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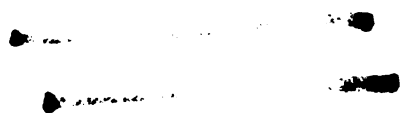
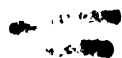
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FEDERAL HOUSING POLICIES, SUBSIDIZED PRODUCTION,
FILTRATION AND HOUSING POLICY OBJECTIVES

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I

Introduction

Over the two years 1970-1971 the level of federally subsidized new housing production--the Nation's latest growth industry--has reached and exceeded a level of 500,000 units annually. Simultaneously, with an achievement that nearly doubled the quantity of subsidized housing produced in the first 35 years (1934-68) of federal aid/ there has grown a host of questions about the costs and effectiveness of this output in meeting the Nation's housing goal of a "decent home and suitable living environment for every American family." The breadth and depth of these expressed concerns creates fundamental issues about Federal housing policies.

Between April 1950 and April 1970, some 96 percent of the Nation's total housing production was provided by the private sector. Substantial improvement in the Nation's housing status was recorded during this period even though only a small proportion of total production was oriented toward the housing needy. This leads to basic questions that will be considered in this paper. How great was the housing progress recorded during the 1950-1970 period? To what was this progress attributable? To what extent did housing filtration successfully operate to improve the Nation's housing status?

A second article will consider the effects of housing turnover generated through new construction and through other means. Another question is whether the "housing shortage" implicit in the production goals of the Housing Act of 1968 constitutes a major problem or can the housing problem be more precisely defined. Finally, are there alternative policies that should be considered to realize the Nation's housing objectives more efficiently?

Development of Federal Housing Policies

The history of Federal influence upon housing policy in the United States conceptually may be divided into three periods--1934 to 1961; 1961-1968; and 1968 to date. The initial period was characterized by the first groping efforts toward realization of a national housing policy of a "decent home...for every American family." Except during World War II controls, the tools used essentially took the form of indirect intervention in the housing market--the creation of conditions that would encourage private new housing construction. These included the FHA mortgage insurance system (National Housing Act of 1934), liberalized mortgage terms, slum clearance and urban renewal, initial attempts to create a secondary mortgage market and a modestly financed low-rent public housing program. Only two percent of total housing output was directly supported by Federal funds in this period.

The second period was characterized by: (1) growing disaffection with the rate of improvement in housing conditions in the Nation's urban centers as contrasted with the suburbs; (2) new experiments with direct Federal assistance to housing production; (3) substantial increase in efforts to create a secondary mortgage finance system; and (4) initial experiments in family rent allowances that could be used in existing as well as new housing. During this period national housing starts aided by direct Federal assistance rose from 3 percent in 1961 to 12 percent in 1968.

The third period was marked by passage of the Housing Act of 1968, which established as a national housing goal the production of 26 million housing units in ten years, of which six million would be Federally subsidized. Passage of the 1968 Housing Act represented the culmination of disaffection with progress made in achieving the Nation's housing policy. Again, this disaffection was rooted in urban centers, particularly the Nation's older central cities.

Costs and Effects of Subsidized Housing Production Since 1968

The 1968 Act created formidable housing programs to implement subsidized housing output. These, in essence, embodied the principle that the Federal Government would subsidize the cost of new or rehabilitated housing for moderate-income families down to a mortgage interest rate of one percent, effectively cutting housing costs by one-third to nearly one-half when partial tax exemption from real estate taxes under state and local programs is included.

As indicated earlier, in 1970 and 1971 nearly one million federally assisted housing units were placed in construction.^{1/} This startling performance placed the housing goals effort called for in the Housing Act of 1968 virtually on target. Even more startling is the bill this effort thus far entails: some thirty billion dollars over the next 30 or 40 years.^{2/} At this rate, the Federal Government's total annual commitment will grow to \$7.5 billion annually for the forty-year mortgage life of housing being aided by federal programs.^{3/} In terms of legal eligibility for housing assistance, nearly half of the Nation's population can qualify under one or another of the direct

housing assistance programs.

With the transformation of Federally assisted housing output from about six percent of total starts in the early 1960's to one-quarter in 1971 have come alarmed reactions about both the costs and the effectiveness of this housing production. The complaints are widely. The housing is being built in the wrong places for the wrong persons. Much of it is shoddily built and over-priced, enriching careless or unscrupulous builders and real estate dealers at the expense of buyers or renters and winds up repossessed by HUD through mortgage defaults. It is being produced in poor quality locations or deteriorated central city areas where the customers obtained are too poor to pay the necessary rents; vacancies, rent delinquencies and mortgage default follow.

At the other extreme are charges, when such housing is developed in better neighborhoods, that families of substantial regular incomes on the one hand are paying full housing costs while their more fortunate economic peers receive the benefits of Federal subsidies. This raises political as well as equity questions about the allocation of housing assistance.

A different expression of concern about the location of new subsidized housing production is that it is not going to places where it is most needed--suburban areas of employment growth where employees in intermediate pay scales (\$3.00-\$4.50 per hour) are demanded in large numbers but cannot afford new housing at the normal rents or prices. It is in such growth areas that new housing at modest costs also tends to be in short supply, so that some aided

housing would provide a needed balance to these locations where higher-cost conventionally financed new housing normally represents the only additions to supply. On the cost side, the annual direct and indirect subsidies per family for housing produced under the 1968 Housing Act range from \$500 up to \$5,000 per family per year depending upon location, programs involved, and whether low- or moderate-income families are being aided. 4/

Another serious charge is that a large proportion of these high costs do not go to the intended beneficiaries but are lost to private and governmental intermediaries in the assisted housing production process.

These include promoters, builders, realtors, investors, local housing authorities, other local governmental agencies, and HUD. One estimate, dealing with the Federal public housing and rent supplement programs, is that between one-fifth and one-half of the total Federal subsidies do not reach the residents but are lost in the form of "federal and local administrative expenses and for tax benefits to investors." 5/ Another contribution to subsidy waste is the padding of cost bids by developers of government subsidized housing. This is attributed to the higher costs of construction experienced by developers in contending with the inefficiencies and delays in dealing with government agencies. These excess costs are borne both by the taxpayer through unnecessarily higher subsidies and by the occupants in the form of higher rents.

Possibly the most serious criticism of subsidized housing production is that most of it is not reaching low-income families--those living

in substandard or otherwise inadequate housing and whose incomes are too low to afford even existing standard housing.

Finally, basic questions are being raised about the Nation's housing production goals. Is too much emphasis being placed upon production of new housing to the neglect of maintenance of existing housing and neighborhoods? This question has come to the fore since the latter part of the 1960's as a wave of housing abandonments has hit virtually every major city in the Nation as well as hundreds of smaller communities. For the first time, concern with housing standards has shifted from concentration upon the provision of the capital good (the house or apartment) to consideration of the flow of services from that good and what it is that keeps it flowing to provide satisfactory services to the consumer. 6/

The critical question for national housing policy is how the most rapid and efficient rate of improvement in the Nation's housing standards may be achieved within a defined level of allocation of national resources. The latter requirement is a crucial component of the discussion since, if resource allocations are pushed sharply upward as in 1970-1971, we are faced with an additional question: what sacrifices have to be made to achieve a given improvement in housing standards and are the benefits gained worth the costs incurred?

The Nation's progress in improving housing standards--1950-1970

Framed in the context outlined above, the experience of the two decades 1950 to 1970 becomes highly relevant. Early 1970 Housing Census data provide a bewildering disparity between usual perceptions of the Nation's lack of housing progress and the facts. After five years of soaring construction costs, rising interest rates and a dampened level of conventional new construction, the salient conclusion that emerges from examination of the 1970 Housing Census results is that the Nation largely has maintained the rate of progress realized since 1950.

With only minor shifts, the 1970 housing needs of the nation, as defined in the Douglas Commission Research Report, ⁷ declined virtually as projected in December 1967:

Since the goals established by the Housing Act of 1949 were set, the Nation has made steady and unremitting progress in meeting its housing needs in the context of commonly accepted criteria of that day. In those terms, housing needs were reduced from a 1950 level of 20.5 million units, or 44 percent of the total housing supply, to 16.4 million units in 1960, or 26 percent of the total housing supply; and to a projected total of 10.8 million units in 1970, which will constitute about 16 percent of the housing supply at the time. ⁷

As shown in Table 1 (line 26), preliminary 1970 Census data indicate that housing needs in 1970 declined virtually on target--to about 10.4 million units or 15.1 percent of the Nation's 1970 housing inventory.⁸ Despite the fall-off of private new construction during the latter years of the decade, overall housing progress nevertheless was maintained by the intervention of two influences. These are

Table 1. ESTIMATES OF COMPONENTS OF INVENTORY CHANGE AND
CHANGES IN HOUSING NEEDS FOR THE UNITED STATES: 1950-1969
(in thousands of units)

Subject	Dec. 1967		Actual 1960-69
	Actual estimate		
	1950-59	1960-69	
	A	B	C
1. Total housing inventory at <u>beginning of the decade</u>	<u>46,137</u>	<u>58,448</u>	<u>58,326</u> ^a
COMPONENTS OF INVENTORY CHANGE			
2. <u>Units added to housing inventory</u>	<u>16,861</u>	<u>16,900</u>	<u>17,114</u> ^b
3. New construction	15,003	15,300	15,514 ^c
4. Units added by conversion	807	600	600 ^b
5. Units added through other sources	1,050	1,000	1,000 ^b
6. <u>Units lost from housing inventory</u>	<u>-4,530</u>	<u>-5,900</u>	<u>-6,761</u> ^b
7. Units removed through demolition	-1,933	-2,700	n.a.
8. Units lost through mergers	-815	-700	n.a.
9. Units lost through other means	-1,783	-2,500	n.a.
10. <u>Net change in housing inventory accounted for by:</u>	<u>12,331</u>	<u>11,000</u>	<u>10,353</u> ^a
11. Increase in number of households	9,986	9,400	10,426 ^a
12. Change in vacancies:	<u>2,345</u>	<u>1,600</u>	<u>-75</u> ^a
13. Available for sale or rent	1,412	300	158 ^a
14. Other vacancies	933	1,300	-231 ^a
CHANGES IN HOUSING NEEDS			
15. <u>Housing needs at beginning of decade</u>	<u>20,530</u>	<u>15,364</u>	<u>15,364</u>
16. Substandard units to be removed	17,007	11,407	11,407
17. Crowded households in standard units	2,682	3,957	3,957
18. Increase in standard available vacancies	841	-	-
19. <u>Changes in housing need during decade</u>	<u>-5,166</u>	<u>-4,577</u>	<u>-4,998</u> ^d
20. Change in number of substandard units	-5,000	-4,524	-5,334 ^d
21. Demolitions, mergers, other losses	-3,446	-3,885	n.a.
22. Substandard units added during decade	1,886	1,551	n.a.
23. Upgrading in existing inventory	-4,040	-2,190	n.a.
24. Change in crowding in standard units	1,275	-53	312 ^b
25. Change in standard available vacancies	-841	-	24 ^b
26. <u>Housing need at end of decade</u>	<u>15,364</u>	<u>10,787</u>	<u>10,366</u>
27. Substandard units to be removed	11,407	6,883	6,073
28. Crowded households in standard units	3,957	3,904	4,269
29. Increase in standard available vacancies	-	-	24

Sources: Cols. A & B: Frank S. Krieger, Urban Housing Needs Through the 1980's, The National Commission on Urban Problems, 1968, p.6.

a/ U.S. Bureau of the Census, 1960 and 1970 Census of Housing, U.S. Summary.

b/ Estimated.

c/ Sum of 1960-69 Housing Starts, U.S. Bureau of the Census, Construction Reports, (C-2 series) plus increase in mobile homes reported in 1960 and 1970 Census of Housing. This definition may understate new construction total.

d/ 1960 & 1970 Census of Housing, adjusted to include an estimate for dilapidated units (non enumerated in 1970).

1. Persistent increases in Federally-financed or assisted new housing output over the 1960's--particularly FHA Section 221(d)(3) and its successor programs, Sections 235 and 236. Approximately 300,000/^{new}units enumerated in the 1970 Census were contributed by Federal programs in the two years prior to the Census. The decade total from this source (including the low-rent public housing programs) was slightly in excess of one million units.

2. A sharp upward jump in occupancy of mobile units. The inventory of this form of occupied housing more than doubled in the 1960's, contributing 1.1 million units toward the decade's net increase of 10.4 million housing units.

These two influences prevented the Nation's 1960-1970 rate of progress from falling off relative to the rate of improvement recorded during the years 1950-1960.

It is worth tracing the components of change shown in Table 1 to note the similarities in housing trends of the 1950's and 1960's despite the above-noted mixture of positive and negative influences during the past decade. The relatively low rate of household formation in the early 1960's was abruptly and sharply reversed in 1968 and 1969 when persons from age groups with a high propensity to form households (the baby boom of the late 1940's) entered the housing market in large numbers. A nearly doubled rate of household formation

in these two years contributed to an increase of a million more households than were projected for the decade in Table 1 (line 11).

Nevertheless, the gross addition of 17.1 million housing units estimated for the 1960's (line 2) appeared sufficient to absorb a high rate of housing losses (6.8 million units--line 6) while still taking care of total household formation exceeding that of the 1950's. The decade-end surge of household formation created pressures upon the vacant housing supply--the overall available vacancy rate in 1970 fell relative to that in 1960 (3.1 percent versus 3.6 percent). On balance, the Nation's housing status during the 1960's remained at reasonable equilibrium even with the appearance of new trends--a high rate of housing additions contributed by mobile units and publicly assisted housing as well as an acceleration of housing losses.

Advances in the Nation's housing status in the 1960's matched or exceeded those of the previous decade. The overall decrease in "housing need" in the 1960's (line 19, Table 1) was almost as great as that projected in 1967. The decrease in substandard units was 18 percent greater than projected (line 20) but this partially was offset by slight increases in crowding in standard units (line 24) and in vacancy "requirements" (line 25). On balance, the improvement in housing conditions over the decades 1950-1970 has been impressive.

Specific aspects of the 1950-1970 improvements may be traced in data of Table 2. Average number of persons per household fell from 3.39 to 3.11 while the median number of rooms per housing unit increased from 4.7 to 5.0. As a result, the Nation's households in 1970 occupied more space per person than ever in the history of the country--an average of 1.65 rooms per person compared to the 1950 figure of 1.42.

Another contribution to housing improvement was the decrease in 1- and 2-room units while increases were recorded in each category of housing units with 3 to 8+ rooms. Since most older 1- and 2-room units are conversions with shared bathroom facilities, their decrease correlates closely with the reduction in substandard units (dilapidated or lacking plumbing facilities). The latter category experienced sharp decreases of 49 and 44 percent over the past two decades.

Another reflection of improvement in housing standards over the two decades was the ability of individuals to establish or maintain households. One-person households increased by 7.1 million, nearly trebling between 1950 and 1970. In the short time-period of two decades such households increased from 9.7 percent to 17.6 percent of households--the fastest growing category in the Nation. At the other extreme, households of 8 persons or more decreased from 2.8 to 2.5 percent of the total while 6 and 7 person households fell from 9.4 to 8 percent.

The combination of smaller households and slightly more rooms per unit also led to a decrease in crowding: in 1970, 6.7 million households had more than 1.01 persons per room, compared with 6.7 million

Table 2.--GENERAL HOUSING AND OCCUPANCY CHARACTERISTICS, UNITED STATES,
1950, 1960 AND 1970

1950, 1960 AND 1970						
Subject	1970	1960	1950	Percent change		
				1960-70	1950-60	
<u>Tenure, race and vacancy status</u>						
All housing units	68,672	58,326	45,983	17.8	26.8	
Occupied	63,450	53,024	42,826	19.7	23.8	
Vacant	5,222	5,302	3,157	-1.4	67.9	
Available (year-round)	2,133	1,975	732	8.0	169.8	
For sale	477	522	215	-8.6	142.8	
For rent	1,655	1,453	517	13.9	181.0	
Not available ^{a/}	3,096	3,327	2,425	-7.0	37.2	
Owner occupied	39,885	32,797	23,560	21.6	39.2	
White	36,979	30,823	22,241	20.0	38.6	
Non-white	2,906	1,974	1,319	47.2	49.7	
Renter occupied	23,565	20,227	19,266	16.5	5.0	
White	19,551	17,057	16,803	14.6	1.5	
Non-white	4,014	3,171	2,463	26.6	28.7	
<u>Conditions and plumbing facilities</u>						
Occupied units	63,450	53,024	42,826	19.7	23.8	
Not dilapidated, with all plumbing facilities	59,151 ^{b/}	44,550	27,632	32.8	61.2	
White	54,220 ^{b/}	41,438	n.a.	30.8	n.a.	
1.01+ persons per room	3,979 ^{b/}	4,658	n.a.	-14.6	n.a.	
Non-white	4,939 ^{b/}	3,112	n.a.	58.7	n.a.	
1.01+ persons per room	1,232 ^{b/}	1,456	n.a.	-15.4	n.a.	
Dilapidated or lacking plumbing facilities	4,291 ^{b/}	8,474	15,194	-49.4	-44.2	
White	3,050 ^{b/}	6,442	n.a.	-52.7	n.a.	
Non-white	1,241 ^{b/}	2,032	n.a.	-39.0	n.a.	
<u>Rooms (occupied)</u>						
	<u>Total</u>	<u>63,450</u>	<u>53,024</u>	<u>42,826</u>	<u>19.7</u>	<u>23.8</u>
1		1,108	1,221	1,103	-9.3	10.7
2		2,132	2,116	2,997	-0.7	-28.4
3		6,758	6,007	6,205	12.5	- 3.2
4		12,977	11,162	9,304	16.3	20.0
5		16,007	13,355	9,258	19.9	44.3
6		13,008	10,578	7,435	23.0	42.3
7		6,185	4,749	3,226	30.2	47.2
8+		5,276	3,805	3,295	38.7	15.5
Median		5.0	4.9	4.7	2.0	4.2

Table 2.--(continued) GENERAL HOUSING AND OCCUPANCY CHARACTERISTICS,
UNITED STATES, 1950, 1960 AND 1970

Subject	1970	1960	1950	Percent change	
				1960-70	1950-60
<u>Persons</u>					
Occupied housing units	63,450	53,024	42,826	19.7	23.8
1	11,146	7,075	3,993	57.5	77.2
2	18,781	14,859	12,023	26.4	23.6
3	10,909	10,008	9,763	9.0	2.5
4	9,803	9,130	7,878	7.4	15.9
5	6,199	5,873	4,466	5.5	32.2
6	3,360	3,129	2,258	7.4	38.6
7+	3,252	2,945	2,445	10.4	20.4
Median	2.7	3.0	3.1	-10.0	-3.2
<u>Space utilizations</u>					
Total persons in housing units	197,400	175,237	145,031	12.6	20.8
Total occupied rooms	325,376	265,912	205,612	22.4	29.3
Total rooms per person	1.65	1.52	1.42	8.6	7.0
Total persons per occupied housing unit	3.11	3.31	3.39	-6.1	-2.1
<u>Persons per room</u>					
1.00 or less	58,238	46,910	36,092	24.1	30.0
1.01 to 1.50	3,802	4,211	4,084	-9.7	3.1
1.50 or more	1,408	1,903	2,650	-26.0	-28.2
<u>Financial</u>					
Median value (occupied one-family units)	\$17,000	\$11,900	\$ 7,354	42.9	61.8
Median contract rent (occupied units)	\$89	\$58	\$36	53.4	61.1
Median income (families)	\$9,856	\$5,560	\$3,073	74.1	84.2
Median gross rent as a percent of income	n.a.	19.2	17.4	n.a.	10.3

Sources: US Bureau of the Census, 1950, 1960 and 1970 Census of Housing.

a/ Includes vacant seasonal and migratory units, units rented or sold, awaiting occupancy, held for occasional use, and other vacant.

b/ To permit comparability an estimate was made for dilapidated units (not enumerated in 1970) using 1968 data of Bureau of the Census' Housing Characteristics report, Series H-121, Dec. 17, February 1970.

The housing gains described above were accompanied by, and in large part were attributable to, advances in family income. Only rising incomes whose rate of increase equaled or exceeded rent and house price rises could sustain the high volume of new construction experienced over most of the past two decades. Median family income rose 84 percent between 1949 and 1959 and 74 percent in the following decade. Rents and prices of single-family homes increased at a slower rate (Table 2). Rent-income ratios increased only slightly indicating that the improvements in housing standards purchased over the past twenty years did not create excessive drains on consumer budgets.

The Nation's improvement in housing standards and the Filtration Process

Up to this point we have defined the nature of unprecedented progress in housing standards over the two decades 1950-1970 which produced the most sustained period of high-level housing construction in the Nation's history--30.5 million new housing units while the net addition of households numbered 20.4 million. The aggregate number of substandard units fell by 70 percent--from 17 million to 5 million. Space standards per person reached new highs while crowding reached new lows.

Given the fact that increased Federal housing assistance has become effective only in recent years, the question arises about the extent to which the observed improvement was traceable to the effective functioning of the filtration process.

What are the requirements for ascertaining the effective functioning of the filtration process? A search of the literature permits some

parameters to be described that are accepted by most analysts:

1. New construction beyond the rate necessary to house normal growth, i.e. an excess of housing supply over demand at the point from which filtering is to originate.
2. New construction exerts a downward pressure on rents and prices of existing housing, permitting lower income families to obtain better housing bargains relative to their existing quarters.
3. Exogenous factors are held constant, including the general level of incomes and income ratios. 9/
4. Decline in quality is not necessarily forced by reduction in maintenance and repair expenditures to the extent that rents and prices are forced downward.
5. A mechanism must exist to remove the worst housing from the market without adversely affecting rents and prices of housing at the lowest level.

The above basically represents Richard Batcliff's exposition with modifications suggested by Grebler, Winnick and Fisher to permit more precise measurement of the process as distinct from its effects.

Ratcliff, and subsequently, Ira Lowry, concluded that, as a means of improving housing quality, filtering essentially is a self defeating process. Ratcliff puts it as follows:

Filtering...is not a controllable device. The end product of filtering, at the bottom of the chain reaction, is substandard housing; thus filtering produces the very blight which we seek to remedy. Filtering cannot increase in effectiveness without the removal of housing as it sinks below minimum standards. And if by some drastic change in conditions the rate of filtering were accelerated to the point of adequacy, the cost to property owners through the concomitant depreciation in the value of their properties would be tremendous.10/

Thus a loss in value sufficient to drive rents and prices to such a low level that only standard quality housing can be found at the bottom of the rent-price ladder might have the perverse effect of driving rents and prices of the entire housing spectrum to the point that new construction would come to a halt prices and rents would again rise and doubling up or excessive conversion of housing at the low end of the scale would once again dilute housing quality as well as occupancy standards.

Not only would the process be unsuccessful in the end but there would be great costs on the way. If market price were to decline so that successively lower-income groups can afford the housing while removing substandard housing within a reasonable time period, society would have to pay a high price in accelerated loss in value of the housing stock.

This position is strongly supported by Ira Lowry who demonstrates, in his filtering model, that the actual and logical response of property owners to declines in value or rent will be a policy of under-maintenance of property so that, in addition to normal deterioration that occurs over time, the deterioration caused by disinvestment will lead to far more rapid declines in quality of housing than otherwise might occur. As a result, it is extremely unlikely that downward filtered dwellings will, in fact, provide satisfactory housing to occupants who obtain them at low rents or prices. 11/

Only one question remains open in this explanation: if value decline is accelerated through a large and consistent influx of new construction that persistently clears the market year in and year out, is it not possible for the rate of value-decline to outstrip quality decline, with a resulting improvement in housing standards? Lowry would argue that this is not possible within the framework of the "pure" filtering theory and that the 1950-70 improvement in housing standards in the Nation occurred within a framework of filtration reinforced by exogenous variables such as rising incomes. To put it in his own words:

"The reason why it is important to distinguish the effects on housing standards produced by 'exogenous' factors such as rising real incomes from the effects produced by new construction through filtering (as I have defined it) is that confusing the two can lead to mistaken policies. Thus, if it were strictly true that quality of a housing unit changed promptly and proportionately in response to changes in its market rent (because the owner would change his maintenance policy), the special public measures (such as subsidies) to encourage new construction might be part of a chain of moves, but would not result in better housing at the bottom of the

chain--unless the families last in line paid higher rents to support better maintenance than previously. On the other hand, if measures (such as rent assistance) were taken to increase the real incomes of these families, thus enabling them to spend more for housing, its quality would rise without the need for special encouragement of new construction." 12/

The discussion can at this point be summarized. When filtration is defined in the manner posited by Lowry, "a change in the real value (price in constant dollars) of an existing dwelling unit" for the purpose of ascertaining whether the value declines of housing that occurs in the filtering process can result in providing sound housing for low-income families, it remains seriously questionable whether the filtering process by itself can be credited with the observed improvement in housing standards that occurred in the decades 1950-1970. Nothing in the position taken by others who have discussed filtration theory (Grebler, Winnick, Fisher, Grigsby) necessarily contradicts Lowry's position since the only difference in their position is to allow the influence of exogenous variables to be incorporated in analysis of the effects of filtration, a position that Lowry explicitly rejects. Thus, whether filtration works or does not work to improve the housing supply depends upon whose definition is used.

Some empirical evidence on the subject may be gleaned from information made available by the Census Bureau's 1950-1959 components of inventory change which permits analysis of the path by which substandard housing left the housing inventory during that period (Table 3). This information provides little support for the traditional conception of filtration. The first point of note is that eight percent of the new

Table 3. DECREASE IN SUBSTANDARD HOUSING FOR THE UNITED STATES: 1950-1959
(in thousands of units)

<u>Item</u>	<u>Number</u>	<u>Percent of 1950 Total</u>
<u>Net decrease in substandard units</u>	<u>5,600</u>	<u>33</u>
<u>Substandard units, 1950</u>	<u>17,007</u>	<u>100</u>
<u>Increase in substandard units, 1950-1959:</u>	<u>2,886</u>	<u>17</u>
Among new units added during decade	1,235	7
Among units added through conversion	234	1
Among units added through other means	417	2
Through deterioration of "same" units	1,000	6
<u>Decrease in substandard units, 1950-1959:</u>	<u>8,486,000</u>	<u>50</u>
Among units demolished	1,382	8
Among units removed through merger	790	5
Among units removed through other means	1,274	7
Through rehabilitation or improvement of "same" unit	(5,040)	30
<u>Substandard units, 1959</u>	<u>11,407</u>	<u>67</u>

Source: U.S. Census of Housing: 1960. Vol. IV, Components of Inventory Change, HC(4), Part 1A, No. 1.

housing added during the 1950's was classified as substandard--it had nowhere to filter (but up). In fact, the augmentation of the substandard supply from new construction (1,235,000 units) was even greater than the one million substandard units added by deterioration in the existing housing supply ("same" units). In the same time period, 5 million substandard units of 1950 had been upgraded to standard status by 1959. The result was a net improvement of 4 million units in the existing housing inventory that substantially exceeded the 2.65 million substandard units that were demolished or otherwise removed by "other means." It is important to note the outcome of these complex changes: despite the addition of 1.2 million substandard units through new construction and a 2.5 percent annual rate of deterioration in the existing housing inventory that created an additional one million substandard units, the upgrading of 5 million existing substandard units to standard status overwhelmed the negative influences on the housing inventory.

Other changes in quality of housing existing in 1950 through conversions and mergers, resulted in a further net reduction of more than one-half million substandard units. The foregoing leaves large questions about whether the housing inventory filtered up, down or in both directions and whether traditional views of filtering are either useful or relevant in attempting to explain the link between new construction and the improvement in the housing inventory.

It is abundantly clear that no explanation for the marked improvements in the Nation's housing status can be ascertained without examination of the factors referred to by Lowry as exogenous variables. Once this course is undertaken another major responsibility must be assumed. Only glancing reference so far has been made about dissident trends in the Nation's central cities that cast a cloud over the bright historic housing progress that has been made on a national level. The last four years have been difficult ones on the housing front in many ways. For example, an advancing rate of deterioration and widespread abandonment of housing in the central cities has created wholly new sets of problems. Thus, no conclusion about the larger picture will be warranted until the relevant exogenous factors are thoroughly explored.

FOOTNOTES

- 1/ The President's Third Annual Report on National Housing Goals, June, 1971, Table 2, p. 8.
- 2/ Ibid., p. 22. This figure includes financing of 113,000 rehabilitated units in addition to 945,000 new units.
- 3/ Ibid.
- 4/ A single housing unit conceivably can be aided by some or all of the following programs, each of which has a specific measurable cost: urban renewal land writedown, R&A Section 236 1-percent subsidy, rent supplements, real estate tax exemption, lost Federal (and State) taxes on tax-exempt bonds (for State and Municipally financed programs) and through tax benefits to limited partner equity investors.
- 5/ Bernard J. Frieden, "Improving Federal Housing Subsidies: Summary Report," Papers submitted to Subcommittee on Housing Panels, Part 2, Committee on Banking and Currency, House of Representatives, 92nd Congress, First Session, p. 413.
- 6/ This distinction was made explicitly by Morton L. Isler in "The Goals of Housing Subsidy Programs" in Part 2, Papers submitted to Subcommittee on Housing Panels, Committee on Banking and Currency, House of Representatives, 92nd Congress, First Session, June 1971, pp. 419 ff.
- 7/ F.S. Kristof, Urban Housing Needs through the 1980's: an Analysis and Projection, Research Report #19, The National Commission on Urban Problems, Washington, D.C., 1969, p. xi.
- 8/ Because the "condition of housing" item was dropped from the 1970 Census enumeration, a small component of the 1970 needs figure (about 10 percent) had to be estimated. When the 1970 components of change data become available, this figure can be confirmed or corrected. The margin of error is likely to be under 500,000.
- 9/ There is some question about this point. William Grigsby would incorporate exogenous factors as a part of the filtering process whereas Ira Lowry bars such an approach as analytically confusing.
- 10/ R.U. Ratcliff, Urban Land Economics, New York, McGraw Hill Book Co., Inc., 1949, pp. 333, 334.
- 11/ Cf. Ira S. Lowry, "Filtering and Housing Standards", Land Economics, Vol. XXXVI, November 1960, p. 362 ff.
- 12/ Letter, Ira S. Lowry to P.A. [illegible] April 1971.

FEDERAL HOUSING POLICIES, SUBSIDIZED PRODUCTION,
FILTRATION AND HOUSING POLICY OBJECTIVES

II

Introduction

Serious questions have been raised about the efficacy and equity of the Federal Government's housing subsidy programs in achieving the Nation's goal of a "decent home and a suitable living environment for every American family." These questions in turn lead to analysis of the extent and path by which the Nation's observed housing progress was realized in the period 1950-1970 when the overwhelming proportion of new housing produced (96 percent) came via the private sector--in contrast to the most recent experience of the past three years (1969-71) when the proportion of total new residential starts directly aided by Federal subsidies climbed from 11 to 23 percent through implementation of subsidy programs of the Housing Act of 1968.

One conclusion that emerged from this analysis is that the observed improvements could not be attributed to the operation of the filtration process unless it was defined to take into account exogenous factors, such as change in incomes, even though it was evident that housing filtration did occur during the past twenty years of extensive new residential production accompanied by major declines in substandard housing. 1/

A review of the effects of housing turnover generated by new construction as well as by other means is undertaken in this paper. Some distressing side-effects from housing abandonment are considered. Another question discussed is whether the "housing shortage" implicit in the production goals of the Housing Act of 1968 addresses the real problem or whether the housing problem may be

more precisely defined. Finally, some alternative policies to realize the Nation's housing objectives more efficiently are considered.

New Construction, Housing Turnover and the Improvement of Housing

Louis Winnick proposed that empirical studies should zero in on the relationship between new construction, housing turnover and the improvement of housing. This could be done by tracing directly the turnover of housing that ensued from new construction and by studying the changes in rents (or prices), incomes, rent-income ratios, space, housing quality and housing satisfactions of the participants in the chain of moves. From a theoretical standpoint this no longer can be defined as a discussion of the filtration process unless one accepts the broader definition of this term which incorporates exogenous factors as part of the process. The writer worked closely with Winnick in developing such a study:

In the summer of 1963, a project was completed that illustrated the chain of housing turnover generated by people moving into newly constructed units. Starting with an interview sample of 64 initially-occupied new units, the survey required a visit to each housing unit left vacant by the household that occupied the new unit. The successor household (if there was one) was interviewed, and the characteristics of its present as well as that of its previous housing unit was obtained. Its previous housing unit was then visited and the new household occupying that unit was interviewed in the same manner. The chain was followed until it was broken. This occurred when a household in the sample had not left a unit vacant in the City or when the unit in the sample was found to have remained vacant, was demolished, or had been otherwise removed from the market.

Although no claims are made about the representativeness of the sample, the implications that could be drawn from the survey data were quite dramatic. It was found, for every 10 newly constructed units in the sample, 24 families were able to make voluntary and presumably more satisfactory adjustments in their housing circumstances - 10 by moving into the new units and 14 by moving into existing units made vacant by the housing turnover that ensued.

The data further indicated that the chain of housing moves generated through new construction resulted in an improvement of the housing status of nearly all the families involved. Only 6 of the 154 housing units visited in the survey were substandard, and each was at the end of its respective chain. The data thus indicated that the turnover which follows the occupancy of newly constructed units contributed to improvement in housing status by (1) allowing at least some families to move from substandard to standard housing (none moved in reverse), and (2) allowing an even larger number of families who already were in standard housing to make favorable readjustments with respect to housing space, quality and location...

Another notable finding was that, at each successive link in the chain, families with generally lower incomes than that of their predecessors moved into turnover units. .

In general, households in the turnover survey were found to be upgrading the space and quality of their accommodations--a fact that is most obvious with respect to families moving into new units, shown by the finding that the median gross rent becomes lower in moving down the successive links of the turnover chain. In addition, analysis of present and previous rents of families involved in the turnover process showed that they more often than not assumed a higher rent burden as a result of their move. This is true even though some moves were made by families for the purpose of reducing housing costs by trading larger quarters for smaller ones. The present median rent of A link households (those that moved into new units) was \$138 compared to \$85 in their previous unit. For B link households (those who moved into units left vacant by families moving into the new units in the sample) the median was \$109 compared to \$80. For the successive links, 17 households had a higher rent compared with their previous rent, while 5 households reduced their rent.

Even though most families in the turnover survey increased their rent bill as a result of their move, this did not appear to seriously affect rent-income ratios, which remained close to an estimated City-wide average of 19 percent. 2/

Only months after publication of the results of the New York City pilot turnover study, the Ford Foundation undertook to finance a nationwide study of housing turnover generated by new construction by the Survey Research Center of the University of Michigan. Whereas, in the New York City study, a chain of turnover was regarded as broken if a housing vacancy was left outside of the City's boundaries, the Michigan study of John B.

Lansing, Charles W. Clifton and James N. Morgan would follow the chains wherever they led, from one end of the country to the other if necessary.

The new construction studied by the authors included a probability sample of dwellings in 17 standard metropolitan statistical areas. Interviews were successfully completed at 1,133 newly occupied homes with the final results of the study based upon 3,039 interviews. Eighty-six percent of all the families in the sequence begun by the 1,133 homes were interviewed. Chains of moves come to an end when the last persons in a sequence leave no vacancy behind or if the last house or apartment in a sequence is removed from the housing stock physically or in terms of residential use. Compared with the New York City survey which showed an average of 2.4 moves within the City's boundaries, the Michigan study showed an average of 3.5 moves for each new unit without regard to distances covered by the chain of moves. In terms of percentages, chain lengths were as follows:

<u>Sequence ends</u>	<u>Percent</u>
after 1st move	23.8
after 2nd move	20.8
after 3rd move	18.2
after 4th move	11.2
after 5th move	7.8
after 6th to 19th move	18.2

Over the course of sequences, average value of homes fell from a median value of \$25,900 for new homes to a median of \$17,300 for the sixth or later sequence. Forty-two percent of the chains started with a new rental unit. The median rent of \$135 for new units declined to a median of \$100 for the sixth or later sequence. By and large, the higher the value of the new house, the longer the average length of chain of moves; this held consistently true also for rents of houses.

that began with owner-occupied new units was one full position longer than for rental homes.

In the aggregate, 55 percent of the families who moved out of ^a unit had an income that was higher than that of the successor family while the reverse held true for 25 percent of the cases. The general tendency thus was in the expected direction. On the average, poor families participated in the chains of moves started by new construction in roughly about the same proportion that they occurred in the general population. The poor were under-represented in positions one (the new house) and two, but over-represented in positions three and beyond.

Negro families were under-represented in the occupancy of new homes; they represented about 50 percent of the rate of expected occurrence relative to their proportion of the total population in the metropolitan areas sampled. Negroes represented about 61 percent of their expected rate of occurrence taking into account their income levels relative to the income levels occurring among new owners or renters. The authors concluded that "The fact that Negroes occupy only .61 of the homes that one would expect on the basis of their incomes is the combined result of discrimination in the housing market and Negroes' low average assets."3/ This observation tended to be supported by the observation: "When Negroes do move into new housing, they are more likely to move into new apartment houses than into new single-family homes."4/ Finally, Negroes were under-represented in the chains of moves; they occurred at only 70 percent of the expected rate in terms of their income levels

and proportion of the population in the areas sampled. In only three percent of all moves did Negroes supplant white occupancy while in one percent of the cases the reverse occurred.

Possibly the most important estimates relevant for public policy that emerge from this study are:

1. About one out of four sequences begun by new construction ends in a demolition or other permanent withdrawal from the housing stock.
2. The sequence of moves begun by new construction in the total housing market account for the initiation of roughly half of the moves in the nation as a whole.
3. Although the poor were proportionately represented in the sequence of moves begun by new construction, this was not true for Negroes, poor or non-poor. Negroes constituted only 61 percent of the expected rate of occupancy of new construction and 70 percent of the expected rate in the subsequent sequence of moves.

In short, call it what one will--filtration, turnover, or chains of moves--new construction accounts for about one-half of the annual movement of families in America; it is linked with three-fifths of the housing removed annually from the inventory through demolition or "other losses" (not including changes such as conversions or mergers). On these grounds alone, a significant linkage can be made between new construction activity

and the improvement of the housing stock. Finally, the failure of Negroes to participate fully in the upgrading of housing status generated by new construction has other consequences that must be addressed.

Turnover of housing not associated with new construction

Given the estimate that one-half of the movement of American households arises from the chain of turnover arising from new construction, what sparks the remaining moves? Conceptually, these would arise from vacancies in existing housing created by both demographic and supply factors:

1. Demographic--through dissolution of existing households by:
 - a. death, divorce, separation and doubling.
 - b. Outmigration. This is a mixed concept; household dissolution through out-migration for one community may become new household formation for another. In the latter community, the migrating household is as likely to become part of a chain of turnover generated by new construction as not.
2. Supply changes other than new construction.
 - a. The placement on the market of units (unchanged, remodeled, rehabilitated or rebuilt) that previously had been vacant and off the market.
 - b. Conversions: although they usually do not add more space, conversions of larger residential units into a greater number of smaller units add to the usable supply.

Chains of turnover generated from supply changes are more likely to occur in the renter sector. This type of turnover therefore would occur more frequently in the central cities where such housing is concentrated. Aggregate turnover in metropolitan areas is slightly greater outside than inside central cities possibly because the volume of new construction (and the consequent turnover generated) on the average is 2.0 to 2.5 times greater outside central cities than inside. Using the lower end of the above range, new construction would account for two-thirds of the chains of moves originating outside of central cities but only one-third of those inside central cities. Conversely, the ratio of chains of moves occurring through the demographic-supply factors cited above initiates two-thirds of the moves inside central cities of SMSA's and only one-third outside central cities. In 1970, four times as many Negro households in SMSA's resided inside central cities as outside. The foregoing provides additional confirmation of the likelihood that the housing becoming available to Negroes will originate from turnover in the existing stock not generated by new construction. What have been the consequences of these facts?

Housing Abandonment in the Central Cities

The subject of housing abandonment has become a major issue across the Nation over the past five years. In city after city, neighborhoods that have become inundated by this unprecedented phenomenon have become household words in the housing world--Brownsville-East New York in Brooklyn, East Harlem in Manhattan, the South Bronx, Pruitt Igoe in St. Louis, Hough in Cleveland and Lawndale in Chicago are familiar names. The Cities of Baltimore, Boston, Detroit, Los Angeles, Milwaukee

Philadelphia, Pittsburgh and Washington, D.C. may be added to this undistinguished list. To be sure, countless smaller communities that have experienced serious chronic declines in their economic base have been experiencing this phenomenon for many years. But not until the latter 1960's did the Nation become aware of the fact that housing abandonment had become endemic to most major older central cities as well as some newer ones.

Some examples of the extent of losses experienced through abandonment are indicated for data for New York City and Cleveland. Within a framework of 337,500 new houses and apartments added during the 1960's New York City showed a net gain of only 165,000 units. Aside from substantial demolitions, some 89,000 units are estimated to have been abandoned during the decade, of which some 74,000 units were still standing at the time of the 1970 Census. The estimated loss through abandonments equalled three percent of the City's 1960 inventory. The City of Cleveland, on the other hand, suffered a net loss of 19,000 housing units during the decade although building permit data indicated construction of some 14,000 units. The indicated gross loss of 33,000 housing units, including demolitions and abandonments, equalled 12 percent of the City's 1960 housing inventory.

Housing losses comparable to those of Cleveland and New York City were experienced by at least ten of the 25 largest cities in the Nation. For most of these cities the magnitude of losses was influenced by abandonment of housing. Finally, all except one of these cities experienced absolute population losses between 1960 and 1970.

What the Nation's older central cities appear to be experiencing is the culmination of a demographic trend of more than a quarter of a century--the thinning out of central city population densities through the persistent migration of middle-class families to the surrounding suburbs. This movement has left behind large masses of older and obsolete housing that no longer is reoccupied by European immigrants as fast as it is emptied. The only new occupants available for this housing have been Negroes moving from rural to urban areas and the urban migration of Spanish speaking populations from Puerto Rico, the West Indies, Mexico and Cuba. This migration has not been sufficient to offset fully the continued out-migration of the white middle-class population.

The second aspect of this phenomenon is economic. Normally, the increasing availability of older housing, should lead to a (relative even if not absolute) drop in its price and its readier availability to low-income families. But fragmentary evidence suggests that the price drop in the housing occupied by low-income minority in-migrants, to the extent that it occurred, in many areas has led to disinvestment and deterioration through decreased maintenance by owners of rental properties along the lines of the Lowry model. As a consequence, large quantities of central cities' housing stock not only filtered down but filtered out of the housing market because owners cut their losses by ceasing to operate their properties--in short, abandonment.

Recent field studies illustrate many of the complex factors that enter the picture. The Urban League's survey of housing abandonment provides

Graphic descriptions of abandonment in seven cities:

St. Louis is farther down the road to total abandonment of the central city than any other city in our sample....In the two neighborhoods included in our survey there are thousands of abandoned buildings and no public actions in sight to improve the situation.

The process of ethnic change, over exploitation of property, withdrawal of mortgage financing, deepening poverty and final abandonment is most fully played out in St. Louis. Mortgage lenders freely admit having cut off all funds for the entire city with the exception of one all-white neighborhood...5/

The ownership history of the inner core is one in which there was a substantial degree of white owner-occupancy. Blacks, in significant numbers, had occupied these areas for upwards of twenty-five years, but they never established themselves as homeowners. The urban renewal process, according to brokers and property owners, had a dual effect on these areas. First, it caused a significant number of those displaced by the bulldozer to seek accommodations in the area. And secondly, it prompted landlords to forestall and eventually forget about maintenance.

Indeed, speculators purchased parcels from whites migrating to the suburbs, but the dominant pattern of ownership was one that was characterized by unprofessional, small-holders. White owners found that the market for their homes was next to non-existent after the onset of urban renewal. Therefore, they opted to finance their move to the suburbs by renting out their homes to blacks. This process proved to be most profitable, but only for a short period of time.

In the mid-1960's the market collapsed in both the inner core areas and the West End. Middle class blacks, in response to the declining quality of the structures they occupied and the increasing incidence of violent crime, deserted the areas. The residual population was comprised of either the desperately poor, or the socially maladjusted. In either case, landlords found that mounting capital and operational costs increased rents to the point where there was no market for their units. In those units where maintenance disinvestment had occurred for some time, basic plant facilities collapsed. Tenants naturally refused to pay rent for such accommodations, and some simple arithmetic revealed to the landlords that the costs of repair and rehabilitation would place rents far beyond the means of that segment of the black sub-market in the area..

Even those owners not faced with extraordinary maintenance expenditures found their position becoming increasingly untenable. Property taxes, water rates, labor and materials costs, and the entire expenditure side of the ledger rose faster than the incomes of tenants...Maintenance expenditures were cut, property taxes became delinquent, and eventually the mortgage (if there was one) was defaulted. The inevitable result was abandonment of the investment.6/

The description of Cleveland, Chicago, Hoboken and New York City follow the pattern described for St. Louis with only minor variations on the theme. Invariably, the racial aspect emerges as a predominant factor.

A concentration of low-income, high pathology black families is identified in each of the cities where the abandonment process has reached significant levels. The symptoms are, almost uniformly, that of high unemployment and high welfare ratios, dominance of female headed households, high ratios of dependent children, problems in schools, including conflicts, disorder, high truancy and drop-out rates. Finally, drug addiction, crime and vandalism are at high levels. The concentration of such problems among a significant proportion of the population of any given neighborhood has become the identifying mark of collapsed neighborhoods from which black as well as white families with children have fled or will refuse voluntarily to seek living quarters. These concomitantly have been areas in which public services have deteriorated or vanished, whether as a precursor or as a consequence of the foregoing developments. A significant proportion of the newer residents of these neighborhoods neither understand or accept the middle-class mores and values of the predominant culture in U.S. metropolitan areas. Within this context, the difficulty seems to be less one of race than of class

or culture differences. The high visibility concentration and multitudinous difficulties of this population have created problems for which answers have not yet been found.

The combination of loosening housing markets, outflow of white middle-class population, the inadequate incomes of nonwhite successors with which to pay rents that would permit effective maintenance of the older stock being deserted resulted in deterioration and ultimately abandonment. Finally, racial fears accelerated movement out of some neighborhoods at a rate that did not permit the orderly absorption of the released housing under any circumstances.

Response on the public side has been uniformly ineffectual except for large-scale removal of abandoned units. To the extent that significant proportions of the older abandoned housing was substandard or dilapidated, its disappearance resulted in improvement in quality of the housing stock. Thus, cities such as New York and Cleveland, both of which have experienced extensive abandonment, show improvement in housing conditions on a number of counts--substantial decrease in units lacking or sharing plumbing facilities, decrease in 1- and 2-room units, and, despite the loss of units through abandonment, declining household size, increase in rooms per person, decrease in crowding and an increase in vacancy rate in the case of Cleveland. Superficially favorable in terms of costs to rental occupants, median contract rent in Cleveland went up minimally-16 percent over the decade. In fact, however, this was an indication of the extent of collapse of

this City's rental market. New York City's median rent, on the other hand, increased at nearly the same rate as that for the U.S.--48 percent compared to the Nation's 55 percent.

Housing conditions in the Nation's Central Cities, 1960-1970

Despite all the problems of abandonment, examination of early 1970 Census data show overall housing progress in central cities. The traditional indicators show improvements for the central cities comparable to those recorded for the Nation--even though the effects of turnover attributable to new construction do not occur to the same extent experienced outside of central cities. These improvements have flowed through to the minority households of these communities (Table 1). Even in a city as heavily affected by abandonment as New York, the housing status of its nonwhite population has materially improved over the past decade.

The significance of these observations is to place the abandonment phenomenon in proper perspective. Although the problem has serious implications for the ultimate well-being of central cities, it cannot be generalized into a statement that central city housing conditions in the overall have deteriorated.

On the other hand, the traditional housing indicators may largely be irrelevant given other observations about neighborhood conditions in central cities. For example, Census statistics record the existence of plumbing facilities for a housing unit without ascertaining whether they are in working order. At a time when the provision of such facilities is

Table 1.--BASIC HOUSING PARAMETERS FOR NON-WHITE HOUSEHOLDS, FOR
CENTRAL CITIES OF UNITED STATES AND FOR NEW YORK CITY,
1960-1970 (in thousands)

Item	1970	1960	Change Number	1960-1970 Percent
<u>Central Cities, United States</u>				
Plumbing facilities				
Occupied housing units	3,838	2,844	994	34.9
With all plumbing facilities	3,609	2,140	1,469	68.6
Dilapidated and lacking some or all plumbing facilities	229 6%	704 30%	-475	-67.5
Space utilization				
Total number of persons in housing units	12,891	9,849	3,042	30.9
Total number of rooms	17,628	12,173	5,455	44.8
Number of rooms per person	1.37	1.24	.13	10.5
Crowding				
Total occupied units	3,838	2,844	994	34.9
1.01 persons per room or more	657 17%	668 23%	-12	-1.7
Rent				
Median contract rent	\$ 76	\$ 53	\$ 23	43.4
<u>New York City</u>				
Plumbing facilities				
Occupied housing units	580	353	227	64.5
With all plumbing facilities	547	276	271	98.2
Dilapidated and lacking some or all plumbing facilities	33	77	-44	-57.1
Space Utilization				
Total number of persons in housing units	1,836	1,099	736	67.0
Total number of rooms	2,385	1,348	1,037	76.9
Number of rooms per person	1.30	1.23	.07	5.7
Crowding				
Total occupied units	580	353	227	64.5
1.01 persons per room or more	103	79	24	30.5
Rent				
Median contract rent	\$87	\$59	\$28	47.5

Source: 1960 and 1970 Census of Housing, U.S. General Characteristics.

taken for granted (in itself reflecting major progress), the question of whether they function properly becomes more relevant. Experience with tenant-landlord relations in rent-controlled New York City, for example, does not permit answers to this question to be assumed. Furthermore, it is of little consequence that the physical conditions of a given structure are standard in every respect if its inhabitants fear to walk in the streets day or night, if drug addicts pose a constant threat of burglary, robbery and assault, if streets and sidewalks are broken, littered and filthy, if neighbor fears neighbor, and if parents daily send their children to school with fears about what mishap will befall them. In short, if a neighborhood no longer is regarded as a good place to live, the conditions and quality of its housing becomes almost irrelevant to families seeking a home. They will not consider such a neighborhood unless their freedom of choice is non-existent.

Two conclusions emerge from the foregoing:

1. By and large, the turnover of housing generated in central cities has permitted lower income segments of the community to inherit better housing, as shown in Table 1.
2. The consequences of two decades of high-level output at a rate of 1.5 units of new construction for each net addition to households has become clearly visible in the urban centers of the Nation--through the filtration of large segments of their housing right out of the housing supply through abandonment and subsequent demolition.

Viewed in this light, the extensive filtering out of housing in the central cities of the Nation presents a mixed bag of results. In terms of obtaining standard housing at lower relative prices, residents of neighborhoods not excessively affected by racial transition have been beneficiaries of housing turnover in the 1960's. Large numbers of moderate-income minority families also have benefitted. The experience of low-income minority families has been mixed. Although large numbers of the latter have succeeded to better housing, it is likely that rents were higher and that much of this housing is in process of deterioration in services and quality. Although it is difficult to conclude whether the functioning of the turnover process has served low-income families well, there is little doubt that it has functioned.

Some things can be said definitely. Relative to the essential requirement of meeting the record-breaking rate of new household formation of the 1960's, the data show that any talk of housing shortage in America constitutes one of the great mythologies of housing discussion. However, that the need has not been met for many low-income households for qualitatively satisfactory housing within their ability to pay equally can be flatly asserted with little prospect of refutation.

The Nation's housing problem redefined

The assumption of housing shortages in America appears to be part of the concept behind the housing goals objective of the Housing Act of 1968. Such shortages do exist but only in a qualitative and distributional sense. Recognition of this aspect of the problem is critical for any set of proposals designed to deal with the problem which readily breaks up into two geographical components--(1) the Nation's central cities

and (2) the outlying suburban or exurban growth areas.

Central cities

The problem here is not one of shortage of housing. It is the qualitative decline of life in the cities that has in turn accelerated the suburban outmigration of middle class families with children just as cities have been the magnet for the rural poor seeking economic betterment. The qualitative decline of life in the cities has two components--racial and economic. When the racial aspects (earlier discussed) are combined with the declining economies of central cities that no longer can employ profitably poorly educated, unskilled labor, then more serious difficulties surface. These problems are not eased by newer attitudes toward the available unskilled service jobs that comprise a large component of cities' functions as a service center. Such jobs, termed "dead-end", are increasingly avoided by even unskilled able-bodied young males who find it as profitable to have their wives (and nonwives) go on welfare as it is for them to work. Meanwhile they pursue a shadowy and frequently illegitimate existence, that makes life in many neighborhoods untenable for normal working families. It was estimated in 1968, a prosperous year, that on any one day 30,000 low-paying service jobs were going begging in New York City while the welfare rolls neared a million.

In many respects, the central cities have become an entrapment for large numbers of low-income minority families as employment opportunities decline or provide only a low level of sustenance. It is in this context that the housing problem of these cities must be viewed. By and large, the housing market has become too weak to support

much more than heavily subsidized/^{new}housing (Section 236 one-percent rental housing plus rent supplements for public housing-eligible families). Moreover, incomes of a large proportion of these families are too low to pay rents sufficient to permit older but habitable existing housing to be kept at a reasonable level of maintenance and repair. The problem in the central cities is less one of housing shortage than of restoring the livability of neighborhoods that have lost this quality and of maintaining or rehabilitating housing in essentially sound structures. The low incomes of its inhabitants is reflected in reduced income for public services in these cities at a time when the maintenance of services has become more important than ever. Many cities have been pushed to the brink of bankruptcy with their abnormal load of dependent population in the face of weakening economies. The definition of the housing problem of such cities lies in the fact that the household budgets of one-quarter to one-third of the households of many cities, whether derivable from welfare or from low-paid employment, does not permit these households to pay the full costs of proper maintenance of older existing housing. Given such conditions, continued abandonment of housing that could provide many years of useful service becomes inevitable.

The housing problem of the Nation's outer areas

The outward flow of jobs to today's new urban centers that yesterday were the cities' bedroom suburbs has created a different set of problems. Most of these land areas are developed at low residential densities. Remaining vacant land almost invariably is locked in similarly low-density zoning. The residential construction that does

take place is conventional development at going market rates which, by definition, provides housing for the upper 30 or 40 percent of the income groups of the metropolitan area.

With cities less able to support their population growth because of static or declining job opportunities, it becomes important to permit excess population of these cities to be drained off to follow the growth of job opportunities. Historically, employment growth occurred within central cities with an existing supply of housing continually being augmented by the movement of the middle and upper classes to new housing in an ever outward push. With the leap-frogging of new employment growth into suburban and exurban areas, however, severe problems of access and housing have been created for the low-income, less mobile segments of our society. While housing surpluses (and abandonment) develop in the cities, new housing requirements are created in the outer areas to a greater extent than ever.

The foregoing defines the housing problem outside the central cities. The Nation needs new ground rules, in the most literal sense, to cope with the problem. A primary requirement is that national housing policy must accommodate to this change by encouraging the provision of new housing at a wide array of prices and rents and at rational densities in the new areas of economic development. Only in this manner will the shift of workers into these growth areas become possible. Although many workers today are reverse commuting to these jobs from the cities, probably many more are precluded from obtaining employment because of inability to find housing in areas of new job opportunities.

A housing program for the Nation's central cities

It is beyond the scope of this paper to deal with the larger problem of the ultimate economic viability of the Nation's older central cities. It is a truism that the viability of these areas hinges upon the development of adequate levels of employment for their populations. A second crucial requirement for the survival of central cities is substantial reinforcement of the flow of municipal operating revenues to revitalize services in declining neighborhoods. Conceptually, a fully Federally funded, well administered Model Cities type of approach has potentials for success in this direction.

Much has been written and discussed about direct housing assistance for low-income (non-welfare) families as a means of supplementing the ability of such families to afford existing housing at rents that permit this housing to be properly maintained. Not only does such a program differ from the emphasis on new construction contained in existing Federal programs, the family housing assistance approach has been proposed as a replacement for these programs in older cities with surplus housing that is experiencing deterioration and abandonment. Ira S. Lowry's exposition of such a program is summarized as follows:

1. It is designed to promote modest improvements in the housing conditions of low-income families, depending for this purpose on the existing housing inventory rather than on new construction.
2. It provides for assistance on equal terms for all eligible families rather than limiting benefits to a small fraction of those who are nominally eligible.
3. It offers a new device--rent certificates--for delivering assistance directly to low-income families,

requiring them in turn to find their own housing on the private rental market and to negotiate rents and conditions of occupancy directly with the landlord.

4. It provides for a continuous check on the quality of the housing occupied by assisted families, prohibits the use of public funds to subsidize occupancy of substandard units, and creates incentives for both landlords and tenants to cooperate in housing maintenance and improvement. 7/.

Lowry aims the program at "the critical housing problem of most central cities today: not a shortage of housing units, but too little effective demand to support adequate maintenance of older buildings. These buildings could provide decent, safe, and sanitary accommodations for low-income families but are now being lost at an unprecedented rate through deterioration and abandonment."

"The proposal is...specifically addressed to a situation that is characteristic of most of the Nation's large central cities and many of the smaller ones: they have large inventories of old housing suitable for renter occupancy and their populations are shrinking."8/ The basis of Lowry's proposals stem from measures of the cost of moderate rehabilitation in New York City that indicate 750,000 apartments could be upgraded to comfortable living standards at an incremental annual rent of \$411 to \$690 per year over a rent base averaging \$909 per annum. The alternative is the continued deterioration and eventual abandonment of much of this essentially sound housing supply. Although the cost of this assistance is not cheap, it is minute compared with the capital costs of replacing this housing. Lowry estimated that 38 percent of all New York City's renter households (799,000) were eligible for, but not receiving, public housing (or welfare) assistance. Although this

does not imply that all eligible families require rent assistance, it does suggest the potential magnitude of this type of housing aid--a figure approaching \$400,000,000 annually for New York City families alone. If New York City's low-income families constitute one-eighth of those in the Nation's central cities, the foregoing discussion suggests a potential cost of 3 billion dollars annually simply for the central cities of the Nation.

An essential corollary to the foregoing proposal is the strengthening of the mortgage finance system for the central cities' older housing stock. If the experience of New York City is any guide, mortgage financing institutions have been withdrawing their resources from this sector of the real estate market as rapidly as feasible. George Sternlieb, whose monumental study of New York City's rental housing supply in 1970 extensively documents this fact, comments as follows: "The significance of these findings to the vigor of the residential real estate market in New York City is beyond doubt. The largest single source of funds typically used by owners to rehabilitate their buildings involves the refinancing of paid down mortgages. For example, the relative unwillingness of banks [that presently hold such mortgages] to extend financing means that this significant source of improvement money is substantially blocked off." 9/

Restoration of this source of mortgage financing would be enormously enhanced by extension of the Federal Housing Administration's mortgage insurance system to mortgage extension and rehabilitation loans on older buildings that under present statutes do not qualify for mortgage

insurance. Without a dollar's worth of direct outlays (except for administrative costs and defaults) such a step would enormously accelerate the flow of institutional lender's funds into existing housing that today has reached a low ebb in most older central cities.

The foregoing proposals do not necessarily preclude aided new construction from being undertaken in the central cities. New construction is essential to renew abandonment areas that are beyond rehabilitation and to replace existing obsolete and deteriorated housing that does not warrant rehabilitation. Some flow of new construction also is required to prevent the creation of excessive inflation in rents and costs of existing housing to the extent that household growth occurs in cities. The Federal Section 236 program may have to be liberalized to make this possible in high cost central city areas.

A housing program for outlying areas

It is in the outlying growth areas of the Nation that the housing programs created in the Housing Act of 1968 and subsequently could realize their brightest potential. Both the Section 235 (one percent mortgage) home ownership program as well as the Section 236 (one percent mortgage) rental housing program used in tandem could aid enormously in leavening the higher-cost conventional housing customarily constructed in growth areas. This type of programming of moderate income housing (together with some low-income rent supplement assistance piggy-backed on the rental program) would permit the entry of moderate-income and lower-income families into outlying employment growth areas. As a matter of public policy,

the Congress could authorize the use of rent supplement housing, in addition to present eligibility requirements, for potential movers into areas of new employment growth upon the showing that they (a) were offered employment in the area and (b) fell within eligible income limits.

The problem of local zoning and code restrictions, if not finally dealt with by the courts, might conceivably be approached by state or federal legislation as one possible means of dealing with restrictions against Section 236 and other multi-family housing.

New York State has contributed the Urban Development Corporation, with its State-wide outlook on the distribution of housing in the direction of new economic growth. The Corporation, with its power to override local codes and zoning, is breaking new ground in moving toward such a broad conceptual approach.

Thus, for the outlying areas of the Nation, existing tools are fully sufficient to deal with the need for new housing. It remains only a matter of sufficiency of funding and effective administration to see that the funds are properly targeted to growth areas where the encouragement of migration would be economically fruitful in terms of meeting the demand for an expanded labor supply beyond that which the area currently can supply.

If the foregoing proposals for meeting the housing problems of the 1970's are sound, and are implemented, it will mean that the filtration or turnover process will be supplemented by measures to make its effects more constructive than has been the experience of the 1960's.

- 1/ Frank S. Kristof, "Federal Housing Policies, Subsidized Production, Filtration and Housing Policy Objectives," Land Economics....
- 2/ F.S. Kristof, "Housing Policy Goals and the Turnover of Housing", Journal of the American Institute of Planners, August 1965, pp. 241-242.
- 3/ J.B. Lansing, C.W. Clifton and J.N. Morgan, New Homes and Poor People, Survey Research Center, Institute for Social Research, University of Michigan, Ann Arbor, 1969, p. 49.
- 4/ Ibid., p. 49.
- 5/ Center for Community Change and the Urban League, National Survey of Housing Abandonment, April 1971, p.6.
- 6/ Ibid., pp. 27-28.
- 7/ Ira S. Lowry, "Housing Assistance for Low-Income Families: A Fresh Approach", Papers submitted to Housing Subcommittee, Committee on Banking and Currency, Housing of Representatives, 92nd Congress First Session, June 1971, p. 489. The author spells out in detail the administrative requirements necessary to accomplish the outlined objectives.
- 8/ Ibid.
- 9/ George Sternlieb, The Urban Housing Dilemma, New York City Department of Rent and Housing Maintenance, 1970, p. 645.

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