," comprised of community-based organizations that are neither governmental nor corporate.

Canada, with 25 million inhabitants, subsidizes a slightly greater fraction of its total housing supply than does the United States. There are some 550,000 subsidized rental units in Canada, compared to 4.3 million in the United States. Fairly traditional public housing projects provide about half of Canada's subsidized rental housing, while social housing projects developed over the past 15 years have produced the other half. By U.S. standards, Canada's public housing is very well-managed. While Canada has a few high-rise public housing developments with heavy drug use and related crime problems, it has nothing to match such ugly, crime-ridden, vertical ghettos" as the now-defunct Pruitt-Igoe project in St. Louis, Chicago's Cabrini Green, and Boston's Columbia Point.

For the most part, Canadian public housing projects never acquired a bad image because they were better designed. The early advocates of public housing in Canada managed to ensure that a mean-spirited "warehousing" of poor people at the lowest possible cost never replaced the social objectives of providing decent low-rent accommodation. Nonetheless, Canada switched to third-sector housing in the 1970s for much the same reason that the U.S. moved away from traditional public housing. Large-scale projects, housing only the
Affordable Housing: Lessons from Canada

the 1970s for much the same reason that the U.S. moved away from traditional public housing. Large-scale projects, housing only the very poor, were harming both the residents and surrounding neighborhoods. Smaller-scale projects, developed and managed by local groups, including the residents themselves, seemed preferable for tenants and more acceptable to the communities being asked to accept them.

The United States, in contrast, opted in 1968 to replace its public housing program with incentives, such as tax write-offs, below-market rate mortgages, and rent subsidies, to induce for-profit developers to build housing for the poor. One "incentive" was a loophole that allowed developers after twenty years to gentrify subsidized housing. So while the taxpayer still paid for the project, a private developer built and managed it in exchange for the right to cash in on the land and building value twenty years later. The program thereby guaranteed a rolling depletion of private low-rent housing built at public expense.

This American approach has created a highly unstable low-rent housing stock. At the bottom end, many subsidized units were thinly capitalized and badly managed. Many were abandoned by their owners; one third of the projects in an early HUD rental subsidy program were ultimately foreclosed. At the opposite end of the market, the financially successful units were also at risk of being withdrawn from the supply of affordable housing, as landlords saw opportunities to convert them to market-rental apartments or condominiums. In addition, the allocation of profitable housing subsidy has been chronically vulnerable to political favoritism. Scarce grants often go, not to the best developer, but to the best-connected one.

A Permanent Supply of Housing

Following a national review of housing policy, Canada amended its National Housing Act in 1973 to launch the national nonprofit housing supply program. In addition to financial subsidy, the program provided assistance to help community groups, church organizations, labor unions, and municipal governments become sophisticated housing developers.

For the past decade, Canadian federal housing funds have gone almost exclusively to this strengthened third sector. During the peak funding years in the early 1980s, about 25,000 new units were added annually. Even after several cutbacks by a Conservative government first elected in 1984, about 18,000 social housing units were still being added in 1988 -- about the same number as HUD subsidized that year for a country with ten times Canada's population.

Canadian nonprofit housing is sited in low- and mid-rise structures averaging about fifty units and located in all parts of metropolitan areas, central city as well as suburban. They are carefully integrated into existing neighborhoods, avoiding the stigma frequently associated with low-income projects. Until recent program changes, they were also socially mixed, housing a range of people from the very poor to the middle class.

However, because of the acceptably smaller scale of this housing and Canada's current fiscal austerity, CMHC made a decision in 1986 to target subsidies to the most needy. Third-sector builders and housing activists generally opposed the shift; time will tell whether it was the right choice. The new emphasis does deliver more units to low-income households, but it jeopardizes the goals of social and economic integration.

Canada's third-sector housing includes three types of organizations. The "public nonprofits" are housing companies established by local government. The "private nonprofits" are established by church groups, unions, and community organizations. The most interesting innovation is the third -- the nonprofit, non-equity housing cooperative. Unlike the other two, members of the cooperatives own and manage their projects. Units cannot be sold or even passed on to a friend. When someone moves out, another family from the cooperative's waiting list moves in. Residents take no equity with them after they leave, but there is no escalating entry price to be paid, either. Canada's housing cooperatives are a democratically owned and managed version of subsidized housing.

Since housing costs in cooperatives are based on actual operating expenses, cooperative members have an incentive to run their housing efficiently. A CMHC evaluation of the cooperative housing program found that this self-management feature paid off: operating costs were 14 percent lower than public and private nonprofits and 28 percent below traditional public housing.

***

The important lesson for the U.S. is that local and community-based organizations can create good housing and that this housing can remain as a permanent community asset, never to be sold to speculators or converted to upscale units. Canada's provinces also have strong tenants' rights laws in both private and social housing.

Canada has certainly not solved its housing problems, but it has created the foundation for doing so. The private sector builds all the market housing for people who can afford what the market has to offer; the federal and provincial governments offer a range of additional programs targeted at special needs, such as the native population, rural areas, and the homeless; the third sector provides and manages the social housing stock.

Canadian officials and housing activists from across the political spectrum say that federal and provincial housing funds are spent wisely. They argue over how much more should be spent and how to meet special needs. There has been no taint of scandal, influence-
Affordable Housing: Lessons from Canada

Affordable Housing: Lessons from Canada

A Legacy of Activism

The strong and growing system of nonprofit and cooperative housing organizations is the result of long grassroots activity by Canada's progressive labor movement and political parties, including the left-wing New Democrats, as well as church and student organizations. Now, whatever party is in power, CMHC supports the nonprofit housing sector. That continuity has allowed both government planners and housing builders to learn the rules and develop the capacity to succeed. "You don't get major mood swings in housing programs," says Peter Smith, former president of the Canadian Housing and Renewal Association, the nonprofits' trade group, and the head of a housing agency in Ontario. "You do get subtle changes, but no big surprises." Because of this support, the nonprofit groups do not need to scrounge for funds for either staff or development. They can pay staff well enough so that few see their jobs as mere stepping stones to commercial development firms.

Canada's housing policy is part of its generally progressive approach to social policy. The overall distribution of money income is similar in the two countries. Housing subsidies alone do not account for the comparatively better living conditions of Canada's poor and working-class families. Universal health insurance, good, unemployment benefits, and a variety of family support programs all help to make housing more affordable to lower-income Canadians than to their counterparts in the United States.

The tax treatment of housing also reflects Canada's more progressive approach. Canada does not allow mortgage interest or property tax deductions for homeowners. The United States, on the other hand, gives away over $32 billion annually in homeowner tax subsidies; one third of that amount goes to the 3 percent of taxpayers with incomes over $100,000. Supporters argue that the tax subsidy increases the rate of homeownership. Yet without any such tax benefit Canada has the same homeownership rates as does the United States.

Alternatives for the United States

The Canadian approach offers a convincing alternative to the housing vouchers that HUD Secretary Kemp and other conservatives hold up as the cost-effective approach to America's housing crisis. Vouchers help low-income tenants pay rent in the private market; about one million households already receive them. But in cities with low rental vacancy rates, handing out vouchers is like providing food stamps when the grocery shelves are empty. About half of the voucher recipients now return them unused because apartments are so scarce.

The underlying problem is a widening gap between what Americans can afford and what it costs to build and operate housing. Always a problem for the poor, this is now a growing problem for the middle class. Among people age 25 to 34, the homeownership rate dropped from 53.3 percent in 1980 to 45.1 percent in 1987. In 1973 it took 23 percent of the median income of a young family with children to carry a new mortgage on a typical house. Today it takes over half.

Because so many would-be homeowners have become reluctant renters, demand for apartments has increased dramatically. Rents have reached a two-decade peak, according to a recent report by the Harvard Center for Housing Studies. The poor are now competing with the middle-class for scarce apartments. Two-thirds of all low-income families pay more than half their incomes on rent. Many of America's 33 million poor are only one rent increase, one hospital stay, one lay-off, or other emergency away from becoming homeless.

Since 1980 federal assistance for low-income housing has shrunk from $33 billion a year to under $8 billion. Today, only one-quarter of the poor in the United States (4.3 million households) receive any kind of housing subsidy. While the number of poor families has swollen during the 1980s, the number of low-rent private apartments has plummeted. Swollen waiting lists for subsidized housing and the growing epidemic of homelessness testify to the desperate need for more low-rent housing. The answer is to increase the overall supply. But the government must not only allocate money for that purpose; it must also ensure that the money is well spent.

***

In the United States the nonprofit sector is a marginal, but growing, part of the housing industry. Housing nonprofits have been around since the late 1800s and early 1900s, when settlement houses, labor unions, and wealthy philanthropists built apartment houses and cooperatives for working-class families. In the 1960s and early 1970s, community activists across the country -- particularly inner cities and rural areas -- formed Community Development Corporations (CDCs) to fight the war against poverty and gain "community control." Their efforts were often the only development activities taking place in those communities. The two biggest patrons were the Ford Foundation and the federal government. Between 1972 and 1981 the federal government funded about 100 CDCs to engage in business development, human services, and housing, while a few hundred more CDCs were formed by community activists, churches, and social service agencies.

Page 3 of 5
Community-Based Development found that in 1987 alone 196 foundations made grants totaling almost $68 million to support a program to foster cooperation between church groups and nonprofit community developers. A recent study by the Council for Community Economic Development. Community associations, churches, unions, social services agencies, and tenant groups have all been active in these efforts.

The groups that survived the 1970s faced a new decade with few federal resources and little collective understanding of their own history, accomplishments, and problems. Still, during the 1980s perhaps the only good news in the housing crisis was the growth of many community-based groups. Their number has increased ten-fold to about 2,000 in the past decade, according to a recent survey by the National Congress for Community Economic Development. Community associations, churches, unions, social services agencies, and tenant groups have all been active in these efforts.

With the dismantling of federal housing programs, for-profit developers largely withdrew from low-income housing. To fill the vacuum, nonprofit entrepreneurs have had to patch together resources from local and state governments, private foundations, businesses, and charities. Their overall impact is hard to assess because there is no national support system for nonprofit developers, as in Canada. A recent study of 130 CDCs by Avis Vidal and Bob Komives of the New School for Social Research found that the groups have succeeded against overwhelming odds in building and rehabilitating affordable housing in inner-city neighborhoods. Subsidy funds, the study discovered, went to build housing, not for fancy offices or extravagant consulting fees. Most groups began by fixing up a small building or two. Many are still at that early stage of evolution. But quite a few now have the sophistication to construct multi-million dollar developments.

Private foundations have played a key role in supporting the nonprofit housing sector. A few years ago Boston's United Way began funding community development corporations. The experience was so successful that the United Way of America began to fund similar projects in Houston, Chicago, Rochester, York (Pennsylvania), and Pontiac (Michigan). The Local Initiatives Support Corporation, created by the Ford Foundation in 1979 to channel corporate funds to community development, has helped groups in 26 cities produce more than 17,000 units for low and moderate-income residents.

Developer James Rouse, famous for his new town of Columbia, Maryland, and for urban festival marketplaces in Baltimore, Boston, and New York, has set up the Enterprise Foundation, an organization that has provided financial and technical help to over one hundred low-income groups in 27 communities. The Lilly Endowment, a large Indianapolis-based foundation, recently established a program to foster cooperation between church groups and nonprofit community developers. A recent study by the Council for Community-Based Development found that in 1987 alone 196 foundations made grants totaling almost $68 million to support nonprofit development.

• In Cleveland, Boston, Chicago, San Francisco, Baltimore, Providence, New York, and other cities, business leaders have joined with government officials, foundations, and neighborhood groups to form public-private-community partnerships.
• In New York City's decaying East Brooklyn neighborhood, residents raised over $8 million from their local and national churches to create the Nehemiah Homes, named after the Biblical prophet who rebuilt Jerusalem. More than 1,500 homes, sold to working-class families for under $50,000, have already been built on 35 blocks of vacant land donated by the city.
• In Boston, the Bricklayers and Laborers Unions set up a nonprofit housing group that in three years has already constructed over 200 brick Victorian-style townhouses on city-owned land in three neighborhoods. The unions pressured the bank that holds its pension fund to provide a loan at reduced rates. Families earning an average of $25,000 have purchased the homes for about half their market value, with resale restrictions to prevent the new buyers from reaping windfall profits.
• In Omaha, 58 low-income families are now homeowners thanks to the Holy Name Housing Corporation, a church group that trains and employs neighborhood residents to rehabilitate abandoned buildings for the poor. The group, which has also built a 36-unit apartment building for senior citizens, convinced several local insurance companies to provide low-interest loans to reduce the fix-up costs.
• In Chicago's West Garfield Park neighborhood, Bethel New Life has already completed 400 homes for the poor and has another 400 in the pipeline. These are the area's first new homes in over twenty years. In addition, the church-based group also runs job training and recycling programs, operates a health center, provides home care services for the elderly, and employs over 300 local residents.

Supported by foundations and corporations, the nonprofit groups retain control over the development and management of the housing. Most have low-income community residents on their boards, and many get involved in other neighborhood improvement and organizing projects. Of course, affluent suburbs still resist low-income housing, so most of the nonprofits are located in inner cities and rural areas. But there are exceptions. For example, in affluent Santa Barbara, California, where the average home sold last year for over $275,000, the nonprofit Community Housing Corporation has constructed 462 units, including single-family homes, limited equity cooperatives, and a rooming house hotel, all for low-income families and elderly residents.

***
Affordable Housing: Lessons from Canada

Even with allies in local government, business, and foundations, the bootstrap approach has its limits. Subsidy funds are scarce. The most penny-pinching nonprofit groups acknowledge that the federal government will have to resume a major role if their local successes are to be extended to meet the national housing crisis. The most ambitious program is the National Comprehensive Housing Act, sponsored by Representative Ron Dellums of California, which would direct capital grants to nonprofit groups for construction and rehabilitation and for purchases of existing units. These homes would remain in the "social" sector. Occupants would pay only the operating costs. This bill, drafted by an Institute for Policy Studies task force calls for an annual expenditure of $50 billion, a politically improbable scale. But the general approach is worth taking seriously.

More realistic is the Community Housing Partnership Act drafted by Boston Mayor Raymond Flynn and community housing groups, and sponsored by Senator Frank Lautenberg and Representative Joseph P. Kennedy. Designed to provide federal funds (initially $525 million a year) to help community-based groups build and rehabilitate affordable housing, the legislation has the support of the U.S. Conference of Mayors, the National League of Cities, the National Low-Income Housing Coalition, and dozens of national advocacy groups.

The Canadian experience demonstrates that it takes time to build the capacity of the nonprofit sector. There are no quick fixes. It cannot be done if housing policies zig-zag, preventing the third sector from building up the staff and organization needed to become a real player in the housing business. Compared to the crazy-quilt, jerry-built arrangements in the U.S., Canada has invested in a nonprofit housing system, with clear guidelines, consistent funding, and strong nonprofit builders. In the United States it will take at least a decade to move the nonprofit housing sector from the margins to the mainstream.

The HUD scandal provides an opportunity to rethink housing policy. The third sector approach provides an alternative that should appeal to a Republican administration which celebrates self-help, entrepreneurship, and grassroots initiative. And it should make sense to Democrats who want to show that government programs can serve the needy without getting entangled in wasteful bureaucracy or political favoritism.

Peter Dreier is professor of politics and director of the Urban & Environmental Policy program at Occidental College in Los Angeles, and coauthor of The Next Los Angeles: The Struggle for a Livable City.