MICHIGAN'S AFFORDABLE HOUSING CRISIS

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Federal housing programs have been vital to sustaining a supply of affordable low-income rental housing in Michigan and across the country. But each year, the privatization and deregulation of rental apartments subsidized through the U.S. Department of Housing and Urban Development (HUD) removes more units from this supply. Efforts by state and local governments, along with nonprofit, community based housing organizations, have not been enough to meet the demand for decent affordable housing, resulting in a growing affordability crisis for low-income households. This policy brief reviews recent changes in federal housing assistance programs and assesses the impact of these changes on low-income housing affordability in Michigan.

Historical Background

HUD was established as a new cabinet agency in 1965, consisting of the Federal Housing Administration (FHA), urban renewal, and public housing programs. Following the civil rights movement and urban rioting of the 1960s, HUD's mandate was expanded to include the enforcement of open housing standards and the administration of new community development initiatives (Model Cities).

This agenda was scaled back by President Nixon, who declared a moratorium on housing and community development assistance in 1973. The Housing and Community Development Act of 1974 consolidated urban renewal and Model Cities into the Community Development Block Grant (CDBG) program, and instituted the Section 8 program of housing allowances for developers to expand the supply of affordable privately owned multifamily rental housing. The legislative goal was to achieve the "spatial deconcentration of housing opportunities for persons of lower income and the revitalization of deteriorating or deteriorated neighborhoods to attract persons of higher income." [1]

According to the National Housing Trust, 600,000 units of rental housing were constructed under HUD's Section 221(d)(3) and Section 236 programs between 1965 and 1975; another 800,000 units were developed under Section 8 from 1974 to 1983. By the 1990s, however, use restrictions that kept rents of these units affordable in exchange for interest rate and related subsidies began to expire. As mortgage loans were paid, owners of many affordable housing units exercised their option to transfer such units to market-based rents. After 1980, HUD began to

Recent Trends in HUD Housing Programs

- ✓ Diminished appropriations from Congress.
- ✓ Large scale public housing developments torn down for redevelopment under HOPE VI.
- ✓ Multifamily housing developments converted to market rates as use restrictions expire.
- ✓ Conversion of Section 8 Program from project-based subsidies to tenant-based vouchers.

significantly change the way the department provided assistance to low-income renters. Although the number of low-income households eligible for HUD assistance continued to increase each year, HUD began reducing its development subsidies (through Section 8 and the multifamily loan programs of FHA), and also began to phase out project-based public housing. Such reductions helped fuel a rise of homelessness during the 1980s, and contributed to changes in federal policies to prevent displacement through the Emergency Low Income Housing Preservation Act of 1987 and the National Affordable Housing Act of 1990.

In the mid-1990s HUD developed a plan to make significant changes to federal housing programs. The 1995 "HUD Reinvention" plan states as its

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goal to eventually convert all federal rental assistance into subsidy certificates that tenants can use in a deregulated and "competitive" low-income housing market. The plan also proposes to privatize FHA as a government-sponsored enterprise, and consolidate 60 other HUD programs into three competitive block grant funds, extending the concept of performance-based deregulation to this new program delivery system. These proposed reforms were based upon earlier blueprints for the HUD reinvention: the 1991 report of the private Twentieth Century Fund Task Force on Affordable Housing, the 1992 report of the bipartisan National Commission on Severely Distressed Public Housing, and the National Performance Review conducted by Vice President Gore in 1993. [2]

By 1996, a bipartisan drive to balance the federal budget stopped the allocation of new Section 8 vouchers at a time when expiring low-income use restrictions and other factors continued to reduce the supply of subsidized apartments.[3] Public housing units were being demolished for redevelopment through the HOPE VI program; new "mark to market" policies reduced project-based federal subsidy payments to HUD landlords, leading some to prepay their HUD mortgages in order to deregulate the rents. The privatization of Section 8 and FHA multifamily projects accelerated, except where these received one-year subsidy renewals, or were refinanced or transferred to new owners to preserve affordability.

HUD continues to maintain subsidies for affordable low-income rental housing units, but FHA, the Section 8 program, and public housing authorities no longer lead the production of this housing. Instead, local governments subsidize production through HUD community development (CDBG) and housing (HOME) block grants. Future spending for such block grant programs will likely be restricted by the balanced federal budget.

HUD-Assisted Housing In Michigan

According to the most recent data available, the U.S. Department of Housing and Urban Development (HUD) subsidizes the affordability of 113,000 apartments in Michigan for low-income renters. An estimated 42 per cent of Michigan's HUD renter households are black, 37 per cent are headed by someone aged 62 years or older, and one in every five that are headed by someone younger than 62 include a person with a disability. The average HUD renter in Michigan has a household income of $11,398. HUD tenants in Michigan are estimated to number nearly 200,000. [4]

Until recent years, the largest category of assisted units was buildings that receive long-term project-based subsidies through Section 8 construction and rehabilitation contracts (see Table 1). In Michigan, such subsidies mostly financed new construction, sometimes in tandem with HUD programs for elderly (Section 202) or handicapped (Section 811) renters. Project-based subsidies were also allocated to FHA-insured Section 236 rental developments, and to other privately owned multifamily housing.

A significant consequence of the HUD reinvention plan has been the replacement of project-based subsidy programs by voucher certificates. Overall, the number of HUD subsidized units in the state declined by 24,518 after 1996. Approximately 40,000 Michigan households now receive rent vouchers from HUD to negotiate for housing, an increase of 50% since 1996. In the same period, the number of units in the Section 8 New Construction and Substantial Rehabilitation program declined by more than 12,500.

Public housing, managed by local housing commissions, remains an important source of affordable housing across Michigan—particularly for the low-income elderly—but these apartments have also declined in number, to less than 26,000 units.

Program	Number of Units, 1996	Number of Units, Dec. 2000
Section 8 Certificates and Vouchers	26,282	39,421
Section 8 New Construction and Substantial Rehabilitation	40,618	28,030
Public Housing	29,261	25,599
FHA Section 236	23,351	12,751
Other Subsidy Programs	16,908	5,327
Section 8 Moderate Rehabilitation	1,192	1,966
Total	137,612	113,094

Table 1. HUD-Subsidized Rental Housing in Michigan, 1996 and 2000 (Source: HUD)

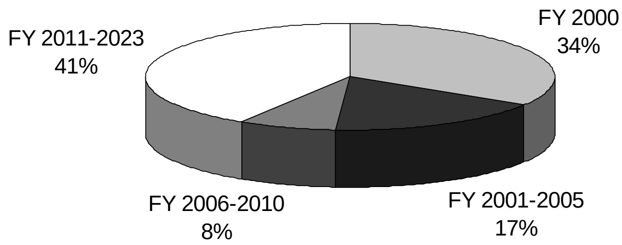

Figure 1. Distribution of Multifamily Units in Michigan with Project-Based Section 8 Assistance, by Date of Expiration (Source: HUD, 1999)

The Growing Affordability Crisis

The HUD reinvention is jeopardizing the supply of affordable low-income rental housing in Michigan. According to the Section 8 expiring contracts database, 24,384 apartments across the state have rental assistance contracts that end by 2001. So far, HUD has kept many of these units affordable through one-year subsidy renewals. But during HUD's fiscal year 1999, 3,734 Section 8 apartments in Michigan lost their subsidies.[5]

The expiration of project-based subsidies is accelerating. The subsidies for more than one-third of the multifamily housing units in Michigan with project-based Section 8 assistance were slated to expire during fiscal year 2000 (see Figure 1). In all, more than half of the subsidized units in the state are scheduled to expire by 2005. Some of these apartments are retained in the affordable stock through the voluntary participation by owners in subsidy renewal opportunities, or else replaced (if at all) by short-term tenant-based vouchers.

In 1999 there were 693 multifamily rental housing developments in Michigan with a total of 58,530 units that received subsidies through long-term, project-based rental assistance contracts. These housing units are distributed throughout the state, with nearly one-half in Wayne, Oakland, and Macomb counties. As shown in Table 2, fifteen municipalities and townships accounted for nearly half the statewide total of units.

The demolition of public housing—authorized under the HUD HOPE VI program and the Quality Housing and Work Responsibility Act of 1998—and the prepayment of FHA-insured mortgages on affordable multifamily housing, accelerated by the HUD reinvention, will further reduce the supply of subsidized housing in Michigan.

The continuing loss of HUD assisted housing units is taking place as the demand for affordable low-income rental housing across the state grows each year. According to the Census, nearly one million people in Michigan, or about 10 per cent of the population, are living below the poverty line. This far exceeds the number of people in the state who live in HUD subsidized rental housing. Many of the new poor are under the age of 18. When federal welfare reform began in 1997, these youth living in poverty accounted for 42 per cent of the total Michigan poor. A preliminary survey of Michigan welfare households affected by the 1996 Personal Responsibility Work Act found that some faced immediate eviction upon the termination of their public assistance benefits.[6]

These problems are most severe in the largest cities. According to HUD estimates in recent years, 23,000 households in Detroit are on the waiting list for federal housing assistance. There are 51,000 low-income renters in the city of Detroit (with incomes less than 50 per cent of the area median) who pay over half of their income for rent, or live in severely substandard housing. Another 40,000 of these renters live in the surrounding suburbs. HUD computes a fair market rent to determine the amount of subsidy allocated to tenants. According to the Low Income Housing Information Service, 38 per cent of all renters in Michigan would have to spend more than 30 per cent of their income to pay the HUD fair market rent for a two-bedroom apartment.

Community	Units	Percent Expiring by 2001
Detroit	9,559	31.9
Kalamazoo	2,535	43.2
Grand Rapids	2,169	38.5
Lansing	1,661	22.0
Flint	1,635	57.1
Ypsilanti	1,619	69.3
Taylor	1,295	86.8
Saginaw	1,198	41.2
Jackson	1,155	39.7
Clinton Township	1,013	89.4
Muskegon	974	47.4
Sterling Heights	861	71.0
Highland Park	848	30.2
Ann Arbor	778	14.3
Pontiac	778	74.3
Subtotal	28,078	44.2
Michigan total	58,530	41.7

Table 2. Michigan Communities with the Greatest Number of Project-Based Section 8 Units (Source: HUD, 1999)

County	Units	%Expiring by 2001	County	Units	%Expiring by 2001	County	Units	%Expiring by 2001
Alcona	24	100.0	Hillsdale	363	34.4	Montcalm	215	37.2
Alger	15	0.0	Houghton	175	0.0	Montmorency	36	100.0
Allegan	324	41.7	Huron	180	44.4	Muskegon	1,156	45.9
Alpena	193	0.0	Ingham	2,354	42.4	Newaygo	114	31.6
Antrim	0	0.0	Ionia	294	63.6	Oakland	5,822	41.5
Arenac	56	100.0	Iosco	122	0.0	Oceana	79	60.8
Baraga	0	0.0	Iron	31	0.0	Ogemaw	51	0.0
Barry	82	73.2	Isabella	307	12.7	Ontonagon	36	100.0
Bay	830	59.3	Jackson	1,155	39.7	Osceola	0	0.0
Benzie	37	100.0	Kalamazoo	3,024	49.5	Oscoda	60	100.0
Berrien	1,313	45.2	Kalkaska	78	100.0	Otsego	96	47.9
Branch	85	35.3	Kent	3,365	47.9	Ottawa	643	23.2
Calhoun	713	36.2	Keweenaw	0	0.0	Presque Isle	155	61.9
Cass	275	32.0	Lake	23	0.0	Roscommon	32	100.0
Charlevoix	0	0.0	Lapeer	255	18.8	Saginaw	1,198	41.2
Cheboygan	64	62.5	Leelanau	0	0.0	St. Clair	639	29.0
Chippewa	220	47.3	Lenawee	451	20.4	St. Joseph	466	35.8
Clare	221	43.4	Livingston	86	100.0	Sanilac	185	38.9
Clinton	156	23.1	Luce	40	0.0	Schoolcraft	0	0.0
Crawford	12	100.0	Mackinac	0	0.0	Shiawassee	325	63.1
Delta	224	0.0	Macomb	4,312	57.6	Tuscola	100	0.0
Dickinson	44	72.7	Manistee	0	0.0	Van Buren	99	33.3
Eaton	498	40.2	Marquette	477	10.9	Washtenaw	2,480	51.2
Emmet	154	89.6	Mason	245	6.5	Wayne	16,819	36.2
Genessee	2,488	47.7	Mecosta	115	83.5	Wexford	289	11.0
Gladwin	171	28.1	Menominee	195	100.0	No address	8	0.0
Gogebic	32	0.0	Midland	530	30.9			
Grand Traverse	243	89.7	Missaukee	0	0.0	**Michigan Total**	**58,530**	**41.7**
Gratiot	213	33.8	Monroe	563	0.0			

Table 3. Multifamily Housing in Michigan Counties with Project-Based Section 8 Rental Assistance (Source: HUD, 1999)

This crisis may be greater in Michigan cities, but affordable low-income apartments near suburban employment centers and in mixed-income Section 8 developments are also scheduled to expire in coming years. HUD-assisted developments may be found in affluent suburbs such as Troy, Rochester Hills, and Farmington Hills, where affordable rental housing is in short supply, and in smaller cities of northern Michigan where tourism and casinos have inflated housing costs (see Tables 4 and 5).

As a growing number of housing units lose their HUD subsidies, the rent charged for these units is likely to increase dramatically. According to the National Housing Trust, rents were raised by 52 per cent at Grosvenor North Apartments in Pontiac, and 47 per cent at Elmwood Village in Detroit, after HUD mortgages were prepaid in 1996. After Section 8 project-based subsidies expired during 1998-99, rents increased by 86 per cent at Riverside Place in Detroit, 69 per cent at Rosewood Manor in Roseville, and 68 per cent at Algonac Manor in Algonac. In apartment complexes in Mount Clemens and Romulus, rent increases of 44 per cent and 39 per cent followed Section 8 expirations in those developments during the same period.

The crisis of affordable multifamily rental housing will soon expand beyond the HUD-assisted housing stock, as the occupancy and rent restrictions of the first projects financed through the federal low-income housing tax credit begin to expire in 2002.[7]

A Research Agenda

The accelerating expiration of project-based subsidies is significantly reducing the supply of affordable low-income rental housing, and demands urgent consideration by policymakers, community leaders, and others committed to preserving housing affordability. To help formulate an effective response, further applied research is suggested in the following areas:

§ **documenting the impact** of the declining supply of affordable units on low-income families, and urban and suburban neighborhoods;

§ **assessing alternative proposals** for establishing and maintaining an adequate supply of affordable housing; and

§ **improving theory** to guide practice and policies for affordable housing.

Documenting Impact

The effects of recent shifts in housing policy should continue to be carefully monitored. Research that explores the impacts of policy changes on individuals, families, and communities is essential for ensuring responsive and responsible public policy. Such research is best conducted in close partnership with the stakeholder institutions, communities, and families affected.

Several examples may serve to illustrate the need for impact evaluation in the area of affordable housing. As noted above, tenant-based vouchers have emerged as the principal source for replacing expiring project-based subsidies. HUD believes that the use of such voucher programs may help to reduce the geographic concentration of poverty by providing new housing choices for subsidized tenants. At the same time, the disproportionate number of HUD renters who are black suggests that more aggressive fair housing enforcement may be necessary to support tenants with vouchers who are negotiating for affordable apartments.

HUD also encourages low-income tenants to purchase single-family homes, if it is financially feasible.[8] Homeownership, however, is often not feasible for very low-income HUD tenants, and many are elderly and disabled and therefore less mobile. In addition, low-income homebuyers are often financed either through the Federal Housing Administration or the "subprime" lending industry, often criticized for foreclosure and eviction policies that exacerbate neighborhood disinvestment and homelessness.

Community	County	Units	% Expiring by 2001
Canton Township	Wayne	336	48.8
Farmington Hills	Oakland	271	62.7
Northville	Wayne	69	100.0
Rochester Hills	Oakland	235	77.4
Sterling Heights	Macomb	861	71.0
Troy	Oakland	534	77.7
Portage	Kalamazoo	351	92.3

Table 4. Examples of Suburban Michigan Section 8 Developments (Source: HUD, 1999)

City	Units	% Expiring by 2001
Kalkaska	78	100
Menominee	131	100
Petoskey	114	100
Rogers City	96	100
Traverse City	243	89.7

Table 5. Examples of Northern Michigan Section 8 Developments (Source: HUD, 1999)

The expiration of project-based subsidies is accelerating. More than 24,000 Michigan apartments have rental assistance contracts that end by 2001.

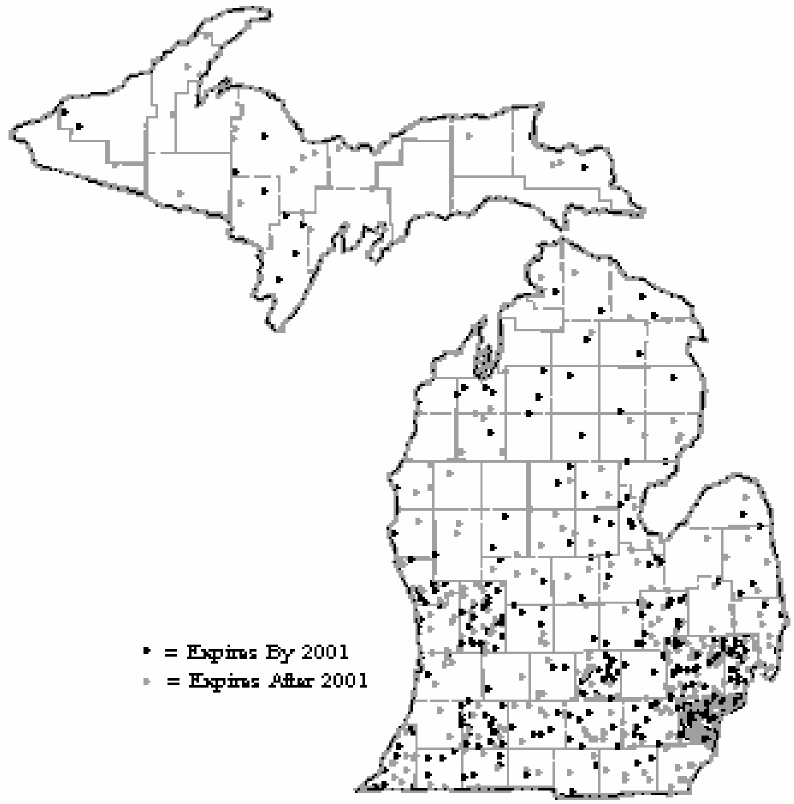

Figure 2. Location of Multifamily Housing with Project-Based Section 8 Rental Assistance (Source: HUD, 1999)

Assessing Alternatives

The data presented here clearly suggests that new strategies and funding programs must be devised to encourage the production of housing that is affordable to the very low-income renters traditionally served by HUD subsidy programs.

Nonprofit, community-based housing organizations have come to play a crucial role in preserving and developing affordable low-income housing in Michigan cities. But such groups face growing pressures to develop units for moderate- and middle-income renters and homeowners rather than for those with very low incomes. Strategies to strengthen the capacity of these small and underfunded groups to produce and manage affordable low-income housing might be considered, along with efforts to expand their number in suburban and rural locations.[9]

The regulatory requirements of the Community Reinvestment Act, or the affordable housing requirements of the secondary mortgage market, might help to preserve some affordable HUD rental housing or finance the development of affordable replacement units through project specific negotiations involving HUD mortgage holders (such as Fannie Mae) and state or local governments.

The federal low income housing tax credit provides incentives to for-profit developers to join in affordable housing production; expanding this program may help stimulate expansion in the supply of affordable housing. Other incentives might be offered to encourage private participation in the production of low-income affordable housing.

HUD-regulated government-sponsored enterprises, including Fannie Mae and Freddie Mac, are in a position to support efforts to enhance the affordable unit production system through their secondary market investments and corporate grant making.[10]

These are a few examples of alternative policies or practices that might be evaluated to determine their place in a housing policy agenda.

Improving Theory

As noted earlier, among the stated goals of the HUD Reinvention is the eventual conversion of federal rental assistance into subsidy certificates that tenants could use in a deregulated and “competitive” low-income housing market.[11] But a competitive low-income housing market may be difficult to achieve, and some communities are unwilling to make affordable housing available for low-income residents.

HUD renters are directly affected by the changing political economy of multifamily rental housing. It appears unlikely that private, for-profit developers in Michigan will produce unsubsidized housing units—other than mobile homes—that are affordable to HUD renters, particularly in suburbs where land values are high. And, despite the clear value of nonprofit community based organizations in building the sense of community, this third sector is not capable of producing enough affordable housing units to meet the established need.

According to some theorists, it is the "trickle down" process of housing succession that most improves housing quality and affordability for lower income households. Others argue for a "social housing" approach using regulation, subsidies, and community-based initiative.

The recent policy changes presume that supply-side competition in the low-income rental housing market will do more to improve conditions for poor renters than other strategies, such as more aggressive oversight of landlords and public housing agencies, or preserving the number of public and subsidized rental housing units.

Each of these perspectives reflects particular underlying theoretical assumptions that are likely to influence policy decisions in important ways. These theories should be studied to ensure that all available policy options are considered.[12]

Conclusion

Research to examine the present and future impacts of housing policy, the underlying assumptions on which policy decisions are based, and the effectiveness of proposed alternative policies, can support a comprehensive approach to meeting the housing needs of Michigan's low income residents.

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[1] Legislative language.

[2] Twentieth Century Fund Task Force on Affordable Housing, More Housing, More Fairly (New York: Twentieth Century Fund Press, 1991); U. S. National Commission on Severely Distressed Public Housing, Final Report (Washington, DC: U. S. Government Printing Office, 1992); Vice President Al Gore and the National Performance Review, From Red Tape to Results: Creating a Government That Works Better and Costs Less (Washington, DC: U. S. Government Printing Office, 1993); National Performance Review, Department of Housing and Urban Development (Washington, DC: U. S. Government Printing Office, 1993); U. S. Department of Housing and Urban Development, HUD's Reinvention: From Blueprint to Action (Washington, DC, March 1995).

[3] Jason DeParle, "Slamming the Door," New York Times Magazine, October 20, 1996.

[4] HUD Multifamily Tenant Characteristics System (December 2000).

[5] Of these units lost in fiscal year 1999, nine out of ten were in the Section 8 loan management or property disposition programs, and more than half were in just two cities, Detroit and Pontiac. In Pontiac, in a single year, more than half of the apartments with project-based assistance lost their subsidies. See HUD Section 8 Expiring Contracts Database (September 1999).

[6] U. S. General Accounting Office, Welfare Reform: States' Early Experiences With Benefit Termination (Washington, DC: U. S. Government Printing Office, 1997), pp. 46-47.

[7] Kate Collignon, "Expiring Affordability of Low-Income Housing Tax Credit Properties: The Next Era in Preservation" (Neighborhood Reinvestment Corporation and Joint Center for Housing Studies of Harvard University, October 1999).

[8] U. S. Department of Housing and Urban Development, The National Homeownership Strategy: Partners in the American Dream (Washington, DC, May 1995).

[9] Rex LaMore and Faron Supanich-Goldner, "Exploring the Relationship Between Capacity and Production in Community-Based Affordable Housing Development in Michigan," paper presented to the annual conference of the Association of Collegiate Schools of Planning, Chicago, Illinois, October 1999.

[10] John T. Metzger, "Social Capitalism in American Cities: Financial Institutions and Community Development" (Ph. D. dissertation, Columbia University, 1999).

[11] U. S. Department of Housing and Urban Development, Office of Policy Development and Research, Public Housing in a Competitive Market: An Example of How It Would Fare (Washington, DC, April 1996).

[12] For example, see John T. Metzger, "Planned Abandonment: The Neighborhood Life Cycle Theory and National Urban Policy," Housing Policy Debate 11, 1 (2000): 7-40.