

## SUBCOMMITTEE REPORT ON PROMOTING HOME OWNERSHIP AMONG SLUM RESIDENTS

### I. Factual Background

1. The federal government already provides a very significant subsidy for home ownership among middle-income and upper-income groups through income tax deductions for interest and property taxes.
  - a. In 1962, this subsidy amounted to a \$2.9 billion tax saving for middle- and upper-income groups.
  - b. The uppermost 20% of all families (with incomes over \$9,000) received a subsidy of \$1.7 billion in 1962 — or double the total 1962 housing subsidy given to the lowermost 20% in the form of public housing costs, welfare housing payments, and tax deductions combined.
2. In general, owner-occupied homes in slum areas are in better physical condition than renter-occupied homes. However, this may result from the fact that owners generally have higher incomes and more assets than renters, rather than from ownership per se.
  - a. The proportion of substandard units among families with incomes below \$4,000 in central cities in 1960 was 8% for owner-occupied units and 21% for renter-occupied units.
  - b. The proportion of unsound dwelling units among all families in central cities in 1960 was 11% for owner-occupied units and 33% for renter-occupied units.
  - c. There is a strong consensus among housing experts and social workers experienced in slums that providing families who want to own homes with a chance to do so would induce significantly greater responsibility on their part toward maintenance of both property and general neighborhood conditions.
3. Low-income residents get less quality per dollar of rent than higher-income residents, and non-white get less than whites.
  - a. In Houston, 80% of low-income families paying \$40 to \$60 per month rent lived in deteriorating or dilapidated units, as compared to only 21% of families with incomes of \$3,000 to \$6,000 paying the same rents. Similar findings (but less extreme) were made in all cities recently studied.
  - b. In Chicago, whites and non-whites both paid a median rent of \$88 per month in 1960, but the median unit for non-whites was smaller and more crowded, and 30.7% of all non-white occupied units were deteriorating or dilapidated, as compared with 11.6% of all white-occupied units.

4. Absentee ownership is higher in slum areas than in non-slum areas for comparable types of property. However, this could be a result of slum conditions (for example, many people wealthy enough to be owners may not want to live in slums) rather than a cause of them.
5. Residents of poverty areas and racial ghettos consider obtaining decent housing to be one of their most significant problems. Yet they often feel frustrated by their apparent inability to improve their housing conditions through their own action.
  - a. Most social workers and other observers of slums believe that many very low-income families have a strong desire to own their own homes.

## II. Objectives of Programs Encouraging Home Ownership

1. Providing more persons living in slums with an opportunity of shaping their own destiny regarding the nature and condition of their housing. This would help them (a) develop a stake in society, (b) derive significant benefits from governmental and other institutions they now regard with suspicion or hostility, (c) learn how to make good use of such institutions, and (d) increase the feelings of self-esteem, pride, and adequacy which are so battered by life in slum areas.
2. Improving the quality of housing occupied by slum dwellers, and the quality they receive per dollar of expenditure on housing.
3. Providing a greater incentive for slum dwellers to better maintain the property they live in, and to generally improve their own lives.
4. Improving landlord-tenant relations among slum dwellers by shifting from absentee to resident landlords.
5. Providing easier and more widely accessible means for some slum families to "escape" from slum areas by buying homes in non-slum and non-ghetto areas which are nearer to new sources of jobs and have better-quality environments and government services.

## III. Constraints Under Which Any Programs Should Operate

1. Programs encouraging home ownership among persons now living in slums should involve two major facets: improving housing conditions and household morale in slum areas, and helping households now living in those areas move to better neighborhoods. Neither of these facets should be neglected.
  - a. Those parts of any program concerned with slum areas themselves should be linked with rehabilitation of housing in such areas.
  - b. Those parts of any program concerned with helping people move out of slums need not be linked with rehabilitation.

2. Home-ownership-encouraging programs should be tried and developed only in three types of areas:
  - a. Slum areas where the entire environment is being upgraded through other programs, such as improved government services, better schools, intensive social work, etc. Ownership alone is not a panacea and cannot cope with all the depressive factors in slums. Hence slum ownership programs should be tied in with Model Cities Programs.
  - b. Older but well-established and stable neighborhoods generally in good physical condition and supplied with good-quality government services. In such areas, programs could be both linked with rehabilitation of the few run-down structures present, or carried out with housing already in good condition. The units involved would be occupied by either new owners moving in from slum areas, or present renters in the neighborhood assuming ownership.
  - c. Newer and outlying and suburban neighborhoods in excellent condition and supplied with good-quality government services. Here slum dwellers would assume ownership of housing already in good condition.
3. Programs encouraging home ownership by slum dwellers must not work to their disadvantage. These programs should neither cause such households to invest in property likely to depreciate rapidly in value, nor "lock them into the slums" and block their chance to move out into better neighborhoods. Therefore:
  - a. Such programs should not be undertaken in slum areas where conditions are so bad that most of the dwellings will eventually be demolished and replaced.
  - b. Such programs should not be undertaken in any slum areas unless "all-out" environment-improving programs are also currently underway.
  - c. Such programs should embody a "take-out" feature. It would consist of a guarantee by some public agency to buy the unit back from its new owners within a certain time period at no loss to them in case they decide (1) they would rather move out of the slum area altogether, (2) they cannot handle the continuing burdens of ownership, or (3) they do not want to own this property because of continuing decline in the quality of the neighborhood as a whole. However, owners would be allowed to keep at least a portion of any capital gains resulting from their selling their property to other persons likely to maintain the property adequately.
4. Ownership-encouraging programs linked to the rehabilitation of slum properties should require it to occur before those properties are transferred to their new owners. The costs of rehabilitation can then be built into the debt structure of

these properties. Such costs can then be subsidized through (a) elimination of any required down-payment, (b) use of below-market-interest-rate loan funds, (c) provision of rent subsidies to tenants in resident landlord buildings, and (d) provision of ownership subsidy payments to new owners who are not landlords.

5. In order to make even the lowest-income groups eligible for these programs, it would be desirable to change public aid regulations so that welfare payments for housing could be applied against debt service and other ownership costs as well as against rent.
6. Such programs should not result in the reaping of large profits by absentee owners who have refused to keep up their properties, but who are required by these programs to sell their properties to others.
7. Ownership-encouraging programs for slum dwellers must embody significant pre- and post-ownership counseling and financial help administered by organizations located in the slum areas themselves. These supplementary programs are essential to help the new owners with the legal, financial, maintenance, and rehabilitation problems they will encounter after assuming ownership.
8. Such programs should not require either the new owners or their tenants to raise significantly the proportions of their incomes they spend on housing, since that proportion is already high.
9. Because of the uncertainty concerning the possible success of ownership-encouraging programs, and the particular forms of them which will be most effective, they should be started on an experimental basis. This implies that:
  - a. Several different formats should be started simultaneously, and each should be tested under a variety of conditions.
  - b. Such programs should be started on a relatively small scale, and expanded to larger-scale operations only after some experience has been gained about which formats are most effective.
  - c. Each experiment should be designed so that its effectiveness can be accurately evaluated within a relatively short time. The objectives which should be weighted most heavily in such evaluation should be those concerning the program's impact upon the individual households and families involved, rather than its impact upon the physical condition of housing, or the fiscal status of the cities concerned.
  - d. The federal agency sponsoring such programs should develop a set of specific formats which it seeks to test, and should be sure that each of these formats is given an effective test in one or more cities.

- e. Individual experiments should be incorporated in the Model Cities Program in many cases, since this program has been created to stimulate and test innovations in coping with slum conditions.
- 9. Programs encouraging home ownership among slum dwellers should not be evaluated in terms of their effectiveness at saving money in relation to other housing programs (such as urban renewal or public housing). They will probably cost no less than such other programs, and perhaps more. But they can be evaluated in terms of their effectiveness at saving money in the long run by reducing the costs of other programs aimed at coping with the impacts of slum areas upon individuals. Examples are welfare programs, police action, and anti-delinquency programs.
- 10. Ownership-encouraging programs can be best undertaken when normal market forces are bringing about a rapid expansion in the total supply of housing through extensive construction of new multi-family and single-family homes. Otherwise the additional demand for housing generated might simply aggravate any existing shortages and drive up prices and rents, rather than increasing the supply available to low-income families. This means such programs will function best when interest rates are relatively low rather than in a "tight money" climate.

#### IV. Suggested Programs

- 1. A program to locate slum dwellers now renting in absentee-owned buildings who might become successful resident landlords, to find buildings appropriate for conversion from absentee- to resident-landlordship, and to assist the persons found to assume ownership of those buildings.
  - a. The program would involve full subsidies for down payments where required, and would finance on-going operating expenses and debt amortization out of rents.
  - b. Costs of any rehabilitation necessary to bring the buildings up to conformity with relevant codes would be capitalized into the debt structure.
  - c. Below-market-interest-rate loans would be used to finance purchase.
  - d. It would concentrate upon buildings now in poor condition, but still capable of satisfactory rehabilitation without enormous costs. These buildings could be acquired from their absentee owners through a "squeeze-out" process of code enforcement with minimum public investment.
  - e. This program would be applied only in "minimum-sized pieces." Each would involve a certain minimum number of buildings located close together in a single block or a few adjacent blocks. The number of units would be of sufficient "critical mass" to affect the entire environment of

the block or blocks involved. Moreover, each such "critical-mass-sized piece" would be processed simultaneously and as a whole by the government agency handling the program, rather than one building at a time.

- f. The families seeking to become resident landlords under this program would not have to remain in the specific buildings they now occupy, but should be allowed to assume ownership in the neighborhoods where they now reside.
  - g. In cases where recovering the cost of rehabilitation required rents in excess of the ability to pay of local low-income households, rent subsidies would be linked into the ownership-encouragement program. The combined effect would (1) provide rehabilitated units for low-income renters and (2) allow some low-income families to become resident landlords in these rehabilitated buildings.
  - h. The program should be run by new, locally-officed organizations operating under the jurisdiction of the Assistant Secretary of Housing and Urban Development for Demonstrations and Research.
    - (1) Because the basic objective of this program would be a change in the social conditions and mental attitudes of slum dwellers, it would be desirable for primary responsibility to rest in some agency other than FHA. This would allow FHA to retain its basic "prudent investment" orientation without conflicting with the objectives of this program, which vary from "prudent investment." As long as this program is much smaller than FHA's other activities (and it must be at least to start), it would be difficult for FHA to generate the necessary enthusiasm and outlook to encourage the high-risk and frankly experimental operations essential to success.
    - (2) The Assistant Secretary should set general standards of performance and evaluation for the program. However, he should be free to create a variety of specific organizational arrangements with local groups to operate the program in different metropolitan areas. Examples are non-profit corporations, church groups, unions, or city departments.
    - (3) Each such organization should operate local neighborhood offices to assist new owners with (a) pre-ownership training in housekeeping, making minor repairs, and legal responsibilities, (b) counseling on maintenance and financing during the initial ownership period, and (c) follow-on counseling as necessary.
2. A similar program to help renters in slum areas take over ownership of individual units in multi-family buildings on a condominium basis (but not on a cooperative ownership basis).

- a. This program would have all of the attributes of the first program described above except the use of rent subsidies (part g).
  - b. If the incomes of the potential owners were not sufficient to pay the carrying costs of ownership, then an additional continuing subsidy could be used. This subsidy would be considered the equivalent of the interest and property-tax deduction subsidy enjoyed by middle-income and upper-income households. Since low-income households do not have enough income to benefit from such deductions, they would be given direct cash equivalents. The higher the income, the lower the equivalent; the larger the household, the higher the equivalent -- other things being equal.
3. Another program to help renters of single-family dwellings in slum areas (like Watts) take over ownership of their dwellings or of other similar single-family dwellings nearby. This program would also have all of the attributes of the first program described above except the use of rent subsidies. It would make use of income-tax-deduction-equivalents, as described under the second program set forth above.
4. A fourth program designed to encourage slum dwellers to move into non-slum areas by buying single-family or two-family buildings, or individual units in condominium buildings, in such areas.
  - a. This program would involve full subsidies for downpayments where required.
  - b. It would be focussed upon buildings already in standard condition and therefore needing very little rehabilitation.
  - c. It would involve individual buildings scattered throughout neighborhoods containing socio-economic levels above the slum areas, but not as high as upper-middle-income areas. However, the condominium parts of the program would involve entire buildings operated under the program.
  - d. It would incorporate the aspects of the first program described above set forth in paragraphs IV, 1, f-g-h. It would also incorporate the continuing subsidy based upon income-tax-deduction equivalents described in paragraph IV, 2, b above.
  - e. The organization operating this program should have a metropolitan-area-wide jurisdiction rather than covering only the central city therein. In fact, it should emphasize placement of former slum dwellers in suburban areas where possible. Yet this organization should be the same as, or closely linked to, whatever organization administers the other programs described above.
  - f. The exact locations of the housing selected for use in this program should be based upon the following considerations:

- (1) The housing units selected should be in sound neighborhoods but should not be far beyond the economic capabilities of the households moving out of the slums. Hence these households might be expected to assume full ownership without a continuing subsidy after a certain period.
  - (2) There should be a mixture of Negro and white households involved. Some of the slum move-outs should result in relocation of Negro families in previously all-white or predominantly-white areas, and some should result in placement of Negroes in previously Negro areas and whites in previously white areas.
  - (3) In no cases should the households moved out of slums under this program be concentrated together in the receiving neighborhoods to such an extent as to become a dominant group in any given block or elementary school district.
  - (4) If possible, the neighborhoods chosen should be close to the type of jobs possessed by the families moving out of the slums, and to sources of new employment opportunities being created in the metropolitan area.
  - (5) If possible, the neighborhoods chosen should be parts of cities benefiting from other federal programs (such as urban renewal, the Interstate Highway Program, or federal aid to education) the continuance of which might be linked at least informally with willingness to co-operate with this program. Similarly, this program might be linked with defense procurement activities in communities benefiting from defense production contracts.
- g. This program would not involve the creation of resident landlords (except in two-unit buildings) by elimination of absentee landlordship.
- h. It might be desirable to link this program with the other programs encouraging ownership of buildings in slums by slum-dwellers. This could be done through some type of formula which would require provision of a certain number of "slum-escape" units for each set of "slum-renovation" units involved.
5. All of the above programs should be linked to a number of other federal programs or policies aimed at reducing the impact of ethnic discrimination upon housing markets. Discrimination creates a "back-pressure" in areas readily available to minority groups which tends to raise prices therein. This makes it harder for residents to own their own homes, and reduces the incentive of absentee landlords to improve deteriorated slum properties. Among the possible ways to counteract these forces might be:
- a. Requirement that any dwelling units financed with mortgages furnished by institutions supported by federal agencies (such as banks and savings and loan associations) be sold or rented on a non-discriminatory basis.

- b. Creation of public housing on vacant land, particularly in suburban areas, preferably on scattered sites in relatively small, low-rise projects. This assumes that the housing so created would be integrated, preferably with a Negro minority, rather than 100 percent Negro.
- c. Subsidization of private groups designed to help Negro households move into previously all-white neighborhoods in suburbs and peripheral neighborhoods in central cities. (An example is the group of this type in Hartford, Connecticut). Such subsidy could consist of granting of tax exemptions, or allowing the sale of tax-exempt securities, as well as provision of grants to cover capital or operating costs.

V. Estimated Costs of Ownership-Encouragement Programs Undertaken at Various Scales

- 1. Basic assumptions underlying these cost estimates are derived from FHA experience and census data. They are as follows:

- a. The total cost of acquiring and rehabilitating either single-family or multi-family housing will be \$12,500 per unit.
- b. Total per-unit monthly operating expenses are \$48.46 for single-family houses, and \$49.42 for multi-family buildings (including a \$9 allowance for vacancy and contingencies but no allowance for management fees).
- c. Household incomes have risen about 25% since 1959, when the income distribution among occupants of substandard housing units who earned less than \$6,000 per year was as follows:

Under \$2,000	51.9%
\$2,000 - \$2,999	17.2%
\$3,000 - \$3,999	13.5%
\$4,000 - \$4,999	9.3%
\$5,000 - \$5,999	6.4%
Total	100.0%

- d. The proposed programs will extend assistance to members of all these income groups proportionately. Hence calculations about the total subsidy required can be based upon the weighted average 1965 income of the entire group, which is \$2,840 per year.

- e. Households can devote 25% of their incomes to housing. This amounts to a weighted average of \$59.16 per month for the entire group involved.
- f. All costs of acquisition and rehabilitation will be incorporated into the total initial loan and amortized over a 30-year period on a no-down-payment basis.
- g. Multi-family programs will utilize 12-unit buildings and provide no explicit allowance for owner profits.

2. These assumptions lead to the following conclusions:

- a. The annual rate of direct subsidy per unit, not counting administrative costs or losses of interest from below-market rates, would be \$504 for a single-family program and \$516 for a multi-family program at a 3% interest rate. Hence direct subsidies per unit are very similar for the two programs.
- b. Direct subsidy costs are very sensitive to changes in interest rate. For a single-family program, the variation is from \$772 per unit per year at 6% to \$504 at 3% and \$288 at zero interest. However, if losses in interest are counted as costs, this sensitivity drops to zero.
- c. Direct subsidy costs are also very sensitive to changes in the income-composition of the groups served. Excluding families with incomes below \$2,000 raises the weighted average amount available per month for housing from \$59.16 to \$94.88. This reduces the annual single-family subsidy at 3% interest from \$504 per unit to \$75 -- a drop of 85%. However, it also excludes 52% of the households with incomes under \$6,000 living in substandard housing.
- d. Total costs at various scales of operation (excluding administration) are similar for both single-family and multi-family programs. Hence they can both be illustrated by the following table for single-family programs, assuming a 3% interest rate:

<u>Number of Housing Units</u>	<u>Annual Direct Subsidy Charges (\$ millions)</u>	<u>Required Initial Loan Fund Allocations (\$ millions)</u>
5,000	\$ 2.520	\$ 62.5
10,000	5.040	125.0
25,000	12.600	312.5
50,000	25.200	625.0
100,000	50.400	1,250.0

- e. The above table is based upon proportional participation by all income groups under \$6,000 per year. Variations in total costs at these scales resulting from changes in interest rates or income-group composition can be roughly estimated from points (b) and (c) above.
3. The significance of the scale of home-ownership programs depends upon the total number of slum families living in substandard housing who would like to become owners.
    - a. In 1960, there were 6.9 million renter households living in central cities. About 818,000 (12%) lived in substandard units; 508,000 of these had incomes under \$4,000. Another 992,000 (14%) lived in standard but crowded units; 390,000 of these had incomes under \$4,000. Hence the potential central-city "universe" consists of 1.8 million renters in substandard or crowded units, of whom 898,000 had incomes under \$4,000 in 1960. Of course, nowhere near all of these households wish to become owners.
    - b. There were actually more renter households in substandard units outside central cities than inside them in 1960: 1,923,000 vs. 818,000. However, except for 205,000 located in the urban fringes of metropolitan areas, these households should perhaps not be considered as "slum residents."
  4. The cost of home-ownership programs is similar to that of rent supplement programs, counting only direct subsidy payments. The direct rent supplement subsidy averages about \$600 per unit per year, as compared to \$504 per unit per year for single-family home ownership at 3% interest. However, if interest losses due to below-market rates are counted, then another \$268 per unit per year must be added (if the market rate is considered to be 6%). This increases the per unit per year cost of the home-ownership program to about 29% above that for the rent supplement program, excluding administrative costs from both.

## VI. Recommended Additional Research

1. Some of the concepts and quantified estimates set forth above have been based upon admittedly inadequate or unreliable data. Therefore, we recommend that additional research be undertaken before the programs described herein are given final approval in concept or designed in detail.
2. Consequently, reliable information about the following should be obtained:
  - a. Accurate estimates of total operating costs for multi-family housing to be developed under any ownership program. The operating cost estimates and contingency allowances used in the above calculations were supplied by FHA. However, we believe they may be low, because operating costs normally run 60% of total gross revenue, and not all funds available for debt service are actually applied to debt service.

- b. The required attributes of home owners in slums. Probably they revolve around steady employment, the availability of multiple family members some of whom are home and can keep track of the property, reasonably good character record, etc.
- c. The specific urban areas classified as slum areas for purposes of these programs, and certain data about them.
  - (1) Number of dwelling units by type of structure: small multi-family, large multi-family, and single family.
  - (2) Number of households living therein and their major income, ethnic, and family size characteristics.
  - (3) Condition of structures.
- d. The number of persons or households in these areas who have the required characteristics for ownership, absolutely and as a percentage of the total.
- e. Ways in which ownership programs can be tied into over-all strategies concerning low-income housing and the amelioration of ghettos so that they do not merely perpetuate slums by "locking in" the new owners of old buildings.