The Affordable City

Toward a Third Sector Housing Policy

EDITED BY JOHN EMMEUS DAVIS

In the series
Conflicts in Urban and Regional Development,
edited by John R. Logan and Todd Swanstrom

Temple University Press
Philadelphia
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Social Housing: U.S. Prospect, Canadian Reality

PETER DREIER AND J. DAVID HULCHANSKI

The past decade has witnessed a remarkable emergence of community-based housing organizations in cities, suburbs, and rural areas across the United States. The nonprofit sector, though still a marginal part of the housing industry, is growing, and it has found increasing support from foundations, private industry, and government at all levels.

By contrast, Canada has nurtured a large and thriving nonprofit sector (called social housing) for several decades. In Canada, social housing is a widely used (though imprecise) term encompassing many forms of private, nonmarket housing developed through various governmental subsidy programs. An examination of Canada’s social housing system can offer some policy lessons for the United States.

Comparisons of the United States and Canada

The housing systems of the United States and Canada are similar in many ways. Most housing is constructed by private builders and financed by private lenders. Almost two-thirds of the households in both countries own their own homes, which are mostly detached, single-family houses. During the 1980s, housing prices skyrocketed in the largest urban areas, particularly in Vancouver and Toronto. Middle-class Canadians, like their counterparts to the south, complain that the dream of homeownership is increasingly illusive.
But for poor and working-class residents, housing conditions are considerably better in Canada than in the United States. Canada has no slums to match the physical and social deterioration in U.S. inner cities. Nor are Canada's cities overwhelmed with citizens sleeping in shelters, on the streets, and in subway stations. Of course Canada has homeless people, and many lower-income households have extreme difficulty affording adequate housing, but the magnitude of the problem is dramatically different than in the United States. When large-scale public housing projects were discontinued in both countries in the early 1970s, the policy response was very different. Canada went one way (expanding the social housing sector), while the United States went another (promoting market-oriented solutions).

What accounts for these differences? Put simply, Canada's governments—federal, provincial, and local—have made a commitment to assist people who are not served by the private housing marketplace. They have recognized that the market can do certain things and not others, not even with massive subsidies. Indeed, 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 the U.S. Department of Housing and Urban Development (CMHC's counterpart) making such a statement.

Like the United States and Great Britain, Canada has recently experienced a conservative national regime that sought to reduce the role of government and cut government-sponsored social programs. In the United States and Great Britain, the conservative agenda was to privatize existing subsidized housing and substitute rent supplement (voucher) programs for government-sponsored housing developments. Unlike the Reagan and Thatcher regimes, however, Canada’s Conservative government (led by Prime Minister Brian Mulroney), which took office in 1984, did not seek to privatize existing social housing, although it slashed budgets for new social housing construction. Canada's less draconian response to fiscal restraint was due to the relative strength of progressive political forces and overall public support for social housing programs. The major political difference between the two countries is that Canada has a three-party system and a strong labor movement with a unified national voice, the Canadian Labour Congress, and a political arm, the New Democratic Party (NDP). Since its founding in the 1930s, the NDP, a progressive social democratic party, has always had at least some seats in the national Parliament. In recent decades, it has received 10 to 20 percent of the national vote. Four of the ten provinces have had NDP governments. In the early 1990s, three provinces representing about 55 percent of the country's population—Ontario, British Columbia, and Saskatchewan—elected NDP governments. As a result, Canadian progressives have a stronger voice in the public debate than their U.S. counterparts. To cite one example, Canada's health care program was first advocated by the NDP. The party has also been a strong advocate of social housing.

REASSESSMENT OF PUBLIC HOUSING

Canada's population of 25 million is approximately one-tenth that of the United States. Canada now subsidizes a slightly greater fraction of its total housing supply than does the United States. There are some 550,000 subsidized public and nonprofit rental housing units (including cooperatives). Fairly traditional public housing projects, mainly built during the 1960s and early 1970s, provide about half (205,000 units) of Canada's subsidized rental housing. Social housing agencies (apartment projects owned by nonprofit organizations as well as resident-owned cooperatives) developed over the past sixteen years have produced the other half. Of these, nonequity cooperative housing accounts for 75,000 units. Overall, social housing represents 5.5 percent of Canada's housing stock (see Table 1-1).

The United States has 4.3 million subsidized units, about 4.5 percent of all housing. However, more than half of these units are owned by private, for-profit landlords and none have long-term affordability requirements; they are not social housing in the Canadian sense.

What is known as public housing in Canada and the United States consists of federally subsidized housing owned and managed by public housing authorities. All public housing units are targeted for the poor. Direct government provision of housing was initiated with great reluctance in both Canada and the United States as housing of last resort only for those incapable of meeting their needs in the private market. The program—as well as the housing units themselves—was designed to avoid competing with, let alone replacing, private market provision of housing.

The United States has about 1.3 million public housing units. Built primarily from the late 1940s through the 1970s, they account for 1.4 percent of the nation’s housing stock. The number of public housing units is decreasing due to neglect and demolition.
Table 1.1. Government Support of Rental Housing in Canada and the United States

Market Rental Housing

Private Rental: Privately owned and managed for general population. Often includes various federal tax advantages and mortgage insurance, but no other direct subsidies targeted to lower-income households. Both Canada and the United States have this form of rental housing.

Private Rental with Project-based Subsidies: Privately developed, owned, and managed housing subsidized by the federal government (and some state governments) with rent supplements and below-market mortgages targeted to the development, rather than the occupants. Owners required to rent units to lower-income households for 20 or 40 years, depending on the program (Sec. 8, Sec. 221(d)(3), and Sec. 236). The United States has about 1.9 million units in this inventory; a small portion are owned by nonprofit organizations. Canada has no similar program.

Private Rental with Tenant-based Subsidies: Privately developed, owned, and managed housing subsidized by the federal government (and some state governments) through rent supplements targeted to the occupants, who must meet income guidelines. The subsidy pays the difference between a portion of occupants' income and the market rent. Both Canada and the United States have this program.

Nonmarket Rental Housing

Public Housing: Government-built housing developments managed by a public housing authority with means test criteria and targeted 100% for the poor. Canada has about 205,000 units built during the 1950s and 1960s. The United States has about 1.3 million units built primarily from the late 1940s through the 1970s.

Private Nonprofit: Housing developed, owned, and managed by not-for-profit organizations, sometimes community based, for low- and moderate-income households. Canada has about 170,000 private nonprofit units built between 1965 and the present, all with long-term affordability provisions. The United States has only the Section 202 program (for elderly residents) and the new Community Housing Partnership program, neither of which involves long-term affordability restrictions.

Public Nonprofit: Small-scale housing projects developed, owned, and managed by local government, sometimes with tenants and community members on the boards of directors. Canada has about 100,000 public nonprofit housing units built between 1975 and the present. There is no similar government program in the United States.

Nonequity Cooperatives: A hybrid of ownership and rental housing usually developed by nonprofit, community-based "resource groups" (developers), directly subsidized by government, owned and managed by residents, housing a mix of low- and moderate-income households, with members neither making an investment in the project nor taking out any gains when they leave. Canada has about 75,000 nonequity cooperative housing units, most of them built since the late 1970s. There is no similar government program in the United States.

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Canada’s immediate postwar governments hoped to keep all housing in the private sector. But as the needs of lower-income households became more acute, a small public housing program was introduced in 1949—a decade later than in the United States. By U.S. standards, Canada’s public housing is extremely well managed. While Canada has a few high-rise public housing developments with heavy drug use and related crime, it has nothing to match the ugly, crime-ridden “vertical ghettos”—such as the now defunct Pruitt-Igoe in St. Louis, Boston’s Columbia Point (now privatized and called Harbor Point), or Chicago’s Cabrini Green—that U.S. citizens often associate with public housing.

Canadian public housing projects have not acquired a bad image because they tend to be better designed and are generally on a smaller scale. There are relatively few very large public housing projects. Close to 80 percent of Canada’s projects contain fewer than fifty units. Only 11 percent have one hundred or more units. These are very large developments accounting for roughly half the total number of units. Early advocates of public housing in Canada managed to ensure that a mean-spirited “warehousing” of poor people at the lowest possible cost would not replace the broader social objective of providing decent accommodation.

Canada’s public housing stock is relatively young (the vast majority, 87 percent, of projects are less than twenty years old), and most projects are in good condition. Only 4 percent of the units were built between 1949 and 1964, and many were under construction when the program was terminated in the early 1970s. Half the units exclusively house senior citizens; the other half house families, mainly single mothers and their children. Almost two-thirds of public housing residents are female, a reflection of the preponderance of female-headed households among single-parent families and the greater longevity of women (CMHC, 1990).

By the late 1960s there was widespread dissatisfaction in both countries with public housing and with the urban renewal projects it was usually linked to. Housing professionals and activists sought alternatives. In the United States in the mid-1960s, the federal government created a small program designed to encourage private developers to build low-rent housing by providing mortgage insurance and tax breaks. Further changes were introduced during the Nixon administration by the 1974 Housing Act, which created the Section 8 program that provides private developers and landlords with subsidies for housing the poor.\(^2\)
Faced with its own concerns about public housing, Canada in 1969 initiated a national review of housing policy that led to the cancellation of the public housing program. For much the same reason that the United States moved away from traditional public housing, Canada switched to third sector housing in the 1970s. As in the United States, Canadian public housing was often part of a large urban renewal project composed of large-scale buildings occupied only by the very poor. Small-scale projects, developed and managed by local citizens, including the residents themselves, were viewed as preferable both for consumers and for the communities asked to accept them.

The election of a majority Liberal government in 1968, during a period when urban affairs and housing were high on the public agenda, led to the creation of the Federal Task Force on Housing and Urban Development. Task force members traveled the country collecting the views and advice of citizens and local officials. Its report (Canada, 1969) was highly critical of large-scale public housing projects and the bulldozer approach to urban renewal. Both these programs were ended, and the debate over improved programs continued for several years.

On the brink of adopting major new housing programs in 1972, the Liberal government failed to win a majority of seats in a national election and required support from the NDP in Parliament in order to continue as the governing party. In exchange for its temporary support (i.e., for preventing the fall of the Liberal government in a vote of no confidence), the NDP obtained Liberal backing for parts of its agenda, including a more comprehensive set of housing programs. The 1973 amendments to the National Housing Act introduced public, private, and cooperative versions of nonprofit housing as well as nonprofit housing programs for rural and native peoples. Together, these are now commonly referred to as social housing, meaning that they are socially assisted (receive direct governmental subsidies), that they house people with a broader social and income mix than the previous public housing program, and that they permanently remove privately owned housing from the marketplace ensuring its long-term affordability.

The 1973 act essentially launched Canada’s nonprofit housing supply program. In addition to providing financial subsidy, the program assisted community groups, church organizations, labor unions, and municipal governments to become sophisticated housing developers. For the past de-
Varieties of Social Housing

Canada now has almost twenty years' experience with nonprofit social housing—that is, housing sponsored and managed by nonprofit organizations outside market forces in order to guarantee long-term affordability. Social housing is part of what Canadians call the "third sector," housing which is outside of both the public sector and the private, for-profit sector.

In Canada, not only the national government funds social housing supply programs; over the past decade, about half of the ten provincial governments have created their own programs as well. In 1986, in order to encourage the provinces to become more active in housing, the federal government entered into agreements with each province whereby the province plays a more significant role in implementing federal programs in their jurisdiction. In exchange, the provinces began paying a share (about 25 percent) of the program costs (Benting, 1990).

Canada's social 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 in order to avoid the stigma frequently associated with low-income projects. Until recent changes in federal guidelines, they were also socially mixed, housing a range of people from very poor to middle class.

Social housing programs are designed so that most residents pay about 25 percent to 30 percent of their income for rent. Between 25 and 100 percent of residents in a social housing project pay rent based on their incomes. A formula determines what a household is able to pay; a federal subsidy covers the rest.

A key feature of all of Canada's social housing programs is that both the land and the housing units are permanently removed from the real estate market. Neither can be resold or privatized. All nonprofit housing organizations and housing cooperatives enter into binding agreements tied to their mortgage financing, which guarantee the not-for-profit nature of the housing. These contracts guarantee the perpetual affordability of any privately owned units that have been assisted by the public.

Canada's third sector housing includes three types of nonprofit housing development organizations. The public nonprofits are housing companies established by local government. The private nonprofits are established by church groups, unions, and community organizations. Municipalities that build housing under the federal nonprofit program generally establish separate housing organizations to manage the units. The board of directors is usually appointed by a municipal council and often includes members of the council. Tenants are sometimes appointed to the boards. Private nonprofits are private corporations operated on a not-for-profit basis under the regulations of the federal program. They vary widely, from ethnic or church groups that build only one project for senior citizens associated with their group to highly innovative, community-based organizations that build a number of housing projects and meet a diversity of housing needs.

The most interesting innovation is the nonprofit, nonequity housing cooperative. Unlike the public and private nonprofits, the co-ops have members that actually own and manage their own projects. Units cannot be sold or even passed on to a friend. When someone moves out, another family from the co-op's waiting list moves in. Because residents do not invest in them, they take no equity with them when they leave. Canada's housing co-ops are a democratically owned and managed version of subsidized housing. A majority (70 percent) of Canada's housing cooperatives are managed directly by the residents on a voluntary basis. About 30 percent of the cooperatives, usually the larger ones, retain full-time or part-time paid managers.

Since housing costs in cooperatives are based on actual operating expenses, cooperative members have an incentive to run their housing efficiently. A recent CMHC evaluation of the cooperative housing program found that this self-management feature paid off: operating costs in co-op housing are half what they are in public housing, and 15 percent to 60 percent lower than they are in nonprofit rental housing, depending on the type of project.

Canada's approach to social housing, therefore, provides a full range of options to suit local needs and special needs groups within the population, including (in the case of cooperatives) those who want self-managed housing.

There is an ongoing debate over who has jurisdiction over the nation's social housing (Benting, 1990; Carter and McAfee, 1990; Rose, 1980). As a result of a broader tax base and national pressures to help those in need, the federal government has played the major role in promoting social housing. The provincial governments sometimes initiate their own programs, depending on economic conditions and political pressures. Some municipal and provincial governments actively support social housing as well; others simply accept federal funding without much enthusiasm.

The NDP is a consistent and committed supporter of social housing. NDP provincial governments make affordable housing a general priority
and expand social housing production. In Ontario, for example, 72,000 new nonprofit and co-op housing units were built between 1986 and the early 1990s, the period when the NDP supported a minority Liberal government. In addition, a major provincial initiative aimed at improving rooming houses in Toronto was launched in 1991. A pilot project, which includes funding for social services, is in the process of rehabilitating or building 550 rooming house units.

The Municipal Role

Canadian housing policy and programs have historically originated at the federal and provincial levels of government, not at the municipal level. Like the United States, Canadian municipalities rely primarily on property taxes for funding; consequently, an inadequate tax base has limited the range of municipal activities undertaken on behalf of affordable housing. Municipal governments would occasionally study local housing issues and use their regulatory authority to affect housing supply and maintenance through zoning, building, and safety codes. In general, however, they left the active role in the provision of housing to the private sector and (in the case of subsidized housing) to the provincial and federal levels. Even rent control is a provincial responsibility.

The municipal role began to change in the 1970s (Hulchanski et al., 1990; Carter and McAfee, 1990). Canada’s larger cities grew rapidly, and citizens clamored for affordable housing. They elected reform-minded politicians who supported more direct government involvement in the supply of housing. With the rise of citizen participation in planning, more elected officials and active citizens focused on local housing conditions and sought local solutions.

Several cities provided land for social housing at below-market value, and others offered zoning bonuses to make social housing financing formulas work on expensive land. During the 1970s and 1980s, some cities became sites for large-scale urban redevelopment projects with direct municipal government involvement. In Montreal, Toronto, and Vancouver, to cite only the three largest cities, this proactive approach led to the municipal development of several large, socially mixed neighborhoods. Many municipalities established housing corporations to develop social housing, and established social housing policies, zoning incentives, and property tax exemptions to facilitate the supply of social housing. Toronto, for example, created a municipal nonprofit housing corporation in 1974, with

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a broad mandate that includes research, land acquisition, construction of social housing, purchase and renovation of existing housing, property management, housing policy, and program coordination for the city. It has built and currently manages about seven thousand rental and cooperative housing units and has a development program that produces five hundred to six hundred new units per year. The board of directors that manages this portfolio is drawn from the city council, tenants, and the community at large.

During the 1970s, many Canadian municipalities took an active role in social housing, more often facilitating projects than (like Toronto) actively developing them. By 1981, thirteen of the major metropolitan areas had municipal nonprofit housing corporations (Carter and McAfee, 1990). In some metropolitan areas, regional housing development corporations like the Greater Vancouver Housing Corporation and the Region of Peel Non-Profit Housing Corporation (in Toronto’s suburbs) emerged, primarily to develop or manage nonprofit housing for families. By the 1980s, as Canada’s housing crisis became even more acute, most municipalities had begun to play a significant role in facilitating social housing supply and rehabilitating and maintaining existing affordable rental housing.

Broad Support for Social Housing

The important lesson for the United States is that local and community-based organizations can create good housing and that such housing can remain a permanent community asset, never to be sold to speculators or converted to upscale units. Canada’s provinces also have very strong tenants’ rights laws, in both private and social housing, protecting residents from arbitrary evictions and unfair rent increases.

Canada has not solved its housing problems, but it has created the foundation for doing so. It has demonstrated that public funds can be most efficiently spent to create a permanent stock of affordable housing.

Canadian officials and housing advocates from across the political spectrum acknowledge that federal and provincial funds for social housing are spent wisely. They do not argue over whether to support social housing but over how much more should be spent and how better to meet special needs. There’s been almost no hint of scandal, influence peddling, or political favoritism to detract from the government’s support for the nonprofit sector—nothing comparable to the HUD scandal, for example. In fact, the Canadian federal watchdog, the auditor general, recently lauded CMHC’s
"high performance," its "clear policies," and its "strong sense of mission and purpose, continuity in management and staff, pronounced focus on clients, and open communication."

As a result, public opinion is overwhelmingly positive. In general, the middle class supports social housing programs for the poor and the near-poor. This has meant a continued willingness to put taxpayers' dollars into such housing.

Social housing has come into its own as a major component of Canada's housing industry. The private, for-profit sector builds market housing for people who can afford what the market has to offer; the federal and provincial governments offer a range of housing programs targeted for people with special needs, such as the native population, rural people, and the homeless; the third sector provides and manages the social housing stock.

The strong and growing system of nonprofit and cooperative housing organizations is the result of long and persistent grassroots activity. Organized on the local, provincial, and national levels, Canada's social housing industry is rooted in a progressive labor movement and progressive political parties, including the left-wing New Democratic Party, as well as church and university student organizations, which sponsored several early cooperatives.

The Canadian Housing and Renewal Association is the major trade association for the social housing network. In addition, both the cooperative housing groups and the nonprofit housing organizations have local, provincial, and national organizations. For example, in 1968 a national organization was established, the Cooperative Housing Foundation (now the Cooperative Housing Federation of Canada) as a joint effort by the Canadian Labour Congress, the Cooperative Union of Canada, and the Canadian Union of Students. National, provincial, and local tenants organizations provide political support for social housing programs. So, too, do women's rights organizations and antipoverty groups (such as the Canadian Council on Social Development). As a group, municipalities in Canada, through their national association (the Federation of Canadian Municipalities) are also very strong supporters of social housing.

Among the major parties, only the NDP is a dependable supporter of social housing. The other two parties have to be lobbied and pushed continually. Because of this pressure, however, whatever party is in power, CMHC generally supports the nonprofit housing sector. Canadian housing policy is thus relatively consistent and coherent, and 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," explained Peter Smith, former president of the Canadian Housing and Renewal Association. "You do get subtle changes, but no big surprises."

Because of this continuity, the nonprofit housing groups are relatively stable. Staff members are paid decent salaries, and few see employment in the nonprofit sector as a way station to jobs with for-profit development firms.

THE NONPROFIT SECTOR IN THE UNITED STATES

In the United States, 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 (Birch and Gardner, 1981; Keating, Rasey, and Krumholz, 1990).

In the late 1960s and early 1970s, community activists across the country, particularly in inner cities and rural areas, formed community development corporations (CDCs) to fight the war against poverty and gain "community control." In many cases, their efforts were the only development activities taking place in these communities. Their two biggest patrons were the Ford Foundation and the federal government. Between 1972 and 1981, the federal government funded about one hundred CDCs to engage in business development, human services, and housing; community activists, churches, and social service agencies formed a few hundred more. A few small federal programs—the Community Service Agency's Title VII program, HUD's Neighborhood Self-Help Development Program and Neighborhood Development Demonstration program, and the Comprehensive Employment and Training Act (CETA) job-training program—helped pay part of the CDCs' operating costs. All of these programs were axed by the Reagan administration (Mayer, 1990).

Evaluations of these early nonprofit groups reported modest success in completing development projects. But many were organizationally and financially unprepared to undertake large-scale community economic revitalization. Some projects and some groups fell on hard times and folded. Although the for-profit and nonprofit development groups that participated in the federal government's housing programs during this period had
roughly equal rates of success and failure, the CDCs' mistakes were more visible.

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. Nevertheless, during the 1980s, as federal housing assistance dried up, the number of community-based nonprofit groups engaged in housing mushroomed. According to a recent survey by the National Congress for Community Economic Development, the number of these groups has increased tenfold to about two thousand in the past decade. These groups—with origins in community organizations, churches, unions, social service agencies, and tenant groups—have developed almost 320,000 units of housing and created (or retained) almost 90,000 permanent jobs. Thirty-nine percent of the CDCs in the survey had been in business for less than ten years (NCCED, 1991).

With the dismantling of federal housing programs during the 1980s under the Reagan administration, for-profit developers essentially withdrew from low-income housing development. To try to fill the vacuum, nonprofit entrepreneurs had to patch together resources from local and state governments, private foundations, businesses, and charities. Because nonprofit developers enjoy no national support system like the one in Canada, it is difficult to assess their overall impact on the affordable housing problem. Even so, a recent study by the New School for Social Research found that these nonprofit groups have succeeded against overwhelming odds in building and rehabilitating affordable housing in many inner city neighborhoods. Subsidy funds, the study discovered, went to build housing for people of modest means, 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 multimillion-dollar developments (Mayer, 1990; Vidal, 1992).

Roles of Foundations and Corporations

During the 1980s, private foundations and private business groups played key roles in supporting the nonprofit housing sector.

A study by the Council for Community-based Development found that in 1987, 196 corporations and foundations made grants totaling almost $68 million to support nonprofit development. By 1989, the numbers had grown to 307 funders and $90.1 million. That year, 55 of the nation's 100 largest foundations provided grants for community-based development (CCD, 1991).

Two entities—the Local Initiatives Support Corporation (LISC) and the Enterprise Foundation—have been major catalysts for corporate and foundation support to CDCs. LISC was created by the Ford Foundation in 1979 to channel corporate funds to nonprofits. Since then, it has helped more than 700 CDCs in thirty cities produce more than 29,000 units for low- and moderate-income residents (as well as more than 6 million square feet of commercial and industrial space). Developer James Rouse, famous for his new town of Columbia, Maryland, and for urban festival marketplaces in Baltimore, Boston, and New York, set up the Enterprise Foundation. Since 1982, it has provided financial and technical help to more than 190 CDCs in twenty-eight communities, adding more than 17,000 housing units.

In 1978, in response to the public outcry over the banking industry's redlining practices, Congress created the Neighborhood Reinvestment Corporation, chartered to set up local coalitions called neighborhood housing services (NHHs) of banks, local governments, and neighborhood residents to improve housing conditions in urban neighborhoods. Neighborhood Reinvestment Corporation groups have built or repaired nearly 100,000 housing units through 304 NHS chapters in 145 cities, many of which serve as nonprofit development organizations.

In the late 1980s, Boston's United Way began funding CDCs and was so successful that the United Way of America began to fund similar projects in Houston, Chicago, Rochester, York (Pennsylvania) and Pontiac (Michigan). The Lilly Endowment, a large Indianapolis-based foundation, recently established a program to foster cooperation between church groups and nonprofit community developers.

There are other national and regional networks of nonprofit housing organizations. The Georgia-based Habitat for Humanity has a network of local groups with roots in Protestant churches. The McAuley Institute provides technical support to local housing groups affiliated with the Catholic church. The Development Training Institute in Baltimore, Community Builders in Boston, Community Economics in Oakland, California, the Chicago Rehab Network, and the Institute for Community Economics in Springfield, Massachusetts, are five of a growing number of organizations that provide technical assistance to help nonprofit groups improve their management and development capacities.
Municipal Governments and Public-Private Partnerships

As in Canada, the housing crisis of the 1980s, exacerbated by federal cutbacks, put more pressure on municipal governments to address local housing problems. Prior to the 1980s, most large and middle-size cities in the United States ran public housing authorities and regulated housing through zoning and building codes; a few cities adopted laws to protect renters from skyrocketing rents and arbitrary evictions. In terms of developing low-income housing, however, cities generally served solely as conduits for federal funds. During the 1980s, cities took increasing initiative to help expand low-cost housing. In addition to targeting more of their shrinking federal Community Development Block Grant (CDBG) funds to housing, they also donated land; they eased zoning, building code, and fee requirements; they fast-tracked approvals; they provided tax abatements; and they created off-budget housing trust funds from special assessments.

As part of this more proactive approach to housing and community development, a growing number of local governments have provided support to the nonprofit housing sector. Rather than undertake development themselves, most cities have used community-based nonprofit groups as vehicles for housing development and rehabilitation (Nenno, 1986).

Boston is one of several cities that has played a major role in expanding the capacity of this sector. Under Mayor Raymond Flynn, Boston has targeted city funds (including “linkage,” CDBG, and HOME funds) and the disposition of city-owned buildings and land directly to about thirty CDCs and other nonprofit developers. Together, they account for more than three-quarters of the subsidized housing created during Flynn’s first two terms (1984–1992). In one precedent-setting example, Boston even delegated its authority to seize property by eminent domain to a community group (the Dudley Street Neighborhood Initiative) to assist the group in assembling property for development and neighborhood revitalization in Roxbury. Boston also adopted a “linked deposit” policy to allocate public funds to banks that participate in affordable housing programs with local nonprofit organizations (Dreier and Keating, 1990).

New York City has helped create an impressive array of nonprofit groups to rehabilitate city-owned properties into cooperatives and low-rent apartments. The massive Battery Park City commercial development generated $400 million in funds that the city targeted for affordable housing, most of it sponsored by nonprofits. Oakland, California, used several million dol-

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lars from its City Center Development Fund to leverage financing for more than one thousand low-income housing units. San Francisco, like Boston, adopted a linkage program, imposing a tax on commercial projects to fund low-income housing sponsored by nonprofit agencies. Burlington, Vermont, created a citywide community land trust to buy land and buildings, hold the land in trust, and sell the buildings to low- and moderate-income families under affordability controls that last forever.

In Cleveland, Boston, Chicago, San Francisco, Baltimore, Providence, Pittsburgh, New York, Minneapolis, and other cities, business leaders have joined with government officials, foundations, and neighborhood groups to form public-private-community partnerships. Typically, these partnerships serve as umbrella organizations to raise operating funds for CDCs, offer financing for housing projects, streamline approvals, and expand the capacity of nonprofits to undertake large-scale development (Suchman, 1990).

Since 1985, for example, the Boston Housing Partnership has helped neighborhood-based CDCs rehabilitate more than two thousand units of low-rent housing and has recently embarked on a program to help CDCs create limited equity cooperative housing. Businesses participate in CDC-developed housing by providing charitable support to CDCs, by making equity investments in projects (primarily through the federal low-income housing tax credit), and by making loans (on favorable terms) to housing development projects and homebuyers.

The explosion of nonprofit developers represents a real backyard revolution. For example:

- In New York City’s decaying East Brooklyn neighborhood, residents raised more than $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 each, have already been built on thirty-five 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 more than two hundred Victorian-stylebrick townhouses on city-owned land in three neighborhoods. The unions pressured the bank that holds their 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 under resale restrictions that prevent them from getting windfall profits.
- In Omaha, fifty-eight 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 and sells them to the poor. The group, which has also built a thirty-six-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 four hundred homes for the poor and has another four hundred in the pipeline. These are the area's first new homes in more than twenty years. In addition to its housing efforts, the church-based group also runs job-training and recycling programs, operates a health center, provides home care services for the elderly, and employs more than three hundred local residents. Bethel New Life also organizes neighborhoods to get parks improved and streets repaired and to obtain other services.

Because affluent suburbs still resist low-income housing, most nonprofit housing developers are located in inner cities and rural areas. But there are exceptions. For example, in the wealthy community of Santa Barbara, California, where the average home in 1989 sold for more than $275,000, the nonprofit Community Housing Corporation has constructed 462 units—including single-family homes, limited equity cooperatives, and a rooming house hotel—for low-income families and elderly residents.

By now, most state governments have made some effort to support nonprofit housing developers. Some provide funds for technical assistance to help groups improve their capacity to build, own, and manage housing. Some set aside a portion of their housing development budgets specifically for nonprofit organizations. During the Dukakis administration, Massachusetts had perhaps the most expansive state program in the United States assisting nonprofit housing developers (Bishop, 1991; Nenno, 1986).

**Dilemmas and Obstacles**

Even with these allies in local and state government, business, and foundations, however, the nation's nonprofit housing sector faces at least five serious dilemmas and obstacles to moving from the margins to the mainstream.

First, the nonprofit sector is composed mainly of relatively small organizations whose size limits their ability to achieve economies of scale in terms of development, staffing, management, and overall community impact. Of the 1,160 groups responding to the NCCED survey, only 421 had produced one hundred or more housing units. This represented a significant increase from the 244 groups with that production level only two years earlier, but it reveals that most CDCs are still small-scale operations.

The small size of most CDCs is exacerbated by the complexities of their task, especially under adverse funding conditions. The patchwork of funding sources makes the development of affordable housing extremely complex. To create a twenty-five-unit housing development, for example, a CDC may need to obtain subsidies and grants from ten different sources—corporations, foundations, governments. The various funding programs have different, in fact, often conflicting, deadlines, timetables, and guidelines. As a result, CDC staffpersons often spend more time "grant-grubbing" than developing and managing housing. The legal and financial complexities also require CDCs to engage the services of many lawyers and consultants, adding to the cost and time for getting housing projects underway.

Second, it is difficult to recruit and retain skilled staffpersons within this sector. Most nonprofit housing development groups live from year to year and project to project because they do not have steady, predictable streams of operating funds. Many staffpersons joined the nonprofit world as part of a larger social change agenda, not to get rich. But the frustrations, relative low pay, and insecurity of working in the nonprofit sector leads to a high rate of staff burnout and turnover.

Because most CDCs have few staffpersons, the organizations have little room for upward mobility. And because the nation's nonprofit sector is relatively small and fragmented, it has no clear career path. Some go to work for groups like LISC or Enterprise or for technical assistance groups. In cities that support the nonprofit sector, such as Boston, Chicago, and Baltimore, there is often a "revolving door" between the CDCs and government agencies (which typically offer higher salaries and, in some cases, more job security).

Many CDC staffs came out of the protest and neighborhood movements of the past few decades. Some studied planning and real estate development in college or graduate school, but most learned the highly technical skills required to do development "on the job." Groups such as LISC, Enterprise, the Neighborhood Reinvestment Corporation, the De-
development Training Institute, and others offer one-day or week-long training programs for CDC staff. But the CDC “industry” has yet to develop a coherent professional training program.

Third, the small scale of individual CDC organizations, the scarcity and unpredictability of operating and development funds, along with the minimlist planning and development efforts of most municipal governments undermine the capacity of CDCs to revitalize entire neighborhoods. CDCs typically work on an incremental, project-by-project basis. In some cases, these efforts fit into a larger overall vision that guides the organization. Some CDCs engage in comprehensive neighborhood planning efforts on their own or in tandem with local government agencies. But even for groups with the resources and skills to undertake these planning efforts, the plans are often unrealized because the resources to implement them are not available. Thus, CDC projects are often isolated efforts within the larger canvas of neighborhood decay.

Fourth, CDCs act as owners and managers of rental and cooperative housing; some establish small business enterprises as well. This means that, despite their social reform mindset, CDCs are also landlords and employers, placing them in a potentially adversarial relationship with their tenants and employees.

The CDC-as-landlord dilemma is particularly troublesome because of the crime, drugs, single parenthood, and related issues that tend to plague the very poor communities in which most CDC projects are located. Some CDCs have developed mixed-income housing, but such projects are difficult to support because it is difficult to attract middle-class residents to troubled neighborhoods. Further, the funding sources for most subsidized housing projects (such as the federal Low Income Housing Tax Credit program) typically require the assisted housing to serve only (or predominantly) the very poor.

As more and more CDCs face the realities of becoming landlords and managers, they are recognizing that they have to deal with human issues as well as with bricks-and-mortar issues. Moreover, most CDCs realize that the problems facing tenants are larger than a well-managed building alone can solve. CDC-sponsored buildings—whether rental, co-op, or ownership—cannot succeed as islands of good management in a sea of neighborhood problems.

A growing number of CDCs have sought to develop job-training, counseling, recreational, child care, and even tenant-organizing and neighborhood crime watch programs to address the social and economic needs of residents. The Resident Resource Initiative of the Boston Housing Partnership, for example, provides funds for CDCs to hire organizers, social workers, and other advocates to assist residents. However, few CDCs have the resources to engage in these efforts. The tight operating budgets for low-income housing rarely provide for adequate security, much less this host of other concerns.

Fifth, and finally, the nonprofit sector is caught in an inherent tension regarding the role of CDCs as community-based housing organizations. For the most part, these groups define themselves as developers, focusing on the bricks-and-mortar issues of building housing. The day-to-day task of accomplishing this goal is overwhelming. But most of these groups also affirm their mission to revitalize and empower neighborhoods. That task requires mobilizing community residents, often around controversial issues and against powerful foes—banks, corporations, politicians, and others. Since most CDCs must rely for funding and support on the very institutions that community residents rebel against, they find themselves in a difficult position. They must challenge banks for engaging in redlining; politicians for ignoring the needs of low-income neighborhoods; private firms for discriminatory hiring practices, polluting neighborhood environments, or paying poverty-level wages; or charities (such as the United Way) whose spending priorities may favor the well-to-do (Hadrian, 1988).

With some notable exceptions, the corporations, foundations, governments, and other groups (such as LISC and Enterprise) that provide support to CDCs favor a development agenda over an organizing or mobilizing agenda. Few CDCs can afford to devote much time, resources, or thinking to advocacy.

Some groups, however, do engage in both development and organizing. For example, the Industrial Areas Foundation works with a network of community organizations—such as East Brooklyn Churches in New York City and BUILD in Baltimore—that are involved in Alinsky-style direct action organizing and also develop affordable housing as part of their neighborhood improvement efforts. In Lowell, Massachusetts, the Coalition for a Better Acre recognizes the complementarity of community development and community organizing.

These dilemmas and obstacles are ultimately rooted in the severe shortage of public and private funding for affordable housing. The bootstrap approach has serious limitations. Subsidy funds required to fill the gap between what poor and working-class families can afford and what housing costs to build and operate are scarce. The combined resources provided by
all these public and private sources are woefully inadequate to meet the housing needs of most poor and working-class Americans.

**Fragmentation and Voluntarism**

The fragmented nature of the nonprofit sector has made it difficult to develop the kind of organizational coherence and political support that is found in Canada. Even in the relatively small world of the nonprofit housing sector, there is considerable competition between various national and regional networks over who can “speak for” the movement.

In most cities and states, CDCs and other nonprofit housing groups have no organized voice. There are a few exceptions, however. In New York City, the Association for Neighborhood and Housing Development serves as the trade association for about fifty nonprofit housing organizations. In Massachusetts, New Jersey, California, and elsewhere, CDCs and other nonprofits have formed trade associations to lobby state governments, lenders, and foundations to increase support for the nonprofit sector as well as to provide technical training for members. In some cities and states, they are also part of broader housing coalitions working on legislative issues.

At the national level, the National Congress for Community Economic Development serves as the CDCs’ trade association in Washington. LISC, Enterprise, and Neighborhood Reinvestment Corporation also claim much of the same turf. Such competition is typical within social movements and within business sectors, particularly when participants envision a growing pie. In the case of the nonprofit housing sector, some might argue that competition is evidence of an explosion of community organizations and opportunities and that such tensions are healthy. At the same time, turf competition makes it more difficult for the nonprofit sector to mobilize its constituency around a common political agenda and strategy for expanding the resources devoted to low-income housing.

Despite the new emphasis on voluntarism, America’s families should not have to depend on corporate or foundation largesse to produce affordable housing. Even the most penny-pinching nonprofit groups acknowledge that the federal government will have to resume a major role if their local success stories are to be repeated on a broad enough scale to relieve the national housing crisis. The growing fiscal crisis of cities and states makes it increasingly difficult to squeeze housing resources out of mayors and city councils, governors and state legislatures. Most states are cutting their housing budgets. It is only at the federal level that enough resources exist to solve the housing crisis. This makes it more imperative than ever for nonprofit housing organizations to work together to change federal housing policy.

**Legislative Victories**

During the 1980s, the nonprofit sector was relatively impotent in mobilizing political pressure to expand federal housing funds. But some groundwork was laid, so that in the early 1990s, the nonprofit sector won three small but important legislative victories in Congress. These include:

**Community Housing Partnerships.** In 1987, at the request of Boston Mayor Ray Flynn, Representative Joseph Kennedy (Democrat of Massachusetts) sponsored legislation, the Community Housing Partnership Act, to provide federal funding specifically to help community-based nonprofit groups build and rehabilitate affordable housing for families. A variety of organizations—including the U.S. Conference of Mayors, the National Low-Income Housing Coalition, and the nonprofit sector’s various networks (LISC, Enterprise, NCCED)—lobbied on behalf of this legislation.

That same year, developer James Rouse (head of the Enterprise Foundation) and David O. Maxwell (chairman of Fannie Mae) convened a National Housing Task Force at the request of Senator Alan Cranston (co-chair of the Senate Committee on Banking, Housing, and Urban Affairs). Composed of a prestigious panel of housing experts, the group issued a report, *A Decent Place to Live*, in March 1988 calling for an increased federal commitment to low-income housing and a specific set-aside for the nonprofit sector.

The Rouse-Maxwell report’s recommendations were eventually translated into legislation, the National Affordable Housing Act, that was enacted by Congress in October 1990. This legislation included a new program, HOME, that directed new funds to state and local governments for affordable housing. Representative Kennedy’s proposal, Community Housing Partnerships, was folded into the HOME program; it requires that a minimum of 15 percent of HOME funds be allocated to community-based nonprofit organizations.

**Low Income Housing Tax Credit.** In 1990, 1991, and 1993, the nonprofit sector also successfully mobilized support to extend the federal Low In-
come Tax Credit, a program that many CDCs use to get private investment in their housing projects. The tax credit is a limited tool; its complexity requires an army of lawyers, and its low-income requirements extend only fifteen years. But groups such as LISC and the Enterprise Foundation have successfully marketed it to major corporations, which derive both profits and high-profile “social responsibility” credit from investing in affordable housing.

Community Reinvestment Act. The nonprofit sector also successfully lobbied Congress in 1990 and 1991 to strengthen the Community Reinvestment Act (CRA), the antiredlining law that gives community groups and local government leverage to pressure banks to invest in inner cities. Under pressure from community activists, many banks have sought to demonstrate their commitment to the goals of the CRA by initiating or expanding support for CDC-sponsored developments. In 1991, out of these battles over the CRA, LISC and the Enterprise Foundation—along with activist groups such as ACORN and the Center for Community Change—formed a new Community Reinvestment Coalition that is funded by several large national foundations. The coalition will help to coordinate the work of the nonprofit sector and other housing advocacy groups around CRA-related issues.

All three legislative victories are important steps. But Congress has not restored housing even to the level of federal assistance of the pre-Reagan years. In 1981, the U.S. housing budget was $33 billion. By 1989, it had fallen to $9 billion. In 1992, it had increased only slightly, to about $11 billion. Federal housing policy continues to be both inadequate and distorted. Today, according to HUD, only 29 percent of eligible low-income renter households—4.07 million out of 13.81 million—receive any kind of federal housing subsidy (Casey, 1992). Even fewer low-income homeowners receive any subsidy.

In contrast, most affluent Americans—many living in mansions—get housing aid from Washington through the regressive homeowner income tax deduction. This tax expenditure cost the federal government more than $47 billion in 1991 alone. About one-third of this subsidy goes to the 3.8 percent of taxpayers with incomes above $100,000, and about 12 percent goes to the wealthiest 1 percent of taxpayers with incomes above $200,000. More than half of these tax breaks (51.6 percent) go to the 8 percent of taxpayers with annual incomes above $75,000. Yet half of all homeowners do not claim deductions at all. Tenants, of course, don’t even qualify (Dreier and Atlas, 1992).

The closest thing to a Canadian-style social housing program is legislation sponsored by Representative Ron Dellums of California called the National Comprehensive Housing Act. This bill, drafted by an Institute for Policy Studies task force, calls for an annual expenditure of $50 billion (IPS, 1989). The federal government would make direct capital grants to nonprofit groups to build and rehabilitate affordable housing, as well as to purchase existing privately owned housing for transfer to nonprofits. These homes would remain in the “social” sector, never again to be burdened with debt. Occupants would pay only the operating costs, which would be dramatically lower than what poor and working-class families currently pay for housing. The Dellums bill is clearly a visionary program but not a winnable one in the current political climate.

A Constituency for Affordable Housing?

Currently, America’s housing advocacy movement—and the nonprofit housing sector within it—lacks the political support to significantly reorder the nation’s misguided housing priorities. The hard truth is that housing is still a marginal issue in American politics. It was not a major issue in the 1992 presidential campaign, and it is not a “win or lose” issue in congressional campaigns. When journalists write about key domestic issues, they include health care, child care, education, and usually crime and the environment, but rarely affordable housing.

Part of the housing advocacy movement’s difficulty is that the current political climate is hostile to activist government. The conservative agenda—deregulation, privatization, reduced social programs, opposition to taxes, overt and subtle appeals to racism—has dominated the public debate. Federal housing programs are caught in the cross fire. Much of the public is convinced that government in general—and government housing programs, in particular—doesn’t work. To most citizens, government housing programs mean publicly owned or publicly subsidized projects in poor repair. In fact, public housing is often used as a metaphor for the failure of activist government. The most recent HUD scandal fed this skepticism. Most people believe that low-income housing programs reward some combination of government bureaucrats, politically connected developers, and people who engage in antisocial or self-destructive behavior.

The housing advocacy movement has, for the most part, been unable to put forward an alternative vision with broad appeal. It has yet to find a way to frame the issue so that it appeals to middle-class people and sub-
urbanities. Community-based nonprofit housing has the potential to remedy this situation. It is an alternative to "government housing" that plays into conservative themes of self-help, voluntarism, and entrepreneurship. For example, a New York Times story of March 8, 1992, about an Enterprise Foundation-assisted project in Brooklyn carries the headline: "How to Build Low-Cost Housing the Private Way." But whether this approach will succeed is still not clear because ultimately even the nonprofit sector requires more government money to succeed.

Politically, the constituencies engaged in the housing issue are extremely narrow. The coalitions that promoted government-assisted housing from the 1940s through the 1970s—builders, mortgage bankers, unions, and housing activists—fell apart in the 1980s. During the past few years, there has been some effort to broaden the housing constituency, but it has been only marginally successful.

Some sectors of the business community have begun to recognize the importance of the housing problem in terms of the nation's business climate (Dreier, Schwartz, and Greiner, 1988). As with health care and child care, high costs in housing are increasingly becoming a barrier to business profits. If the American workforce is to be competitive in an increasingly global economy, some argue, individual employers cannot be burdened with subsidizing housing, health care, child care, and other living costs. The success of some of America's competitors is due, in part, to the role their governments play in subsidizing these costs. In recent years, a growing segment of the American business community has become sympathetic to some version of government-sponsored universal health care and child care. Housing may be the next item on this agenda.

A few unions are beginning to focus more seriously on affordable housing. For the building trades unions, the reason is obvious: the poor housing industry is causing high unemployment among building trades members. More housing means more jobs and a jump-start for economic recovery. Nevertheless, this recognition has not yet galvanized the Building Trades Council, much less the AFL-CIO, to focus attention on a national housing policy as it has, for example, on national health care.

Other activist constituencies—women's groups, seniors, civil rights organizations, and environmentalists—also have a stake in the housing struggle. Among environmentalists, there is a natural alliance around such issues as lead paint. Women's groups rally around the feminization of homelessness and the importance of linking subsidized housing with human services. Civil rights groups respond to the persistence of redlining and

housing discrimination. All may eventually find common cause with the hundreds of nonprofit developers that have been struggling for over a decade not only to provide affordable housing, but to make the issue of affordable housing a higher priority of United States policy.

Conclusion

What housing lessons can the United States learn from Canada? 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 zigzag, making it impossible to build up the staffing and organizational infrastructure needed to make the nonprofit sector a real player in the housing business. Canada has spent almost thirty years developing and investing in a nonprofit housing system with clear guidelines, dependable funding, and strong (often community-based) nonprofit developers and managers. In the United States, it will take at least a decade to move the country's nonprofit housing sector from the margins to the mainstream. But Canada shows that the incubation process pays off down the road.

Canadians have recognized that for a social housing program to be successful, nonprofit production is not enough. It must also be accompanied by social ownership that provides for long-term affordability and keeps the housing in the social sector.

Both the U.S. and the Canadian experience shows that there are no cheap or easy solutions to the housing problem. Housing is expensive. There is no way around this fact. No magic formula is going to lead to low-cost provision of high quality housing for lower-income people. Good, affordable housing for everyone, just like good, affordable, universal health care, is fundamental to human well-being. The commitment of society—through government spending—is necessary.

More broadly, Canadians still believe that government can help solve social and economic problems—and they are more willing than their U.S. counterparts to pay taxes to make government work. Canada's third sector housing movement, moreover, is part of a strong progressive movement (including community-based organizations, churches, and labor unions) supporting candidates and policies that address the needs of working-class and middle-class populations. Further, because Canada's social programs are broad based, they are not stigmatized as targeted solely to the poor. In the United States, the view that subsidized housing is a welfare program
primarily serving inner-city minorities undermines its support among the economically pinched white middle class. Canada has its share of racial and ethnic hostility, but these tensions have not become an excuse to dismantle government social programs.

Canada’s housing policy is part of its overall progressive approach to social policy. The distribution of income is similar in the two countries. As in the United States, about one-seventh of the Canadian population is poor. Housing subsidies do not alone account for the comparatively better living conditions of Canada’s poor and working-class families. A universal health insurance program, a good unemployment insurance program, and a variety of family support programs play roles in creating a relatively better housing and urban quality of life for Canadians than for Americans (Hanratty and Blank, 1992).

This progressive approach is also reflected in the tax system. Canada does not allow mortgage interest or property tax deductions for homeowners. In the late 1970s, when inflation and interest rates were very high, a proposal to introduce such a tax deduction for Canadian homeowners was defeated and is no longer seriously discussed because of its inequity and its potential impact on the federal deficit. Even though Canadians do not enjoy this tax benefit, the homeownership rates in the United States and Canada are virtually identical.

A major reason why Canada can afford strong housing and other social programs is that only a very small portion of the federal budget goes for defense. Housing advocates in the United States hope that the collapse of communism and changes in their country’s competitive position in the world economy will result in a “peace dividend”—cuts in the bloated Pentagon budget—that can translate into expanded budgets for affordable housing and other social needs. Some members of Congress are likely to view defense cuts as an opportunity to reduce the budget deficit rather than to address the domestic agenda. But the Clinton administration and the present Congress have pledged to address domestic concerns. To do this will require a major shift from military to civilian spending.

As America’s housing crisis deepens, it could become an explosive political issue. Policymakers will be looking for new approaches and solutions.

The recent HUD scandal provides an opportunity to rethink how housing is delivered for the many U.S. citizens who are not well served by the marketplace. Clearly, the nation must spend much more on housing if it is to address the growing housing needs of its people. But even if Congress were willing to find the funds—by cutting defense spending or raising taxes on the wealthy and big business—it would be difficult to convince the public that its money had been well spent if it wound up lining the pockets of politically connected builders.

The nonprofit approach provides an alternative. It should appeal to Republicans who emphasize 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. Canada has demonstrated that social housing can work on a major scale. The United States should learn this lesson from its neighbor to the north.

APPENDIX: COST CONSIDERATIONS IN CANADA’S SOCIAL HOUSING PROGRAM

In 1986, in order to encourage the provinces to become more active in housing, the federal government entered into agreements with each province whereby the province plays a more significant role in implementing federal social housing programs in its jurisdiction. In exchange, the provinces began paying a share (about 25 percent) of the program costs (Banting, 1990). Prior to that time, the federal government financed the full subsidy cost of the nonprofit program.

Attempts by political conservatives and the real estate lobby to replace Canada’s social housing supply programs with a U.S.-style private rent supplement or voucher approach to housing subsidies have been vigorous at times. Canada has a small private rent supplement program, which dates back to 1970. Over the past decade new commitments have averaged about 1,500 units per year, mainly to address special situations in different regions of the country (CMHC, 1992b). Instead of any conclusive evidence about the comparative long-term cost-effectiveness of the options—analysis that is very difficult to carry out in a convincing and conclusive fashion—commonsense arguments have, in the end, carried a great deal of weight in the public debate.

The Ontario Government’s Ministry of Housing recently examined the average per unit subsidy costs for its huge public housing portfolio (about 84,000 units), for its private sector rent supplement program (20,000 units), and for the monthly subsidy cost of the new nonprofit housing units it is providing this year (with a total of 117,000 nonprofit housing units in the province). These figures do not offer any conclusive proof in the debate
between the cash transfer approach (rent supplements and/or vouchers) versus the in-kind transfers approach (social housing supply), but they do shed light on the issue of long-term versus short-term cost-effectiveness of each approach. The 1992–93 subsidy costs for public housing, which includes both the federal and provincial share of the subsidies, is under $300 Cdn. per unit, which includes the average capital costs per unit of a large-scale repair to the portfolio. These costs are less than the $400 to $500 per unit average for the private sector rent supplement units. The average monthly subsidy cost of the new nonprofit housing units is about $950 per month (Housing Policy Branch, Ontario Ministry of Housing, Toronto, Jan. 1993).

As in the case of homeownership, however, the monthly costs of the nonprofit housing units are the highest in the initial years. These costs decline over time. Like the public housing units, nonprofit units will eventually have a relatively low per-month subsidy cost. The nonprofit housing program, therefore, even with its higher initial costs, is eventually much more cost effective than the rent supplement program. This cost comparison data for the public sector only confirms what many people know at a personal level: owning a home is cheaper than renting over the long term. This conclusion was verified recently in a study carried out for the Canadian Home Builders’ Association:

In general, owners’ shelter costs are greater than renters’ for several years following the purchase of a home. However, over time, rents rise with inflation while the main component of owners’ shelter costs (the mortgage payment) stays relatively constant (except when interest rates rise). As a consequence, over the long-term, owners’ shelter costs are significantly lower than renters’. This is particularly true once the mortgage is repaid. (Clayton Research Associates, 1992: 1)

The analogous choice in the housing subsidy cost effectiveness debate is between owning (public or nonprofit housing options) versus renting (rent supplement or housing voucher options).

Until the third major revision in the government’s social housing funding formula, co-ops and other nonprofits had a similar funding formula. In 1986 the federal government and the cooperative housing movement agreed to experiment with a new mortgage instrument for co-ops, substituting the index-linked mortgage (ILM) for the equal payment mortgage (EPM). Interest rates on index-linked mortgages are based on a fixed “real” rate of return, the rate of return the lender wants after inflation, plus a variable rate that is adjusted according to inflation. Therefore no provision has to be built into the rate of interest to take account of inflation risk, as there is in equal payment mortgages. This makes the initial payments of ILMs much more affordable to potential borrowers. To maintain the “real” rate of return that the lender wants, the interest rate is adjusted periodically according to the rate of inflation over the previous year (CMHC, 1986). After five years the federal evaluation of the new mortgage instrument found that lower than real interest rates for comparable investments were realized by the ILM, making it “a more cost effective mortgage instrument than the EPM,” resulting in savings that helped make the latest funding formula “a more cost effective way to deliver cooperative housing” than the previous formula (CMHC, 1992a: 329–330).

NOTES

1. We use the word “subsidized” to describe housing that receives direct government grants, loans, or insurance that lower the cost of that housing to below-market levels. We do not include housing whose owners receive tax breaks like mortgage interest deductions or accelerated depreciation and whose owners are not required to target that housing to lower-income residents.

2. The United States opted in the 1960s and 1970s to replace its public housing program with incentives such as tax write-offs, discount mortgages, and rent subsidies to induce for-profit developers to build housing for the poor. One such incentive was an escape clause that required developers to keep rents targeted for the poor for only twenty years. The public housing supply program was, in essence, privatized. The taxpayer still paid for the project, but a private developer built and managed it in exchange for owning it and being able 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-rate rental apartments or condominiums, particularly in the hot 1980s housing market. Congress intervened in 1990 to restrict the landlords’ options, but at the extremely costly price of providing further bribes to prevent them from withdrawing from the government subsidy program. In addition, the allocation of profitable housing subsidies has been chronically vulnerable to political favoritism. Scarcie grants often went not to
the best developers but to the best-connected ones. The recent corruption scandal at HUD was popularly reported as a story of how Reagan administration officials steered scarce subsidies to political insiders. 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.

3. During the early 1980s, CMHC sought to develop an improved method of determining housing need. What is now called the Core Housing Need Model is an indicator of total housing need combining measures of housing adequacy, suitability, and affordability. It is based on data collected every two years from a specially designed Shelter Cost Survey carried out for CMHC by Statistics Canada, a government agency (CMHC, 1991). Similarly, the Bush administration sought to undermine support for subsidized housing by targeting assistance exclusively to the poorest of the poor. For a discussion of targeting in the United States, see Nelson and Khadduri (1992) and the comments by Stegman (1992) and Cavanaugh (1992).

4. Indeed, there appears to be an emerging conflict between CDCs and unions. This controversy has been simmering for several years. It boiled over in a New York Times story (February 24, 1992) about a union picket of a single-room-occupancy project in Times Square sponsored by a nonprofit group (Common Group, Inc.) with funding from the City of New York. The issue was whether the contractor was nonunion. Nationwide, in the current recession, with very little new construction on large-scale projects, the building trades unions have begun to focus on smaller-scale projects, including housing. With the costs of financing, land, and materials relatively fixed—and limited subsidies for tight budget housing projects—many nonprofit groups look to save money on “labor costs.” This puts them in direct conflict with unions, which fought hard over the years to raise the working conditions and wages of their members. This is not a problem in Canada, where the labor movement is strongly supportive of social housing programs and where unions and social housing developers are allies within the NDP. As a result, most social housing projects use union workers.

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